M|T|G

Business Property Relief

Acting now to protect the future - a guide for family businesses and trustees

Changes to business relief, more commonly referred to as business property relief or BPR, and agricultural property relief (APR), came as a shock to many.

Few had predicted such fundamental and sweeping changes to reliefs that have been in force, in some shape or form for almost 50 years.

BPR was introduced as part of the 1976 Finance Act to help family-owned businesses survive transition from one generation to the next. The relief ensured businesses could remain in the family, maintain employment and provide a platform for stability and continuity.

In 1996 the rate of relief rose to 100% for certain assets. The benefits of protection from an IHT liability were hugely enhanced. That benefit will, largely, come to an end from 6 April 2026 – almost 30 years to the day of the widening of the relief.

The Government introduced anti-forestalling measures. Those considering any planning now must be aware of the proposed changes. The farmers have undertaken a high-profile campaign highlighting the impact of losing APR on farming families and the industry generally. To date, the same has not been true of the business community. This may be for a variety of reasons: not least, privacy, commercial sensitivity and that much of the press focus has been on the sweeping changes to the non-dom regime that came into effect on 6 April 2025.

In this briefing, we provide an overview of the headline issues for those affected by the BPR changes and highlight key areas of consideration. At the time of writing, HMRC's consultation period has ended (23 April 2025). There is no draft legislation and there remain some key areas of uncertainty.

Business property relief – the current rules

Relief is available at either 100% or 50% and reduces the value of the assets subject to tax. The extent of the relief depends upon the type of asset and ownership. Broadly, if an asset is owned personally but used in connection with a business owned by that individual, relief is available at 50%.

Full relief can apply subject to some conditions. These include:

- The business must not be for investment purposes – it must not consist of activities that consist of "wholly or mainly" dealing in shares, land or buildings.

- The assets must include a business – most commonly this will be private company shares in an unquoted company but it does extend to an interest in a partnership or a business carried on by a sole trader. BPR can apply to an interest in quoted companies, but this must be a controlling interest. The exception to this is those shares listed on AIM; they currently qualify for 100% relief subject to meeting the qualifying requirements (although this is due to change in April 2026).

- Ownership must be for a continuous period of two years prior to the date of any transfer (different rules apply on transfers to a spouse or civil partner on death or where the "original" business asset is replaced with new business property).

- There must not be a binding contract for sale of the business asset, nor must the company be in liquidation or winding up.

The often-used shorthand for assets that qualify for BPR is that they are an interest in a trading business. If BPR does apply, then it must still be determined whether it applies in full. If there are "excepted assets" within the business or company, then these do not qualify for the relief and remain chargeable to IHT.

A common example is where a business holds an investment property or large sums of cash that is not used in the ordinary cycle of the business. HMRC do not accept that holding cash reserves for a potential downturn in the economy is a valid reason. That said, some businesses will qualify for BPR in full if they are a hybrid but pass the pass the "wholly or mainly" test.

Careful analysis and specialist advice should always be obtained on the extent to which BPR applies to any business interest before undertaking any planning. This is to ensure there is no unexpected IHT charge or dispute with HMRC at a later date.

The proposed changes

From April 2026, the first £1 million of business property (and agricultural property if applicable) will receive 100% relief. Any interest over and above £1 million will be subject to relief at 50%. This translates into an effective rate of IHT of 20% on assets that qualify for BPR.

The qualifying criteria for the application of the relief will remain unchanged but it is important to note that AIM listed shares will not benefit from the £1 million allowance and will be subject to 20% IHT on the market value of the shares at the relevant date of transfer.

Unlike the tax-free sums currently afforded to individuals (the nil-rate band and residence nil-rate band), the BPR allowance will not be transferable to spouses and civil partners. In effect: ***use it or lose it.***

Gifts of business assets prior to 30 October 2024

If you have transferred business assets either into trust or to individuals prior to 30 October 2024, then no IHT will arise if death occurs within seven years (however, clawback rules will still apply if the recipient is no longer in possession of those business assets at the date of death).

Example:

Peter owned 100% of the shares in XYZ Limited. The shares qualify entirely for BPR. On 1 August 2024, Peter gifted 50% of his shares to his children.

Peter dies on 1 May 2026. There would be no IHT attributable to the gift of shares to his children. 100% relief would apply to the gift of shares. The remaining shares in Peter's estate would benefit from the £1 million allowance but only 50% relief thereafter.

30 October 2024 - 5 April 2026: the transitional period - making gifts

The Government introduced immediate anti-forestalling measures following the Autumn 2024 Budget. The transitional rules currently apply and will do so until the introduction of IHT on business assets in 2026.

If an individual dies prior to 6 April 2026, whilst holding assets that qualify for BPR, the 'old' rules apply. There will be up to 100% relief available and not limited to the £1 million allowance.

Any gift of business assets to individuals outright (potentially exempt transfers) will be exempt in the usual way if the donor survives seven years. If the donor does not survive seven years, then IHT may be payable. The £1 million allowance will be set off against the earliest gifts first and then the assets will be subject to IHT at an effective rate of 20%. The allowance refreshes every seven years (much like the nil-rate band).

Example:

Louise owned 50% of the shares in Smith Ltd. The shares qualify entirely for BPR. The holding is valued at £4 million. On 1 February 2025, Louise gifts her shares to her niece and nephew, Sally and John.

Louise dies on 30 October 2027. This is a failed potentially exempt transfer. Louise's £1 million BPR allowance is set off against the gift to Sally and John (assuming that she did not have a nil-rate band available). The remainder of the gift qualifies for 50% BPR. The chargeable gift is therefore reduced to £1.5 million, after the allowance, and taxable at 40%. IHT of £600,000 is payable.

There is still uncertainty about the extent to which the clawback rules (where the recipient of the business assets no longer owns them at the date of the donor's death) and taper relief apply. Taper relief operates to reduce IHT on potentially exempt transfers that were made between three and seven years prior to death.

In summary – there is an IHT risk on any gift of business assets made after 30 October 2024.

Trusts in existence prior to 30 October 2024: proposed changes

Any trust in existence on 30 October 2024 will benefit from the £1 million allowance for BPR (and APR). This will refresh every ten years on the anniversary date.

The allowance will apply from the first ten-year anniversary date after 6 April 2026. Any distributions of capital before the anniversary date will not be subject to the new rules nor reduce the allowance available on the first ten-year anniversary post 5 April 2026.

30 October 2024 – 5 April 2026: the transitional period - transferring assets into trust

Transfers into trust during the transitional period are more complex. There is no immediate charge to tax on any transfers of business assets into trust prior to 6 April 2026. If death occurs within seven years, IHT will become payable at the 'death' rate subject to relief.

In these circumstances, the £1 million allowance will be shared between all trusts and gifts (if more than one) but on a chronological basis.

The £1 million allowance 'refreshes' every seven years for transfers into trust much the same as for outright gifts.

Example:

Alice owns 100% shares in FB Ltd and the holding is worth £1.5 million. The shares qualify entirely for BPR. On 25 November 2024 she settles half her shareholding, valued at £750,000, into a discretionary trust (Trust A). At the time of transferring the shares into trust the transitional rules apply and there is no entry charge for IHT.

Alice decides on 1 February 2025 to settle the remainder of her shares, valued at £750,000, into trust (Trust B). 100% relief is available on the transfer. Alice dies on 1 June 2025.

Trust A benefits from Alice's £1 million 100% BPR allowance. This is allocated on a chronological basis and there is no IHT payable on the transfer of shares into Trust A. The remainder of Alice's BPR allowance (£250,000) is allocated to Trust B. The balance of shares in Trust B will qualify for 50% BPR relief. The shares are valued at £500,000 reducing to £250,000 with the relief. This will give rise to an IHT charge of £100,000.

Trusts created after 30 October 2024: allowances and charges

Any transfers into trust over the £1 million allowance after 5 April 2026 will trigger an IHT entry charge at an effective rate of 10% if the assets qualify for BPR.

Taking into account the BPR relief, the effective rate of IHT for ongoing charges will be a maximum of 3% on ten-year anniversary dates and distributions of capital. Trusts that have never been subject to IHT charges will, from 6 April 2026, be required to fund the payment of IHT if the trust assets exceed £1 million.

Example:

Greta settled shares into trust in November 2024; they qualified for 100% BPR at the time. In March 2027, the trustees distribute £800,000 of relievable property to a beneficiary. The trustees claim relief at 100% from their £1 million allowance.

The ten-year anniversary arises in March 2034. The value of the shares (the only trust asset) at that time amounts to £2 million. The trustees can claim full relief on £200,000 (the unused allowance) but the remaining value will only get relief at 50%.

Following the ten-year charge, the trustees' £1 million allowance refreshes until the next anniversary charge in 2044.

There are ongoing IHT charges for trusts on the ten-year anniversary dates and on any capital distributions (known as the "relevant property" charges). There is an allowance of £1 million to set off against these (the "Trust Allowance"). However, it is proposed that there is only one Trust Allowance for relevant property charges, per settlor, on all trusts created after 30 October 2024. In effect, there is only one Trust Allowance for all trusts created after the Autumn Budget.

Example:

Jess owns 100% shares in HPF Ltd and the holding is worth £10 million. The shares qualify entirely for BPR. On 1 December 2024 she settles half her shareholding, valued at £5 million, into a discretionary trust (Trust X). At the time of transferring the shares into Trust X the transitional rules apply and there is no entry charge for IHT.

Jess decides to settle the remainder of her shareholding into Trust Y on 1 March 2026.

Trust X's anniversary date is 1 December 2034 and the shares are worth £7 million. The trustees can set off their £1 million BPR allowance when calculating the IHT anniversary charge. This will refresh every ten years.

Trust Y's anniversary date is 1 March 2037 and the shares are worth £8 million. The trustees do not have any BPR allowance to set off against the anniversary charge, because this was used by Trust X. That will continue to be the case for all future anniversary charges.

If Jess decided to create any further trusts there would be no Trust Allowance available for anniversary or exit charges because this has been utilised by Trust X.

Equally importantly, but hidden in the headlines, HMRC are considering changing the way in which relievable values are considered when calculating future anniversary charges on trusts.

At present, if a distribution of trust assets (capital) takes place before the first ten-year anniversary, then the value of the relief is not taken into account when calculating the initial rate of IHT payable by the trustees (the "exit charge"). This means the rate of IHT applied to capital leaving the trust is higher because it is based on unrelieved values. This historically would not have made any difference if the trust assets leaving the trust were fully relievable as no IHT would be payable.

This is to be contrasted with any exit charges that take place after the first ten-year anniversary. In that case, any APR or BPR is taken into account when calculating the rate of IHT. This is rather a moot point if the capital leaving the trust qualifies for 100% relief because no IHT is payable. If, however, capital leaves the trust that does not qualify for relief then this method of calculation serves to reduce the overall rate of tax that applies.

The proposed change is that from 6 April 2026, all distributions of capital following a ten-year anniversary will not have APR/BPR taken into account when calculating the overall rate of tax. This will result in the rate of IHT being higher than it would have otherwise been prior to 6 April 2026.

This is a double tax hit for trusts – not only will be there be the cost of funding IHT on trusts that may be illiquid, but there will also be more IHT payable than there would have otherwise been due to the nuances introduced in calculating the effective rate of IHT.

There remain some very valuable planning opportunities in this window – not only to re-arrange existing trusts to make them more tax efficient prior to the rate calculation changes but also to transfer assets into trust without an immediate IHT charge.

6 April 2026 – The end of an era

The new rules come into full effect on 6 April 2026. Any gift of business assets carries an IHT risk if the donor does not survive seven years.

Transfers into trust may give rise to an immediate charge to IHT. The extent of that charge will very much depend upon the application of the £1 million allowance. In effect, there will be a 10% charge on assets being transferred into trust. This may increase to 20% if death occurs within seven years.

Payment of IHT

HMRC have confirmed that any IHT attributable to relievable assets, i.e. those that qualify for APR or BPR, can be paid in ten annual instalments on an interest free basis.

However, this treatment does not extend to non-relievable assets. Where there is a mix there will need to be separate calculations to work out which elements qualify for instalment option and are interest free. This will lead to increased complexity in calculating and reporting the IHT payable on trusts.

Anti-fragmentation: new rules, new problems

There are several changes in relation to the calculation of tax that are not headline grabbing but may have a significant impact for both settlors and trustees.

Perhaps the most controversial of these is that for the purposes of calculating the IHT relevant property charges (anniversaries and exits), all agricultural and business property settled by the same settlor across multiple trusts can be connected for valuation purposes – in effect, they become what is called “related property”.

Example:

If a grandfather settled five trusts, for different branches of the family, each with a holding of 20% in the family business, those shares will be valued as one holding for the purposes of calculating the IHT charges if that produces a higher value for the shares rather than on an individual, minority shareholding, basis. Again, this could significantly increase the tax exposure for trusts.

It is not clear whether this is intended to apply to existing trusts or those trusts created after 30 October 2024. It will almost certainly mean that families and trustees are tied together in sharing information for the purposes of tax reporting. Of even greater concern is that the valuation of the shares based on the new rules may not have any correlation to the actual economic value of what could be a minority holding in a private limited company.

Qualifying interest in possession (QIIP) trusts

Most life interest trusts created prior to March 2006 or contained in a Will, are considered QIIPs. They are not subject to IHT charges during the lifetime of the beneficiary (known as the life tenant). On the death of the life tenant, IHT is payable.

If the trust contained assets that qualified for APR or BPR, then no such charges arose, and the trust did not use up the life tenant's tax-free sum (nil rate band). If a life tenant with a QIIP dies before 6 April 2026, there will be no IHT attributable to the business assets – the exemption is unlimited.

If a life tenant with a QIIP dies after 6 April 2026 then the life tenant's personal £1 million BPR allowance will be set off proportionately against their personal estate and the trust. If the life tenant owns shares personally, whether in the same company as the trust, or a different business interest, their beneficiaries will not benefit from the entirety of the BPR allowance.

If the trustees decide to transfer any BPR assets out of the QIIP trust to other beneficiaries after 30 October 2024, this is a potentially exempt transfer. If the life tenant survives seven years, there will be no IHT attributable to the transfer. If, however, the life tenant fails to survive then their £1 million allowance could be set off against the transfer of the trust's BPR assets reducing the availability for their estate.

The operation of the BPR allowance will operate in much the same way as the nil-rate band when calculating the IHT on any assets held in trust or potentially exempt transfers.

Example:

A life tenant dies with their full £1 million BPR allowance. They have a personal holding of £2 million of shares and a qualifying life interest trust that holds £1 million of shares.

Their allowance is split as to 2/3 for their personal estate and 1/3 for the property held on trust. The remaining value in both the personal estate and life interest trust would only then qualify for relief at 50% and IHT would be payable.

Who is affected by the BPR changes?

The impact of these proposed changes is far-reaching, and the consequences are hugely significant to family businesses, trustees and individuals as well as directors and employees. The timescale in which to act is short.

There are some key considerations that will help inform what may be the best approach for you.

BUSINESS OWNERS AND ENTREPRENEURS

- Do you wish to retain any economic rights associated with your holding?
- Do you wish to retain voting rights?
- To what extent can the IHT cost be met if you do not survive seven years?
- What restrictions are in place regarding the transfer of shares – are you subject to pre-emption rights/restrictions in your articles or shareholders agreement?
- Can the shares be protected if you make gifts to children?
- If transferring into trust – to what extent can on-going IHT charges be met?

- Business succession planning – do you intend to benefit those working in the business, to what extent may an employee benefit trust be the right approach?
- Have you considered broader legal protections for family members that may receive shares which would have previously benefited from trust protection?
- Do you need to review your Will? There is a risk that your Will is not tax efficient once the new regime comes into effect.

DIRECTORS AND MANAGEMENT BOARD – CORPORATE GOVERNANCE

- Is the company a privately or a family-owned business?
- Has there been a discussion about succession planning at shareholder level given the proposed changes and potentially significant tax impact?
- Is there a plan which is documented and agreed?
- Could IHT charges be funded on the death of a founder/owner? Will the IHT be funded by way of a dividend or could there be a share buyback?
- How can the business and continuity be best protected if there is to be a change in ownership?
- Will there be parity between shareholders if arrangements to distribute funds are made to the estate of a deceased shareholder? Will others receive a similar distribution?
- Will the same approach be taken for majority shareholders and minority shareholders?

TRUSTEES

- Do you need to consider reorganisation of the trust fund given the proposed changes to IHT calculations and the extent to which the assets fully qualify for BPR?

- Should any distributions be made prior to the full implementation of the changes in April 2026?

- For existing pre-30 October 2024 trusts, should distributions be made before the next ten-year anniversary date to secure 100% relief?

- Is the settlor also a beneficiary and has the impact from an IHT perspective of the changes on their personal estate been considered?

- Have you undertaken cashflow modelling for future IHT costs and the most tax efficient approach for payment of IHT charges?

- Should you take advantage of the payment of IHT in instalments or should this be balanced with the risk of business cashflow challenges in the future?

- If there is a QIIP, what powers do you have? Is it possible to make transfers to individual beneficiaries or into trust now?

VULNERABLE BENEFICIARIES

- If you have young children or vulnerable beneficiaries there may be more beneficial rules that apply – should these be considered in the context of overall planning?

How can we help?

There is a very short window of opportunity to take steps to mitigate the significant impact of these measures.

Tax cannot be seen in isolation – the issues that affect you are more than just tax. In many cases this is about your family and your legacy. Protection of these is paramount. We look at the bigger picture from Wills, succession plans, relationships to commercial reality and corporate governance.

We have a wealth of experience in advising entrepreneurs and family businesses, trustees and individuals. We can advise on how the changes will impact you, providing a range of options whilst navigating through the uncertainty and work with you on implementation.

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