

Business Relief Changes

There has been much in the press recently about how the changes to Inheritance Tax ("IHT") announced in the recent budget will affect farmers. There has been much commentary on how the cap on the amount of Agricultural Relief ("AR") and Business Relief ("BR") available to farmers will impact the industry and may cause the break-up of many smaller farms.

However, there has been very little commentary on the impact on the cap to BR on other businesses who may be equally affected by the changes, when introduced. Will businesses need to be sold or wound up in order to fund the IHT arising on them, putting jobs at risk?

We look at the impact upon businesses and what possible action can be taken.

Current position

Under the current rules, in most cases, any property which qualifies for AR will generally receive 100% IHT relief on the agricultural value of the land.

Similarly, unincorporated and unquoted trading businesses which qualify for BR can receive up to 100% IHT relief on the value of the business or value of the shares held in the business. In addition, assets owned personally but used in the business may also receive 50% relief.

Both of the above reliefs are uncapped and therefore the full value (agricultural value for AR assets) of qualifying assets may receive 100% IHT relief.

Changes in the budget

From 6 April 2026, the value of assets qualifying for 100% AR or BR will be restricted to a £1m allowance. This allowance is shared between the two reliefs so the maximum of these reliefs at 100% will be £1m in total. Any value of qualifying assets in excess of this amount will be restricted to just 50% relief.

The allowance will be split between qualifying property in the death estate and lifetime gifts which are subject to IHT.

Each individual will be entitled to this allowance giving relief at 100% for up to £2m of value for a couple. However, this allowance cannot be transferred between spouses/civil partners, unlike some other IHT allowances such as the standard nil rate band.

The impact of this change may be quite substantial, as demonstrated by the example below.

Mrs Green passes away holding 100% of the shares in TradeCo Ltd, valued at £5m and which qualifies for full BR. Her nil rate band has been used on other assets.

	Current Position	Post 5 Apr 26
Value of TradeCo Ltd	£5,000,000	£5,000,000
Less: Business Relief @ 100%	(£5,000,000)	(£1,000,000)
Less: Business Relief @ 50%	-	(£2,000,000)
Estate subject to IHT	£Nil	£2,000,000
IHT @ 40%	-	£800,000

As you can see, the impact of the new rules from 6 April 2026 will be substantial and will cause significant concerns to business owners.

How to reduce your IHT liability

It is important that you consider the ownership structure of your business. Is the business/company owned in the names of both spouses/civil partners? If not, consider equalising the ownership to maximise the BR allowance as well as other allowances available to you.

Consider bringing your children into the business either by making them partners or transferring a proportion of your shares to them during lifetime. This will be considered as a Potentially Exempt Transfer (PET) for IHT purposes and provided you survive for 7 years from the date of transfer, no IHT will be payable. BR may also be available on the gifts, should you pass away within 7 years of the gift.

However, you will need to consider whether any capital gains tax (CGT) arises on a transfer. Holdover relief may be available on a transfer which passes your base cost onto the recipient meaning no CGT is payable at the time of transfer. To qualify for holdover relief, HMRC's general view is that the business must be at least 80% trading which may cause some difficulties for some hybrid businesses. Additionally, even if this threshold is met, the amount of holdover relief may be restricted in respect of assets not used in the trade.

An alternative to a direct gift to an individual is to make a gift into trust for their benefit. Most gifts into trusts will qualify for holdover relief ensuring no CGT is payable on transfer. However, only £325,000 of value may be transferred into trust per person before an immediate 20% IHT charge may arise, unless a relief from IHT applies. Where BR is available, no immediate IHT liability should arise at present although post 6 April 2026, it will depend upon the value transferred whether any IHT is payable, due to the £1m cap on BR. However, a gift into trust now may utilise some of your BR/AR allowance and so care should be taken.

There is therefore a window of opportunity to take advantage of 100% BR without restriction up until 5 April 2026 so a gift to trust may be worth considering now. However, should you pass away within 7 years of the gift but post 5 April 2026, the new rules will apply at the time of death and any claim for 100% BR will be restricted to the first £1m of value only.

How to fund the liability

If you are affected by the changes announced in the budget, you may need to think about how any potential IHT liability will be paid. Listed below are a number of options but each has its own benefits and pitfalls and therefore must be considered carefully.

- from other assets – where cash is held in the estate or other assets are held which can easily be sold, these could be used to fund the liability, subject to any provisions in the Will
- borrow money – the executors can borrow money to pay the IHT liability. However, they must consider the interest costs of borrowing money and how the repayments will be funded
- share buyback – where shares are held and the company has sufficient cash, it can purchase a number of shares from the estate to fund the IHT. Wider tax implications may need to be considered.
- dividends from trading company – it may be possible to declare dividends to fund the IHT liability, provided sufficient realised reserves are available. However, income tax of up to 39.35% may be payable on the dividends
- pay IHT in instalments – the executors can elect to pay the IHT over 10 equal instalments. They must consider how the instalments will be funded and be aware that late payment interest may be payable, dependent upon the assets held. However, if AR or BR is available and instalment payments are made on time, interest generally isn't incurred
- life insurance – could be used to fund all or part of the IHT liability. You may wish to ensure the policy is written into trust or the proceeds will fall into your estate, increasing your IHT liability. The cost of the premiums could be cost prohibitive and appropriate financial advice should be taken.

Summary

The IHT changes in the Budget are likely to increase taxes for those affected by the reduction in reliefs. What remains to be seen is the detail in the legislation, and any changes as a result of the consultation processes. Whilst it is important to not rush any decisions, particularly before the finer details of these changes are known, acting sooner rather than later may help you mitigate some of the potential IHT which may arise on your estate. If you would like to consider whether BR is available to you or you are planning on selling and would like to know what planning options are available, please contact us.