Changes to business property relief: coping with cuts

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What do the proposed changes to business property relief mean for investors and entrepreneurs, and for their businesses?

Key Points

What is the issue?

We consider the proposed changes to business property relief and their implications for investors, entrepreneurs and their businesses. From April 2026, the relief will be significantly reduced, necessitating a re-evaluation of business protection and long-term stability strategies.

What does it mean to me?

Currently, business property relief provides 100% relief on qualifying business interests, but under the new rules, only the first £1 million of assets will qualify for full relief, with any excess receiving 50% relief. This poses a substantial inheritance tax liability for business owners.

What can I take away?

The changes will require a proactive approach to estate and succession planning. Professional advice will be essential in modelling the effects of the changes and exploring mitigation strategies to minimise the impact of the new regime.

The proposed changes to business property relief have so far sent only ripples through the business world. But for years, business property relief has been a vital tool for entrepreneurs, investors and their families, allowing valuable business assets to pass between generations without the burden of inheritance tax.

From April 2026, however, that advantage will be significantly reduced, forcing many to rethink how they protect their businesses and ensure long-term stability.

What is changing for business owners?

At present, business property relief can provide 100% relief on qualifying business interests, meaning that they can be passed on without attracting inheritance tax. Under the new rules, only the first £1 million of assets will qualify for full relief with any excess receiving only 50% relief.

For many business owners, this represents a major shift. A stake in a trading company worth £5 million, for example, is currently fully exempt from inheritance tax. Under the proposed regime, £4 million of that sum would receive just 50% relief, leaving £2 million exposed to inheritance tax at 40% on the shareholders' death. This creates a substantial liability of £800,000, requiring careful planning to ensure sufficient liquidity within the estate.

There is also an impact on qualifying shares held within trusts. At present, trusts holding only business property relief-qualifying assets are relieved from paying a periodic charge of up to 6% every ten years or when assets leave the trust. Under the new rules, the trustees will now face these periodic charges at effectively 3% on

the value above £1 million.

Further, the £1 million business property relief allowance will apply across all trusts created by an individual, meaning that multiple trusts do not automatically benefit. This requires a more strategic, joined-up approach to estate planning.

If the only available funds come from the business itself, directors and shareholders will need to consider the impact on the company's financial health and future growth. While inheritance tax can be paid in instalments over ten years, that still demands a reliable funding plan whether through dividends, asset sales or alternative financing.

Should business owners gift their interests now?

The initial response from many is to act before the rules take effect. Gifting shares to the next generation now while 100% relief is still available seems like a logical step and in many cases is appropriate. However, this raises other considerations in tax and practical terms for both the recipients and the business that need to be carefully worked through.

If the donor dies within seven years of the transfer, the new owner could be left with an unexpected tax bill. For family businesses, handing over shares too soon also risks unsettling governance structures. In particular, businesses should consider how the company currently functions at board level and among shareholders, and how the company should function going forward.

If there is likely to be a shift in the governance of the company, careful thought is needed on how to achieve that and what should happen to the company's constitutional documents. Additionally, restrictions on transfers or specific consent rights could complicate the process if attempted without shareholders' consensus. Without proper planning, a rushed handover might undermine the company's long-term success.

Finally, the recipient's personal circumstances may not make it appropriate for them to own valuable shares in their own name. Trusts offer another possible solution, providing asset protection and a structured approach to succession. However, as noted, trustees will now face periodic charges of up to 3% on the value above £1 million every ten years; and careful consideration will need to be given (for new and

existing trusts) as to how these will be funded.

Practical considerations for business owners and directors

Business owners should start reviewing their options now. Stress-testing succession plans, obtaining preliminary valuations and modelling the impact of the proposed changes will be crucial in preparing for the new landscape.

HMRC is expected to scrutinise surplus cash and investments held within trading companies, assessing whether they are needed for operations. Excess cash and investments not demonstrably earmarked for business use may cause the company to cease to qualify for business property relief, further increasing the potential inheritance tax liability. Keeping clear records to justify investments and cash balances will be essential. Reviewing the structure of the business is especially important where there are multiple activities.

Liquidity planning will be key. If dividends or share buybacks are required to fund inheritance tax liabilities, businesses must ensure that they have sufficient reserves, and the tax implications of these strategies must be carefully managed (where the shareholder may pay income tax on any dividend before then paying the inheritance tax).

Directors have a duty to promote the company's success, for the benefit of shareholders, making it essential to address these issues well in advance. External directors, in particular, will be conscious of the need to ensure that decisions are made with due diligence and proper corporate governance. The board as a whole will be conscious of the need to ensure that decisions are made with due diligence and proper corporate governance.

There is also an important role for directors in managing these changes at the corporate level. In many cases, a business’ ability to support its shareholders in meeting these inheritance tax liabilities will be crucial, but it must be done in a way that does not undermine the company’s own financial position. Directors will need to be particularly mindful of their fiduciary duties, ensuring that any actions taken are in the best interests of the company as a whole, rather than just the tax position of individual shareholders.

The proposed changes will also have an impact on how businesses approach investment decisions. If trusts and individuals holding business property relief-qualifying assets face (periodic) inheritance tax charges, investment strategies may need to be adjusted to ensure that enough liquidity is available to meet these liabilities when they arise. This could mean a shift in how businesses balance reinvestment in growth with the need to retain sufficient cash reserves without prejudicing the business property relief.

Professional advice

For entrepreneurs and investors, the impact of these changes will depend largely on the structure of their holdings.

Those with direct interests in trading companies will need to consider their personal inheritance tax exposure, while those who hold interests through trusts must assess the broader impact on trust taxation. In either case, the new rules will require a more proactive approach to estate and succession planning.

For some existing trusts, these changes will make trust structures less attractive, leading to discussions about winding them up or restructuring their holdings. Closing a trust requires careful planning to avoid unnecessary tax consequences and to preserve the asset protection benefits that trusts provide. For others, trusts will remain an important and valuable succession planning vehicle, but strategic planning will be key.

Families will need to review not just their trust arrangements but also shareholder agreements, company articles and personal succession planning tools, including wills, lasting powers of attorney and nuptial agreements.

In the lead-up to April 2026, professional advice will be critical. Business owners, trustees and investors should work with professionals to model the effects of the changes and explore potential mitigation strategies. Whether through gifting, restructuring or revising investment approaches, planning ahead will be essential to minimising the impact of the new business property relief regime.

These reforms will fundamentally change how business owners approach inheritance tax planning, succession and corporate strategy. While the rules will not come into force until April 2026, acting now will be critical in mitigating risks and ensuring

businesses remain financially secure for the next generation.

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