Reform of APR and BPR: a new era for trust planning?

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The upcoming reforms to agricultural and business property reliefs, effective from 6 April 2026, necessitate careful estate and trust planning.

Key Points

What is the issue?

There are upcoming reforms to agricultural property relief and business property relief, which have long safeguarded family farms and businesses from inheritance tax pressures. From 6April 2026, the default rate of relief will reduce from 100% to 50%, although a new 100% relief allowance of £1 million per individual (indexed over time) will apply to qualifying transfers.

What does it mean to me?

The new allowance refreshes every seven years, similar to the nil rate band, but is not transferable between spouses, highlighting the need to revisit wills and discretionary trust structures. For trusts, the rules are more complex but there may be planning opportunities, particularly prior to 6 April 2026.

What can I take away?

Careful planning is required during the transitional window before April 2026, including coordinated lifetime gifts, trust settlements and will reviews. Overall, the reforms mark a significant tightening of inheritance tax reliefs, demanding bespoke advice for taxpayers.

The history of inheritance tax can be traced back well over a century, and for much of that time death duties posed challenges for the continuity of family farms and businesses. Although concessions were introduced for agricultural property in 1925 and business property in 1954, it was not until the 1990s – when 100% reliefs were introduced for certain qualifying property – that farm and business owners could plan for succession without undue concern about inheritance tax liabilities.

Now, though, these concerns have returned thanks to the reduction in these rates due to take effect next year. From 6 April 2026, the default rate for agricultural property relief (APR) and business property relief (BPR) will reduce to 50%, albeit a new combined 100% relief allowance of £1 million will apply to qualifying transfers.

The reforms were announced in the Budget of 30 October 2024 with the draft legislation published on 21 July 2025, following an initial consultation.

This article explores this draft legislation, focusing on the operation of the ‘100% relief allowance’ for individuals and relevant property trusts.

Please note that all references are to the draft Finance Bill Measures Sch 1 and the APR and BPR Explanatory Note.

Summary of the key changes

The APR and BPR changes commence on 6 April 2026, with some anti-forestalling provisions effective from 30 October 2024. Broadly the key changes are:

- The default rate of relief for BPR and APR will be 50%.
- A new 100% relief allowance will apply to individuals and trusts. This will be capped at £1 million but subject to indexed rises.
- Gifts of qualifying property from 30 October 2024 may be affected if the donor dies within seven years.
- The individual 100% relief allowance refreshes every seven years, similar to the nil rate band, but is not transferable between spouses.

The 100% relief allowance will apply broadly to the same types of qualifying business and agricultural property as the current 100% rate does. However, 100% relief will no longer apply to unquoted shares and securities traded on a recognised stock exchange, including the Alternative Investment Market (AIM); for brevity this article will refer to this category as AIM shares.

The changes could incentivise lifetime gifting to individuals (potentially exempt transfers) and into trust (chargeable lifetime transfers) before April 2026 with the potential for uncapped 100% BPR and APR. But there are complexities in calculating reliefs, as both types of transfers are revisited if the donor dies within seven years.

The new 100% relief allowance: individuals

The availability of the 100% relief allowance depends both on the timing of the transfer and the donor’s date of death.

- For transfers made before 30 October 2024, the 100% rates remain unlimited if the donor dies within seven years.
- For transfers made between 30 October 2024 and 5 April 2026, 100% relief is unlimited if the donor dies before 6 April 2026.
- For transfers made from 30 October 2024 where the donor dies after 5 April 2026 and within seven years of the transfers, the relief will be recalculated using the 50% rates and the 100% relief allowance.

The allowance operates on a rolling seven year basis, similar to the nil rate band. Each individual has their own £1 million 100% relief allowance. When making a transfer on or after 6 April 2026, the individual must look back seven years from that date for other transfers which were relieved by BPR or APR. The amount of the allowance available is £1 million less the amount of BPR or APR previously claimed.

Importantly, as the allowance is not transferable between spouses and civil partners it will be important to review wills and discretionary will trusts to ensure the 100% allowance is not wasted.

Qualifying conditions and unlisted AIM shares

The 100% relief allowance will apply to broadly the same agricultural and business property as the 100% rate does currently (referred to as ‘qualifying property’ in this article). The exception to this is AIM shares, which will be relieved at 50% without the benefit of the 100% relief allowance.

The 100% trust relief allowance

Relevant property trusts do not automatically get a 100% trust relief allowance. Instead, a trust only acquires a 100% trust relief allowance if qualifying property is settled onto it on or after 30 October 2024. The amount of the allowance is equal to the value of the BPR and/or APR claimed by the settlor in settling the trust, capped at £1 million across all trusts settled by the same settlor.

The 100% trust relief allowance is applied to exit charges and ten-year anniversaries for relevant property trusts, refreshing after the first quarter following each ten-year anniversary.

There are transitional rules for ‘qualifying pre-commencement trusts’, covered later.

Example 1: Settlements from 6 April 2026

Mrs Smith settles £3 million of qualifying shares onto Trust A on 1 November 2026. She can claim BPR at 100% on the first £1 million, with the balance relieved at 50% resulting in an inheritance tax entry charge. Trust A will get its own 100% allowance equivalent to the BPR claimed at 100% on settling the shares, i.e. £1 million.

Mrs Smith waits seven years for her 100% allowance to refresh and settles £600,000 of qualifying shares onto Trust B on 1 December 2033. This will use up £600,000 of her refreshed 100% relief allowance, so she will have no inheritance entry charge. This leaves £400,000 of 100% allowance for future use, ignoring any increases in the £1 million limit due to indexation.

However, Trust B will not get any 100% allowance, as this is calculated as £1 million less the allowance previously transferred by Mrs Smith into Trust A.

Example 2: Settlements between 30 October 2024 and 5 April 2026

Instead of waiting until 1 November 2026, Mrs Smith settles the £3 million of qualifying shares on 1 April 2026. BPR at 100% is available on the full £3 million, and Trust A receives the maximum £1 million 100% trust relief allowance.

Mrs Smith's personal 100% relief allowance is not used up by settling the trust, so long as she lives for more than seven years after settling Trust A. She therefore does not need to wait seven years before settling Trust B. However, although settling Trust A does not affect Mrs Smith's personal 100% relief allowance, it is taken into account for determining the 100% trust relief allowance for Trust B.

As Trust A used up the full £1 million, Trust B gets no 100% trust relief allowance.

Valuing the 100% trust relief allowance

A trust's 100% trust relief allowance can only be increased by settling further qualifying property into it, assuming that the overall £1 million trust cap per settlor has not been reached.

Often, the 100% trust relief allowance will initially be equal to the qualifying property held by the trustees. However, if the qualifying property increases in value, there may be a liability to inheritance tax for future exit and ten-year charges.

The 100% trust relief allowance is based on the loss to the donor's estate, not the market value of the assets held by the trust. This might introduce planning opportunities where minority discounts apply when valuing shareholdings, particularly if split across multiple trusts.

It had been proposed that existing rules for valuing related property be extended so that property qualifying for BPR settled by the same settlor across multiple trusts could be connected for valuation purposes, even if the trusts were not settled on the same day. This provision was not included in the draft legislation, although the accompanying consultation suggests that it might yet be added before the legislation is finalised.

Example 3: Minority discounts

The minority discount can result in shares held by the trust having a lower value than the value removed from the settlor's estate. The discounts for valuing different size shareholdings in this example are for illustration purposes only.

Mr Thomas owns 100% of E Ltd, a wholly trading company with no excepted assets valued at £1 million. On 1 January 2027, he settles 49% of the shares onto Trust F. The fall in value in his estate and the 100% allowance acquired by the trust is calculated as follows:

- A 100% shareholding is valued at £1 million.
- A 51% shareholding is valued at:
  51% x £1 million x 80% (assuming a 20% minority discount) = £408,000.
- Therefore, the reduction in value of Mr Thomas's estate is £1 million less £408,000 = £592,000.

Assuming that Mr Thomas has £1 million of his 100% relief allowance available, this is reduced by £592,000 to £408,000. Trust F acquires a 100% trust relief allowance of £592,000.

However, if a minority discount of, say, 40% applied to Trust F's shareholding of 49%, then this could be valued at: 49% x £1 million x 60% = £294,000.

This means that the trust has a 100% BPR allowance of almost £200,000 more than the value of assets qualifying for BPR initially settled in it. This could be advantageous, if the value of the shares is likely to appreciate.

Taking the example further, on 1 January 2028 Mr Thomas settles 41% of his remaining 51% shareholding into a second trust, Trust G. The loss to donor (and therefore the 100% BPR allowance of the second trust, assuming no change in the value of the company) is:

- A 51% shareholding is valued at:
  51% x £1 million x 80% (assuming a 20% minority discount) = £408,000.
- A 10% shareholding is valued at:
  10% x £1 million x 40% (assuming a 60% minority discount) = £40,000.
- Therefore, the reduction in value of Mr Thomas's estate is £408,000 less £40,000 = £368,000.

Trust G’s shareholding is 41%, valued at: 41% x £1 million x 60% (assuming a 40% minority discount) = £246,000, but its 100% allowance is £368,000 (more than £100,000 above the value of the asset settled in it).

Mr Thomas is left with a shareholding of 10% worth £40,000 and a remaining personal 100% relief allowance of £40,000.

If Mr Thomas had instead settled one trust with 90% of his shareholding in E Ltd, that trust would hold shares valued at £900,000 with a 100% BPR allowance of £960,000. Splitting the shareholding over two trusts could lower the share valuation from £900,000 to £540,000 (£294,000 + £246,000) but with the same 100% BPR allowance over the two trusts of £960,000 (£592,000 + £368,000).

However, if an extension of the related property rules is included in the final legislation, the shareholdings in E Ltd of Trust F and Trust G would be amalgamated, giving a total value of £900,000 (90% shareholding with no minority discount).

Temporary relaxation of ownership and occupation conditions

The delay between commencement of aspects of the rules and the release of draft legislation means that many would have taken actions which would no longer be beneficial.

However, there is a relaxation of the two-year ownership period for BPR (and also the occupation condition for APR) to wind-up the trusts settled with qualifying property between 30 October 2024 and 6 April 2026. Qualifying assets appointed out to beneficiaries before 6 April 2026 will not trigger inheritance tax charges (subject to limitations such as for excepted assets), while retaining the 100% trust relief allowance. For example, planning undertaken after 30 October 2024 may now have less favourable consequences and a potentially exempt transfer might be more beneficial.

Care must be taken to consider other tax consequences of terminating a trust.

Trusts settled prior to 30 October 2024 (qualifying pre-commencement settlements)

A trust settled before 30 October 2024 may acquire a 100% relief allowance if it held property which qualified for 100% BPR or APR (as defined under the new rules) immediately before 30 October 2024; a ‘qualifying pre-commencement settlement’.

A settlor can have many qualifying pre-commencement settlements, each with its own £1 million 100% trust relief allowance. Additionally, qualifying pre-commencement trusts will continue to have unlimited 100% relief up until the first ten-year anniversary after 5 April 2026 on qualifying assets. However, if a trust was originally settled with qualifying property but no longer held this just before 30 October 2024, it will have no 100% trust relief allowance.

Interestingly, a qualifying interest in possession trust could be a qualifying, pre-commencement settlement. For example, if it was created by the will of a deceased settlor prior to 30 October 2024, the £1 million allowance could apply on the death of the life tenant.

Traps for the unwary

The strict chronological rules of the 100% trust relief allowance introduce some inflexibility and potential pitfalls. There is a window of opportunity to settle trusts before 6 April 2026 with uncapped 100% relief on entry.

However, ongoing monitoring is required for interaction between trusts created by the same settlor (both lifetime and testamentary trusts) and to ensure that transfers between spouses on death do not result in relief being wasted. It is important that taxpayers take advice specific to their circumstances and plan carefully when using trusts. The key considerations include:

- reviewing wills to avoid loss of the 100% allowance on death;
- coordinating lifetime gifts and trust settlements to optimise relief;
- reviewing the position for trusts settled with AIM shares; and
- monitoring developments from the ongoing consultation, which may refine the legislation before enactment.

Conclusion

The proposed reforms to APR and BPR represent a significant shift in inheritance tax planning. While the introduction of a 100% relief allowance offers some protection for qualifying property, the reduced default rate and new limitations require careful navigation.

Tax advisers should act now to help clients make the most of the transitional period and prepare for the new regime with bespoke succession strategies.

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