

Relaxation of Inheritance Tax ('IHT') changes for BPR and APR

The changes made to Business Property Relief ('BPR') and Agricultural Property Relief ('APR') announced in the October 2024 Budget have been relaxed in a surprise announcement made by the Government in December.

Following on from the recent announcement in the Budget that the BPR/APR allowance will now be transferrable between spouses, the government have also confirmed that the allowance will be increased from £1 million to £2.5 million when it comes into force from 6 April 2026 (and that the allowance will be index lined from April 2031 onwards).

The relaxation has arisen due to the persistent lobbying of the National Farmers' Union, but their work has also benefitted business owners, as well as the farmers. Fortunately, the changes now allow a greater value of BPR or APR assets to escape IHT than was originally announced. Despite this, for some businesses, the final changes will still increase their IHT exposure and present difficulties for family succession.

The confirmed changes to reliefs which had previously been announced are highlighted in red.

Amended legislation is currently progressing through parliament. Further amendments have been proposed by opposition parties (in particular, around the implementation date for these changes and the transitional provisions). It remains to be seen whether the Government will make any further concessions to these new rules before they come into force. We will hopefully know by the end of February 2026.

Current APR/BPR rules

Under current rules, there is no limit to the amount of qualifying assets which can attract 100% relief from IHT.

Consequently, to date there has been perhaps little urgency for business owners to look towards succession planning during their lifetime (particularly given the capital gains tax uplift available on assets retained until death).

Currently, 100% relief is available on the following:

- Interests in unincorporated trading businesses (e.g. sole trader or partnerships).
- Shares in unquoted trading companies (or holding companies of trading groups).
- Shares in AIM listed companies.
- Agricultural land occupied for the purposes of agriculture.

In each of the above cases, the asset must have been held for two years immediately preceding the date of transfer (or for seven years in the case of farmland which is let to a tenant farmer).

What is changing?

From 6 April 2026 the availability of 100% BPR/APR will be restricted to a limit of **£2.5 million** per person (£1 million was the previously announced limit). This limit will apply to:

- Property in the estate at death.
- Lifetime transfers to individuals in the seven years before death (known as 'failed PETs').
- Chargeable lifetime transfers such as gifts into trust.

Qualifying assets in excess of the **£2.5 million** allowance will only attract relief at 50%, resulting in an effective inheritance tax rate on death of 20% on those assets, which previously would have qualified for full relief.

In addition, 100% relief for AIM listed shares is withdrawn, with AIM shares only qualifying for 50% relief from 6 April 2026 (i.e. the **£2.5 million** allowance will not apply to AIM shares).

This allowance will operate like the nil rate band, in that it will be allocated chronologically against the earliest chargeable transfer first and will replenish after seven years. **Also, the government have finally accepted that any unused relief can be transferred on death to the surviving spouse, regardless of whether the deceased held any qualifying assets.**

This means that, as an example, a trading company worth **£5 million** that was owned entirely by spouses, will not result in any IHT payable on second death.

The allowance also applies to trusts and is relevant for the 10-yearly charges to inheritance tax and exit charges where qualifying property leaves the trust. Where settlors have set up more than one trust comprising qualifying business and/or agricultural property before 30 October 2024, then each of those trusts will have a £2.5 million allowance for assets qualifying for 100% relief. The new rules will not apply to these trusts until the first 10-year charge that arises on or after 6 April 2026.

Trusts set up on or after 30 October 2024 will have an allowance allocated based on chronological transfers by the settlor of qualifying assets made in the preceding seven years (but disregarding any transfers made before 30 October 2024). The maximum relief available to the specific trust will be determined by the value of the transfer made into that trust.

Action required

There is a window of opportunity until 6 April 2026 to transfer unrestricted values of BPR qualifying assets into new trusts or to top-up existing BPR/APR trusts to attract maximum reliefs for the duration of the trusts' lifetimes. From 6 April 2026, individuals will be restricted to contributing a maximum of **£3.15 million** into trust without a tax charge (£2.5 million plus £650,000 of value attracting 50% relief to use up the nil rate band). This is much more generous than the previous limit. Nevertheless, for businesses exceeding £5 million of value, action before 6 April 2026 is recommended. This option will not be appropriate for everyone but is suitable where either the next

generation intend to carry on the business, or where the company will be sold within the individual's lifetime.

Affected taxpayers should consider the following actions now:

- In the context of a family business, consider ensuring family members/trusts hold up to **£2.5 million** of value to use up allowances and take advantage of discounts on minority shareholdings.
- Consider settling a trust before 6 April 2026 to take advantage of full relief whilst it is still available.
- Review existing trust structures to understand the effect of these changes – consider whether it is appropriate to appoint assets out of the trust before the next 10-year charge (if on or after 6 April 2026), or to change the terms of trusts where the assets are deemed to fall within an individual's estate.
- Review wills to ensure they are appropriately structured to maximise relief on death (such as passing qualifying assets to a discretionary will trust, rather than under the spousal exemption) to attract greater discounts against shareholding values.

Contact us

We are already undertaking planning for affected clients in anticipation of these changes. As this is very much a live issue for business owners, those affected need to take advice as soon as possible to ensure any planning can be properly implemented before 6 April 2026.

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