



## Navigating the upcoming changes to Business and Agricultural Property Relief

### A guide for families and business owners

#### Introduction

For over 30 years, Business Property Relief (BPR) and Agricultural Property Relief (APR) have been integral components of inheritance tax (IHT) planning in the UK, enabling family businesses and farms to pass through generations without incurring significant tax burdens. These reliefs have ensured continuity and stability for families, preserving their legacies and supporting multi-generational wealth transfer. However, significant changes introduced in Chancellor Rachel Reeves' first budget, set to take effect in April 2026, have sparked concern among family businesses and farming communities.

This document explores the nature of these changes, their potential impact and key steps for mitigating adverse effects. Whether you are a business owner or a trusted adviser, understanding these reforms is essential for safeguarding assets and planning for the future.

#### Understanding BPR and APR

BPR and APR provide relief from IHT on specific business and agricultural assets, ensuring that family businesses and farms can continue operating across generations. These reliefs were designed to prevent the breakup of family enterprises due to hefty tax liabilities, fostering long-term economic stability. Under current rules:

- **BPR:** Offers up to 100% IHT relief for shares in unlisted trading companies, sole trader businesses and certain partnership interests. The relief ensures that businesses transition smoothly between generations without being financially compromised by IHT obligations.
- **APR:** Provides up to 100% IHT relief for qualifying agricultural property, such as farmland, farm buildings and certain

associated assets. This relief has been critical for preserving the agricultural heritage of the UK and supporting sustainable farming practices.

These reliefs have traditionally ensured that the value of qualifying assets does not attract IHT, enabling seamless intergenerational transfers. By reducing the tax burden, families could focus on sustaining their enterprises and nurturing growth.

#### Key changes in the October 2024 Budget

The changes announced in the October 2024 Budget mark a significant departure from decades of established IHT policy. Starting April 2026, these reforms will fundamentally alter how BPR and APR are applied:

- 1. Capped relief:** The 100% relief will be limited to the first GBP 1 million of combined business and agricultural property per estate. Any value above this threshold will qualify for 50% relief, effectively incurring a 20% IHT rate on the excess. This introduces a financial barrier that many family businesses may struggle to overcome.
- 2. Trust arrangements:** Trusts created after 30 October 2024 will share the GBP 1 million allowance among them, whereas pre-existing trusts will retain individual allowances. This change necessitates a re-evaluation of trust structures that hold shares in family businesses or farms.
- 3. Anti-forestalling rules:** Gifts made after 30 October 2024 will be subject to the new rules if the donor dies after April 2026 and within seven years of the gift. This restricts the window for tax-efficient lifetime gifting.

These reforms challenge long-standing tax planning principles, particularly for families relying on current reliefs to maintain business and farm operations. The implications for cash flow, succession and operational continuity are profound.

### The implications for families and business owners

The upcoming changes introduce several challenges for families and business owners. Understanding these implications is the first step in formulating an effective response:

**1. Increased IHT exposure:** For estates exceeding GBP 1 million in qualifying assets, the new rules introduce significant tax liabilities. For instance, an estate with a GBP 3 million business or farming asset may face an additional IHT charge of GBP 400 000 under the new framework, compared to no liability under current rules. This is on the basis that GBP 1 million benefits from 100% relief and a reduced IHT rate of 20% applies to the remainder of the shares.

This increase in tax exposure could disrupt financial stability and long-term planning.

**2. Cash flow and sustainability risks:** Businesses may need to allocate profits to pay IHT instalments over 10 years or sell assets to raise funds, potentially jeopardising operations. For example, farming enterprises might be forced to sell off valuable land, undermining their ability to remain commercially viable.

**3. Complex valuations:** Understanding the value of business and agricultural assets is now critical. Accurate valuations, especially for minority shareholdings, can help mitigate IHT exposure. Engaging professional valuers to assess assets is a crucial step in adapting to the new rules.

**4. Succession challenges:** Families must actively plan for ownership transitions, as outdated wills or ad hoc planning may exacerbate tax liabilities and create operational instability. Discussions about succession and ownership transfers, often delayed due to their sensitive nature, can no longer be postponed.

### Proactive wealth planning strategies

To navigate these changes, families and business owners should consider the following strategies. Each approach is designed to mitigate the impact of the reforms and preserve the integrity of family enterprises:

**1. Update valuations:** Engage professionals to assess the value of your business and agricultural assets. Understanding each individual's shareholding and its associated IHT implications is

critical. Accurate valuations can also inform decisions about restructuring or asset transfers.

**2. Revise wills:** Wills that leave assets to surviving spouses may no longer be tax efficient. Instead, consider passing shares directly to the next generation to maximise the use of allowances. Reviewing and updating wills is essential to align them with the new legislative landscape.

**3. Explore lifetime gifting:** Gifts made at least seven years before death remain exempt from IHT. Transferring assets earlier can minimise liabilities while leveraging potential exemptions. However, it is crucial to consider the financial needs of the donor and the impact on family dynamics.

**4. Restructure ownership:** Distributing shareholdings among family members or establishing trusts can help optimise the use of allowances. Articles of Association and shareholder agreements may need adjustments to ensure effective governance. For example, creating differentiated share classes can provide flexibility in control and income distribution.

**5. Consider insurance:** Life insurance policies can provide liquidity to cover IHT liabilities, avoiding the need to sell critical business or agricultural assets. While premiums represent an ongoing cost, they can offer peace of mind and financial security for future generations.

**6. Trust planning:** While trusts remain viable, changes to their taxation require careful consideration. Pre-existing trusts may offer advantages, but creating new trusts post-Budget may involve shared allowances and additional complexities. Trusts can still play a role in protecting assets and ensuring their proper use.

### Case study

To illustrate the potential impact of these changes, consider the following scenario:

**A family enterprise:** John established and owns 100% of the shares in his family business, JJC Limited. He is married to Jane and they have two adult children. One of the children may join the business in the next few years. The shares in the business are currently valued at GBP 5 million which means the announcements from the budget will impose an IHT liability of GBP 800 000 on John's death. These changes mean the family require careful planning if they are to ensure continuity of the business to future generations. John could transfer GBP 1 million of the shares into his wife's name to utilise her GBP 1 million BPR allowance subject to the minimum holding period to qualify for BPR.

John and Jane could update their respective wills to ensure that the GBP 1 million allowance is gifted to the next generation on first death rather than passing to one another, given the fact that the GBP 1 million is not transferable from one estate to the other. They could potentially gift an additional GBP 3 million worth of shares in lifetime to the next generation. The transfer would be exempt from IHT prior to April 2026 but, there would be a potentially IHT liability should death happen post April 2026 for up to 7 years from the date of the gift. The gift of the GBP 3 million worth of shares could be made to the children directly or, into a discretionary trust. Where it is made into a trust then periodic charges may now apply every 10 years on the value in excess of the trust allowance. John could elect for gift relief on making the gift to the children to defer the capital gains tax liability.

The use of a decreasing term assurance could help mitigate the potential IHT exposure.

### Looking ahead

The April 2026 changes to BPR and APR mark a significant shift in inheritance tax planning. Proactive engagement with legal, tax and financial advisers is essential to mitigate risks and preserve family businesses and farms. Families should act promptly to:

- Conduct a thorough review of their current estate plans.

- Initiate open discussions on succession and ownership transitions.
- Prepare for the government's consultation on trust rules and transitional provisions, expected in early 2025.

While the changes introduce challenges, they also offer an opportunity to reassess and refine wealth planning strategies. By taking these steps, families can safeguard their legacies, maintain business continuity and ensure resilience in the face of evolving tax regulations.

### Conclusion

The reforms to BPR and APR underscore the importance of informed decision-making and proactive planning. By leveraging available strategies and seeking expert guidance, families can adapt to the new tax landscape and secure their financial futures. Whether through updated wills, lifetime gifting, or innovative trust arrangements, there are numerous pathways to navigate these changes successfully. Now is the time to act and ensure that family businesses and farms remain vibrant contributors to the UK's economy and heritage for generations to come.

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