Adviser Home
DEVELOPMENT PLATFORM

BUSINESS RELIEF
AUTUMN BUDGET 2024 CHANGES

An Adviser Guide

Partners

BLACKFINCH | Foresight Invest Build Grow | octopus investments | praetura INVESTMENTS | SENECA PARTNERS | STELLAR ASSET MANAGEMENT

BLACKFINCH

The Blackfinch Adapt IHT Service is a solution to the challenge of Inheritance Tax (IHT). Investors can share in the strong prospects of firms working within multiple, diverse asset classes such as property development lending, asset-backed lending, renewable energy and forestry.

Across Blackfinch we have in-house investment expertise across all of these markets. We draw on their deep insights to identify a wide range of opportunities for clients.

Our offering is aligned with investors' beliefs around future outcomes, targets a return on their investment and keeps them in control, with the option to withdraw capital as needed.

We have a wide range of considerations we use for initial screening. Our extensive due diligence processes assess factors such as the people involved, health and safety standards, impact on society, risk to the environment, geographic location, strength of governance and more.

PROPERTY DEVELOPMENT FINANCE

We work closely with property developers around the UK, providing finance ranging from £1m-£25m. Loans are typically for new build projects, redevelopments and major renovation works. We invest across many sectors and regions.

ASSET-BACKED FINANCE

We provide asset-backed finance for business and property deals typically in the region of £0.5m-£25m. We focus on transactions in established sectors with reputable partners.

FORESTRY

We invest in woodland across the UK, varying in the degree of maturity. The woodlands contain a mixture of tree varieties to fulfil the commercial demand for UK timber. The woodlands will be responsibly managed, to support regional biodiversity and compliance with Forestry Commission standards for sustainability.

RENEWABLES INVESTMENT

We invest in the proven technology of solar and wind energy, with over 53 sites nationwide. Investments can deliver stable predictable revenues. Many projects benefit from prior government subsidies. We also now invest in subsidy-free developments, acquire subsidised operational projects and use Power Purchase Agreements with strong counterparts.

ENQUIRIES@BLACKFINCH.COM

WEBSITE

01452 717070

1350-1360 Montpellier Court, Gloucester Business Park, Gloucester GL3 4AH

Foresight

Invest Build Grow

Foresight Group is one of the UK's most experienced managers of tax efficient investments.

Established in 1984 it manages money for c.40,000 retail investors and over 200 institutional investors, including some of the world's leading financial institutions, government organisations, pension funds and insurance companies. Foresight Group operates in eight countries across Europe and Australia with assets under management of £12.4 billion[1] and is a constituent of the FTSE 250.

Foresight's flagship Business Relief (BR) solution is a £1.7BN[2] multi-award winning, and Defaqto 5 Star and Diamond rated fund, focused on protecting investors assets against Inheritance Tax. It has been designed to offer simplicity and flexibility, while investing to enable change and protect future generations.

Introduced by the UK government in 1976, Business Relief is an established tax allowance designed to incentivise investment into unlisted trading businesses. Shares that qualify for Business Relief can be passed down to beneficiaries free from IHT, providing they have been held for a minimum of two years. That means investors who choose to own BR qualifying shares can protect against inheritance tax in just two years[3].

Our principal objective is to make investments that we expect to qualify for BR and deliver stable returns for investors. We achieve these aims by investing into a diversified portfolio of underlying infrastructure businesses and other trades, covering sectors such as renewables; fibre broadband; reserve power; secured lending and forestry; with the objective of managing risk to capital and delivering predictable returns.

Contact us to learn more about Business Relief and how to incorporate it into your adviser toolkit.

[1] 30 Sept '24
[2] 31 Dec '25
[3] From April 2026, IHT relief on BR-qualifying assets over £1 million will be reduced to 50%.

Contact us

+44 (0) 203 667 81 99

sales@foresightgroup.eu

Find out more

octopus investments

Introducing The Knowledge Base

- Are the quirks of the RNRB catching you out?
- Unsure of how trust tax treatment applies in practise?
- And why would you set up multiple trusts on different days?

To support you navigating some of the complexities of inheritance tax and estate planning, we have created a dedicated adviser hub. You can find a comprehensive suite of new technical whitepapers to get into the nitty-gritty of all things estate planning. These are designed to take you through everything you need to know.

We have also collated useful guides, planning scenarios, webinars, calculators and insights for each topic.

The Knowledge Base: a deep dive in estate planning, covers all the essentials, from key considerations for inheritance tax, trusts, gifting, Business Relief, power of attorney and more.

Visit The Knowledge Base

Have a specific question?

If you have a technical question on estate and inheritance tax planning, the new free helpdesk, for advisers, from Octopus Investments can support you. Just submit your question or book a meeting with one of our experts.

Ask Octopus

praetura INVESTMENTS

GROWTH INVESTOR 2023 AWARDS | WINNER BEST EIS INVESTMENT MANAGER (UP AND COMING)

GROWTH INVESTOR 2023 AWARDS | WINNER MOST IMPACTFUL REGIONAL INVESTMENT

At Praetura Investments, we provide financial advisers with a suite of award-winning tax-efficient investment solutions, including the Praetura EIS Growth Fund, the Praetura Growth VCT, and the Praetura Inheritance Tax Planning Service. Our products are designed to help advisers support their clients with growth-focused and inheritance tax-efficient investment opportunities, backed by a highly experienced venture capital and business lending team.

Why Financial Advisers Choose Praetura?

- Expertise in Alternative Investments – We have deployed over £1 billion in investments and lending since inception and currently manage over £780 million in assets.
- Strong Business Relief Proposition – The Praetura Inheritance Tax Planning Service is structured to qualify for Business Relief, targeting stable, predictable returns of 4.5%+ net per annum, while maintaining a highly diversified lending strategy relative to the larger business relief providers in the market.
- Reliable Liquidity Management – We prioritise accessibility in our BR service, aiming to process withdrawals within one month of a request .
- Proven Track Record in Lending – Our business lending arm has supported over 4,000 secured lending agreements, ensuring a capital preservation-focused approach for BR investors.

With the tax landscape evolving, we help advisers guide their clients through changes with confidence. Whether your clients are seeking growth opportunities or inheritance tax planning, we provide robust solutions that balance risk, return, and tax efficiency.

Contact us to learn more.

Contact details

Jon Prescot
Partner

jon.prescott@praetura.co.uk

07710 087 636

Visit website

SENECA PARTNERS

The recent changes that were announced in the Budget have brought some welcome certainty in the Inheritance Tax space, although some of the changes to Business Relief and Agricultural Property Relief may well be less welcome. The introduction of a £1m threshold for obtaining 100% Business Relief/APR relief along with the restriction to 50% relief above that and for AIM quoted shares in April 2026, will have investors reviewing their portfolios in the coming months.

Seneca Partners has offered an unquoted Business Relief IHT Service since 2014 and has built up a reputation for delivering on or above target returns ("the most consistent return in the sector" [Source: Hardman & Co, December 2023]) of 4% p.a. available as growth or a quarterly income.

Trading as a secured commercial lender, the IHT Service has a diverse portfolio of assets that includes commercial property (including flexible office space and managed storage) and residential property, along with asset-based lending (both stock and vehicle finance).

The Seneca IHT Service can be included within an investor's £1m band for 100% Business Relief/APR, making it an attractive home for individuals seeking to shuffle their Business Relief assets into an asset backed solution, ahead of the changes being introduced in 2026. Replacement Property Relief will certainly be of interest to those investors, as it means that they won't have to serve another two years before their investment should qualify for Business Relief.

With a 100% record for "successful deaths" (a dreadful expression used by some in the industry to describe cases when Business Relief should have been granted and indeed was) and always delivering liquidity within our service level agreement, no wonder more and more advisers are considering the Seneca IHT Service as a part of the recommendations they make.

If you'd like to find out more, please don't hesitate to get in touch, especially as we're currently offering advised clients no fees on entry - so we're waiving our initial fee and dealing fee for the purchase of shares - for investments made into our IHT Service by 30 June 2025.

Contacts

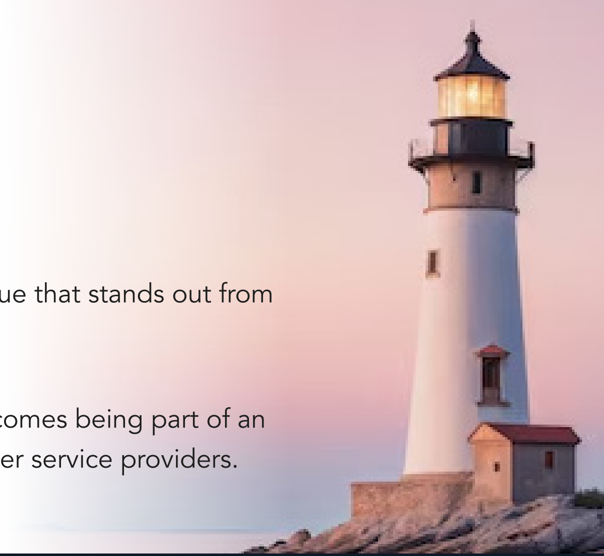
Peter Steele
Retail Operations Director

peter.steele@senecapartners.co.uk

01942 295 985

Visit website

STELLAR



Stellar Asset Management is a specialist Business Relief IHT boutique that stands out from the crowd by doing things differently.

Recognising our services' differentiating characteristics, Stellar welcomes being part of an optimum, diversified, Business Relief solution, sitting alongside other service providers.

We specifically offer **3 differentiated IHT mitigating services** using Business Relief:

AIM

A dedicated, award-winning, smaller cap focused service with a larger investible universe than many of its peers. We intertwine Growth and Value styles under one roof and have an enviable track record of consistency, total return and volatility management. Our service is considered a strong portfolio diversifier, be it as a core holding or a satellite kicker.. IHT relief on AIM may have reduced but AIM still has a significant role to play in HNW IHT planning, with track record, customer service and counterparty risk more relevant than ever. By targeting the smaller end of AIM we strive to find "tomorrow's winners, not yesterday's". The service will be capped in the interest of performance integrity.

Asset backed

Inheritance Tax Service: A standard TopCo arrangement

We're passionate advocates of asset backed investing. Both of Stellar's services adopt a concentrated, convicted asset allocation process, believing a portfolio can be overdiversified with an associated diminishment of manager control/ oversight. We believe a closer relationship with select investee companies provides a better outcome; an observation supported by quantitative competitor analysis.

PTC

A more sophisticated, personalised, Private Trading Company (PTC) service that allocates each investor's funds into a single newly incorporated PTC that is solely-owned and personally-named by the investor and managed by Stellar. Either a DFM model or a wholly bespoke approach can be adopted meaning portfolios can be specifically tilted to an individual investor's preference.

A key ethos of Stellar is to make investors money over a realistic time frame, whilst also successfully mitigating IHT. This requires adopting an acceptable level of risk and liquidity to optimise the potential for return. We also directly support the UK economy at grass roots level, be that through AIM or private equity Asset Backed investee companies - employing people, generating tax revenue and contributing to much needed UK growth.

Adviser resource

Latest Stellar ITS Service Factsheet

Latest Growth Service Factsheet

Latest AiM IHT Service Factsheet

Contact us

020 3195 3500

enquiries@stellar-am.com

www.stellar-am.com

MEMBER
The CPD Certification Service

The Adviser Guide to

Business Relief: Autumn Budget 2024 changes

The CPD Certification Service have assessed this material for CPD Eligibility and have allocated this material **90 minutes** of unstructured learning with the following learning outcomes.

Learning outcome

1. Understand how proposed changes to Business Relief, pensions and freezes to tax thresholds and allowances are driving more IHT receipts for HMRC and more potential clients of Business Relief investments
2. Define key differences between pre and post Autumn budget 2024 estate planning scenarios
3. Identify key Consumer Duty requirements relevant to recommending Business Relief solutions in the context of proposed changes
4. Explain potential adjustments to Business Relief and other estate planning to minimise increases in future IHT liabilities as a result of the changes announced in the Autumn budget 2024
5. Appreciate the possible impacts on AIM of the changes announced in the Autumn budget 2024
6. Build awareness of additional estate planning associated tax efficient planning options

Contents

INTRODUCTION

How Labour's 2024 budget sets the scene for current and future estate planning

Welcome to the Adviser Home guide to Business Relief: Autumn Budget 2024 changes.

For the purposes of this guide, the information published since Labour's first budget for over a decade in October 2024, has been used to give advisers and professionals a steer on the adjustments and how related estate planning solutions may vary to the client's best advantage. It's worth noting though, at the time of publication, HMRC's consultation of the Business Relief changes announced in relation to trusts was still open and further clarifications in a response document and technical consultation from HMRC were due as a result of the feedback received.

It's important to remember that some of the new rules, such as the implementation of the cap on Business Relief claimable at 100% of IHT, will not be implemented until 2026, or as is the case with unused pension capital forming part of the deceased's estate for IHT calculation, 2027. There are no guarantees that further changes to details or clarifications applied in this guide may be introduced and that they could impact the accuracy of case studies and interpretations published herein.

Despite the £1 million cap on Business Relief claimable at 100% of IHT and the reduction of IHT relief available to Business Relief qualifying shares quoted on the Alternative Investment Market (AIM), the interaction with other changes to IHT offers Business Relief a positive outlook. In fact, **Sophie Haslehurst**, senior financial planner/chartered financial planner at Integrity 365, who is experienced in the field of tax-efficient investment recommendations, thinks *"there is going to be a move towards more people discussing Business Relief in general simply because pensions are going to be inside estates from 2027 and the reality is that a lot of people have been utilizing their pension as the pot of last resort."*

Jonathan Prescott

Partner

praetura INVESTMENTS

> If you have a client bank with clients above the nil rate band, estate planning is becoming more and more important. You're going to have very few clients with a reasonable level of funding into pensions who aren't impacted. If you have clients with an IHT liability now, in a couple of years, it's only going to be worse.

The uncertainty around Business Relief in the run up to the election and to Labour's first budget since regaining power, has also been credited with creating a build up of dry powder that is now possibly even more suitable for Business Relief investment.

Continue

Peter Steele

Retail operations director

SENECA PARTNERS

"For the financial services industry, which is more focussed on Business Relief, I think the changes were not as bad as many feared they might be. If you remember, there was speculation that Inheritance Tax might be scrapped under the Conservative government followed by further speculation that Business Relief would be scrapped under the current Labour government. The effect of both has been for a number of investors to delay making a Business Relief investment, effectively delaying the 'serving' of their 2-year qualifying period by up to 18 months.

What's more, some feel that a new £1 million allowance for 100% Business Relief and Agricultural Property Relief, as well as a designated 50% relief for relevant AIM quoted shares, has given Business Relief a new legitimacy.

Jessica Franks

Head of investment products

octopus

"It's reassuring that Business Relief has been recognised by the current government as an important incentive that directs capital towards our vital scale up ecosystem. There is recognition that investors are taking more risk with their capital by investing in such companies, and the retail investment this facilitates is more important than ever against the current UK capital market backdrop. I think consideration of the suitability of Business Relief qualifying investments is going to become more widespread, both because of the '£1 million allowance' created, and because of Consumer Duty. Advisers are starting to think about it like that and use that allowance, particularly with pensions suddenly inflating estate sizes. In addition, there is now clarity about the position of Business Relief under the new Government, and this support for the important role BR plays in encouraging investment in addition to family business dynamics looks to mirror the views of the Conservative party, which were spelt out in their manifesto.

There also needs to be more recognition of how the budget changes, added to those made over the last couple of years, have brought IHT and estate planning much more into the mainstream as issues to be dealt with for a far larger cross section of individuals, at an earlier stage in their lives as inflation, frozen thresholds and pension wealth takes them into IHT territory at a younger age.

Continue

Richard Roberts

Head of sales development

Foresight
Invest Build Grow

"IHT planning has become an increasingly mainstream problem and Business Relief is part of the solution that's not just for the alternative asset class focusing on UHNW investors. The budget has raised the profile of IHT as a problem for the masses. As a result, it's begun to normalize the conversation around Business Relief and estate planning and that's where there's a huge opportunity for advisers if they really lock onto this as a mainstream concern. Even if someone has a modest house worth £300,000, when you start adding pensions on top of that, the average pension being about £150,000, suddenly people are already breaking through the Nil Rate Band (NRB). The frozen NRB has had a big impact; although the freeze was only extended by another couple of years at the recent budget, had the thresholds gone up with inflation since 2009/10, the NRB would be at around £525k by now. So, IHT as an issue is not just for a minority of advisers. Many are sleepwalking into unexpected liabilities unless advisers inform them accordingly and start having discussions that offer solutions.

Adding that pension pot of last resort to estate values liable to IHT means, according to Harry Bell, certified financial planner with **Charles Stanley** Wealth Managers, that, *"the world has changed, but it's not that you can't still plan for reducing IHT. It just depends on what you're willing to compromise on – whether it's losing access or taking more risk – there is always something you can do, the problem has just increased and drawn more estates in. This is why it's so important to take advice."*

When considering IHT, he sees clients concern about the impact of recent changes on their beneficiaries. *"Being an executor isn't an easy task, especially when they are often dealing with the death of a loved one. Clients are often concerned about the burden on their executors when it comes to paying any inheritance tax bill that can't be fully mitigated. The six-month deadline for paying the bill, which in many cases is in advance of probate being granted is a big worry. Something that could help here is the Direct Payment Scheme where the proceeds from the sale of Business Relief investments are sent straight to HMRC to meet IHT liabilities. These schemes can give clients a lot of comfort that their executors will have methods to pay the bill, even if they can't reduce it entirely."*

Where AIM Business Relief is concerned, **Haslehurst** thinks that *"AIM is still a really important part of discussions for all clients with an IHT problem. And sometimes it's just about making the observation that there's lots of different types of schemes on the market."* Although some have said that the target market for AIM Business Relief investors has been "uprated" to a more sophisticated High Net Worth individual cadre and away from the broader based mass affluent market, there is still a place for it in the planning mix.

Continue

Stephen English

Investment director, head of AIM

STELLAR

> We don't foresee any kneejerk reactions from IFAs, and indeed the lead-in time to the change gives room for a comprehensive and measured review of matters. AIM was always an important but small part of an estate planning solution, and we don't see that aspect changing. While 50% relief is less attractive than 100% relief, we believe advisers will look at estate solutions holistically or "in the round", targeting a blended IHT rate when mixing various Business Relief solutions together. While asset backed solutions have their own merits, those of AIM remain undimmed, offering liquidity and full control of assets, as well as a compelling growth story. This all comes in a transparent service with Stellar's fees offering strong value for money. We see a core/satellite approach with AIM increasingly used as a growth 'kicker' to clients' estates. The hurdle rate has gotten higher to invest in an AIM IHT service post the tax change and advisers will be even more diligent in providing capital to only those providers with a demonstrably strong track record.

Diversification of estate planning methods looks set to become even more critical as average estate values inevitably rise and potential IHT bills follow. From this perspective, the use of Business Relief is quite likely to go up rather than down. Even at 50% relief for Business Relief qualifying assets above the £1 million threshold or AIM quoted Business Relief shares, for those investing larger amounts, it's still a good investment incentive.

Of course, a range of estate planning methods is likely to offer the best solution and Business Relief continues to be useful in combination with, for example, gifting, trust arrangements and insurance options. But there is now more to take into account.

Alex Sumner

Group commercial director

BLACKFINCH

> Given that other business assets may still benefit from reduced IHT rates compared to Capital Gains Tax (CGT), advisers might increasingly recommend diversifying wealth across different tax-efficient structures. The combination of IHT portfolios, ISAs, and trusts may become more relevant as estate planning tools in light of these changes.

With these new complications, the importance of good financial advice has been elevated even further, especially in the world of the Consumer Duty. That means this is a period for advisers to really illustrate the value they bring with their planning skills and knowledge to support legacy and lifestyle objectives against the context of the great wealth transfer.

THE FUNDAMENTALS OF BUSINESS RELIEF AND AGRICULTURAL PROPERTY RELIEF THAT REMAIN UNCHANGED

BUSINESS RELIEF

Business Property Relief (BPR) provides relief from Inheritance Tax (IHT) on the transfer of relevant business assets at a rate of 50% or 100%.

Relevant business property comprises a business or an interest in a business (including sole traders or partnerships), unquoted shares, including shares listed on the Alternative Investment Market (AIM), unquoted securities which on their own or combined with other unquoted shares or securities give control of an unquoted company, quoted shares which give control of the company, land or buildings, machinery or plant used wholly or mainly for the purposes of the business carried on by a company or partnership, land or buildings, machinery or plant available under a life interest and used in a business carried on by the beneficiary.

Relevant property must usually be held for at least two years prior to death in order to qualify for relief. But qualifying relevant property may also be treated as satisfying the two-year minimum ownership period where it replaces other qualifying relevant property. The replacement asset must be bought within three years of the disposal of the original relevant asset. Business Relief applies, provided the ownership periods of qualifying assets total at least two years in a continuous five-year period.

Business Relief is not available in respect of a business, or shares in a company that is:

- Not carried on for gain i.e. not for profit or not on a commercial basis.
- Subject to a contract for sale or being wound up.

There is no Business Relief if the business or company is one of 'wholly or mainly' in dealing in securities, stocks or shares, land or buildings or in the making or holding of investments.

Where Business Relief is available in respect of a business, relief will be restricted where excepted assets are held.

- An excepted asset is property that has not been used for the purposes of the business throughout the two years prior to transfer, nor was it required at the time of the transfer for future business use.

Continue

AGRICULTURAL PROPERTY RELIEF

Agricultural Property Relief (APR) allows up to 100% IHT relief on the agricultural value of land or buildings, including:

- Farm buildings
- Farmhouses & cottages
- Woodlands with trees that are planted and harvested at least every 10 years
- Buildings used for breeding and rearing horses and the associated grazing for stud farms
- The value of milk quota associated with the land
- Controlling shares in a farming company

Agricultural property is land or pasture that is used to grow crops or rear animals intensively. Woodlands and stud farms also qualify, although APR is not available on property that is used for – liveries, horse racing, letting (including holiday lets), market gardening and commercial woodland (including growing Christmas trees).

Qualification ownership period

If occupied by the owner or their spouse or civil partner, the minimum ownership period to qualify for APR is two years. If the property has been occupied and farmed by someone else, the owner will need to have owned it for at least 7 years.

Farmhouses and Cottages

The amount of APR available on farmhouses or cottages is dependent on whether the building is of an appropriate size and nature for the farming activity that is being carried out. If the building is larger than necessary for the level of farming activity, then relief may not apply.

For example, a large eight bedroom mansion with several reception rooms with 5 acres of adjoining farmland is unlikely to qualify for APR.

A cottage or farmhouse must be occupied by someone who is carrying out farming activities on the property. This could be the owner, someone leasing the farm, or a farm employee. The building also qualifies where it is occupied by a retired farm employee or the spouse or civil partner of a deceased farm employee.

THE BUDGET CHANGES FOR BUSINESS RELIEF

Labour's first budget for 14 years in October 2024 heralded changes that will certainly impact the inheritance tax landscape and generate new planning adjustments and opportunities for advisers that they shouldn't be ignoring in the quest for the best client outcomes.

For Business Relief, the changes that matter are:

BUSINESS RELIEF (BR) AND AGRICULTURAL PROPERTY RELIEF (APR) LIMIT ON 100% IHT RELIEF

From 6 April 2026, a £1 million limit will apply jointly to the value of assets claimed under agricultural property relief (APR) and Business Relief (BR), which allow for a full exemption on IHT for qualifying agricultural land, business assets and unlisted shares. The existing full relief will apply below the £1 million threshold, and a reduced 50% relief (or 20% IHT) above it.

For a married couple, the threshold will potentially be £2 million, though whether the reliefs are transferable between spouses is not yet certain. Before the October 2024 budget announcements, the Individual Business Relief Allowance was not transferable between couples and each spouse was required to use their own allowance to prevent it being lost on death.

If a married couple uses both the joint nil rate band (£650,000) and residence nil rate band (£350,000) to shelter £1 million of their assets from IHT, using this and the BR threshold could result in 100% IHT relief for a total of £3 million of assets without even considering 50% IHT relief for excess BR qualifying assets. Remember though, if all of those assets are within the estate and not, for example, held in trust outside the estate, the £350,000 Residence Nil Rate Band (RNRB) that couples with residential property can claim if they leave it to a close relative, is tapered away at £1 of relief for every £2 above £2 million.

Harry Bell

Certified financial planner

CHARLES STANLEY

> "I think there's a lot of posturing around this. The government says the allowance is £3 million and other sources say it's only £1 million. Actually, it's not £3 million, because if you have an estate worth £3 million your RNRB has been tapered so you're not getting £3 million of relief. It's also only £1 million of Business Relief at 100% if your will isn't structured appropriately. The £1 million allowance is per estate, so as long as the Business Relief assets pass to beneficiaries other than the spouse, £1 million per spouse can be utilized. What's important for clients is that they discuss with their advisers (legal, financial and tax) and make sure that what they want to happen will happen.

Continue

The £1 million allowance will apply to the combined value of qualifying agricultural and business property in an estate. For example, upon the death of an individual, the allowance will cover £1 million of property qualifying for BR, APR, or a combination of both.

The allowance covers transfer of property in the estate at death; lifetime transfers to individuals in the seven years before death; and chargeable lifetime transfers where there is an immediate lifetime charge, for example when property is transferred into trust.

The £1 million allowance for individuals will refresh every 7 years on a rolling basis in a similar way to how the nil rate band applies to lifetime charges and chargeable transfers on death.

Assets automatically receiving 50% relief will not use up the allowance. This includes:

Quoted shares which give control of the company, land or buildings, machinery or plant used wholly or mainly for the purposes of the business carried on by a company or partnership, land or buildings, machinery or plant available under a life interest and used in a business carried on by the beneficiary.

It will also shortly include AIM shares.

From 6 April 2026, the option to pay Inheritance Tax by equal annual instalments over 10 years, interest-free, will be extended to all property which is eligible for agricultural property relief or Business Relief, regardless of the applicable rate of relief.

For deaths on or after 6 April 2026, the first instalment will be due 6 months after the end of the month in which the person died. Payments are then due every year on that date for the duration of the 10-year period. If the property is sold before the end of the 10-year period, the instalment option ends and all outstanding Inheritance Tax will become due. Interest is payable from the day after the date of sale to the date that the outstanding inheritance tax is paid.

For chargeable lifetime transfers (including Inheritance Tax entry charges on property settled into trust), the first instalment is due at the time the tax would normally be due if it were not being paid by instalments. Payments are then due every year on that date for the duration of the 10-year period. If the property is sold and the instalment option ends, interest is payable from the day after the date of sale to the date that the outstanding inheritance tax is paid.

Continue

AIM SHARES BR RELIEF LIMITED TO 50%

From 6 April 2026, the rate of Business Relief available will be reduced from 100% to 50% in all circumstances for shares designated as "not listed" on the markets of recognised stock exchanges, such as AIM.

A full list of recognised stock exchanges

So, AIM shares are to be taxed at 20% IHT with no access to the capped amount as a deduction, but they will also not count towards the £1 million cap on the full relief.

As a result, AIM shares will no longer qualify for 100% relief from inheritance tax. However, there is no upper limit to the amount an individual can invest into unquoted or AIM-listed shares while qualifying for 50% relief.

APRIL 2026 IMPLEMENTATION

These changes to Business Relief are not applicable until 6 April 2026, so what happens in the meantime?

New BR cases

As a result of the minimum two-year holding period (within the last five years) and the requirement to be holding the Business Relief qualifying shares at death in order to claim the IHT relief, the £1 million cap on overall Business Relief claims will apply to all new BR investments made from 6 April 2024 and existing BR investments where claims are made after 6 April 2026.

Continue

BR claims

BR claims made until 5 April 2026, where the minimum two-year holding period has been achieved, will not be subject to the restrictions announced in the October budget 2024.

If the donor of a Business Relief qualifying lifetime gift dies after 6 April 2026 having not survived for seven years after making it, the gift will utilise the £1m Individual Allowance. If they do survive for more than seven years, the allowance will not have been utilised – the gift qualifies as a "successful PET".

If the donor makes any PETs during the transitional period and dies before 6 April 2026, the new rules do not apply to the PETs or to any qualifying agricultural and business property in the estate on death and they will be subject to the rules which were in place at the time.

Business Relief qualifying gifts into trust made after 6 April 2026 will also utilise the £1m Individual Allowance on settlement. Those made since the October 2024 budget until 5 April 2026, to an unlimited value, can be settled into trust and benefit from 100% relief from inheritance tax on the chargeable lifetime transfer charge on entry (typically 20%) provided the settlor lives for seven years after the transfer. Where the settlor survives the transfer by at least seven years such a chargeable transfer will not be brought into cumulation for the purposes of determining the availability of the £1 million allowance for future chargeable transfers of qualifying property.

But, if the settlor dies on or after 6 April 2026 and within seven years of making the transfer:

- The value of any property transferred into trust during the seven years before death will be subject to an Inheritance Tax charge at 40% in the same way as a failed PET
- The settlor's £1 million allowance will apply to these transfers of qualifying agricultural or business property and will reduce the allowance available on any later chargeable lifetime transfers or on death

In practice, there will be two separate £1 million allowances for individuals and for trustees:

- **For individuals:** a £1 million allowance on the combined value of agricultural or business property in an individual's estate which qualifies for 100% relief, including property transferred on death, any PETs and chargeable lifetime transfers made in the seven years before death and any immediately chargeable lifetime transfers, such as property settled into trust
- **For trustees:** a £1 million allowance on the combined value of agricultural or business property settled into a relevant property trust which qualifies for the 100% rate of relief, to be applied on each 10-year anniversary charge and exit charge

OTHER BUDGET CHANGES IMPACTING BR

NIL RATE BAND AND RESIDENCE NIL RATE BAND THRESHOLDS FREEZE EXTENDED

The freezes to the nil-rate band (NRB), at £325,000 and residence nil-rate band (RNRB), at £175,000, have been extended for two more years, to 2029-30. The NRB will then have been frozen for 21 years and the RNRB for eight.

As estate values are subject to inflation and rising asset prices, this is likely to draw more estates into the IHT net and potentially drive interest in Inheritance Tax-relieved or exempted assets, including assets qualifying for Business Relief.

Peter Steele

Retail operations director

> “Whilst it is certainly helpful to have some certainty (particularly after the “will they, won’t they” scrap Business Relief worries over the last few months), the inflationary erosion will result in more people paying more Inheritance Tax – never welcome. In April 2024, HMRC reported that IHT receipts for the 2023/24 tax year were a record £7.5bn. Following the changes introduced in the October 2024 Budget, the OBR (Office of Budget Responsibility) predicted this will increase to an annual figure of £13.9bn for the 2029/30 tax year.

UNUSED PENSION POTS WILL BECOME SUBJECT TO IHT

From 6 April 2027, it is likely that IHT will apply to all pension wealth that is transferrable at death. In practice this affects uncrystallised defined contribution (DC) pensions, crystallised DC pensions not invested in annuities, and lump sum death benefits from defined benefit (DB) pensions.

Lump sum payments that will be made into a bypass trust on death will also be in scope. Unused drawdown funds will be included, as will any short-term annuities. It’s suggested that any lifetime reversionary annuities paid to someone other than a spouse or civil partner will be caught.

Scheme pensions will be excluded. These are usually paid from defined benefit schemes and will include dependants’ pensions paid from public sector schemes. Charity lump sum death benefits will also be exempt along with benefits paid from a life policy purchased with pension funds, such as an annuity bought in the lifetime of the member.

Continue

But, if a pension is left to a spouse, it will continue to pass free from inheritance tax.

As well as inherited pensions currently being exempt from IHT, recipients don't pay tax if the pension-holder has a defined contribution (DC) pension and dies before the age of 75. If the pension-holder dies post-75, the inherited pot is taxed at the recipient's marginal rate of income tax. Defined benefit (DB) schemes have less generous death benefits.

Nevertheless, the government has confirmed that it plans to stop inherited schemes being subject to the recipient's marginal income tax rate, avoiding double taxation. This is to be achieved by requiring IHT to be paid directly from pension funds rather than the beneficiary drawing down funds from the pension to reimburse the personal representatives for the deceased's estate for IHT paid on the pension to the pension scheme administrators who will become liable for reporting and paying any Inheritance Tax due on unused pension funds and death benefits. In the latter case, the beneficiary may also have to pay Income Tax on those funds at their marginal rate.

The nil-rate band will be spread proportionately between the non-pension estate and the pension estate based on the relative size of their taxable amounts.

It is anticipated that this measure may increase demand for other Inheritance Tax-relieved or exempted assets, including assets qualifying for BR.

CAPITAL GAINS TAX INCREASE

With effect from 30 October 2024, the lower rate of Capital Gains Tax (CGT) increased from 10% to 18% and the higher rate from 20% to 24%. These new rates will match the residential property rates, which are not changing. Additionally, the main rate of CGT that applies to trustees and personal representatives rose from 20% to 24% for disposals made on or after 30 October 2024.

In its October 2024 Fiscal Outlook to accompany the budget, the Office for Budget Responsibility stated that even when APR/BR take an estate above the new shared cap, the effective IHT tax rate may well be below that for CGT. As a result, there would still be a tax benefit from holding assets to death. In addition CGT rebasing on death helps to minimise the personal tax liability.

(If an individual holds BR-qualifying assets until their death, their beneficiaries receive them at the current market value. That means there is no CGT to pay on any growth in their value while the original individual owned them.)

Continue

BADR & INVESTORS RELIEF (BADR) NORMALISATION

Business Asset Disposal Relief (BADR), and Investors' Relief (IR) offer access to a lower rate of CGT for investors and business owners who dispose of shares in unlisted trading companies, subject to certain conditions. The rate for both BADR and IR will increase gradually, from 10% to 14% from 6 April 2025, and a further increase to 18% from April 6, 2026 to match the main lower rate of 18%.

Lifetime limit for Investors' Relief was also reduced to £1 million for all qualifying disposals made on or after 30 October 2024, matching the lifetime limit for Business Asset Disposal Relief.

The government noted in its budget documentation that, based on BADR and IR claims in the last three years, fewer than 50 individuals are expected to be affected in the 2025 to 2026 tax year. However, there is speculation that number has been significantly depressed by the low numbers of business sales as a result of market conditions since Covid.

THE IMPACT IN NUMBERS

The changes made in the October 2024 budget will be impactful when it comes to the context of Business Relief, both directly and indirectly.

According to HMRC analysis:

"almost three-quarters of estates claiming agricultural property relief and the majority of estates claiming business property relief in 2026 to 2027 are expected to be unaffected by the reforms. This means more than 3,000 estates making claims each year are expected to be unaffected."

The reforms are expected to affect around 2,000 estates each year from 2026 to 2027, with around 500 of these claiming agricultural property relief and around 1,000 holding shares designated as "not listed" on the markets of recognised stock exchanges[1].

That means, on average, more than one in four of the firms authorised to provide retail investment advice in the UK, will have a client whose IHT bill is likely to increase[2]. What's more, the Office for Budget Responsibility's (OBR) October 2024 Economic and fiscal outlook predicts an increase in the proportion of deaths subject to inheritance tax from 5.2% in 2023-24 to 9.5% in 2029-30.

This is thanks, at least in part, to charging IHT on pension wealth transferrable at death, limits to agricultural and business reliefs, and extending the freeze in nil-rate bands to 2029-30.

IHT forecast	**23/24**	**24/25**	**25/26**	**26/27**	**27/28**	**28/29**	**29/30**
Inheritance tax (bn)	£7.5	£8.3	£8.7	£9.5	£11.2	£12.8	£13.9
Changes since March (bn)	-£0.1	£0.8	£1.0	£1.3	£2.3	£3.1	

Source: Office for Budget Responsibility, Economic and fiscal outlook, October 2024

[1] Policy paper, Summary of reforms to agricultural property relief and business property relief, Published 30 October 2024

[2] The number of firms authorised to provide retail investment advice was 5,805 as at February 2024 https://www.ftadviser.com/your-industry/2024/02/21/britain-has-lost-435-financial-advice-firms-since-2022/

Continue

Since the average tax bill for taxpaying estates is expected to remain roughly constant, this suggests that the numbers of those in client banks for whom IHT mitigation solutions could be part of their objectives, will almost double.

That doesn't mean, however, that the changes to Business Relief mean that it can or should be excluded as a viable option. In fact, partly as a result of changes to pensions and CGT, BR remains relatively very attractive.

The OBR has stated:

> *"Where assets qualify for APR or BR, even if an estate is above the new shared cap, it is likely that the effective IHT tax rate (20 per cent) is below that for CGT, therefore there would still be a tax benefit from holding assets to death. In addition, for all assets inheritors may take advantage of CGT rebasing on death to minimise their personal tax liability[1]."*

Alex Sumner

Group commercial director

BLACKFINCH

> "Yes, overall, it's a reasonable statement and accurately reflects the comparative tax treatment of different assets and the implications for estate planning. However, the practical impact will depend on individual circumstances, particularly in how investors weigh IHT planning against other tax considerations such as income tax and liquidity needs. Clearly, the benefits to inheritors of CGT rebasing remains a powerful tax benefit, particularly for non-pension assets such as property, AIM shares, and other investments.

Increases to CGT rates are forecast to push up the CGT paid by an estimated 264,000 individuals in 2025 to 2026. That's three quarters of the 350,000 who pay CGT annually, with those aged between 45 to 74 representing 65% of people impacted, and those aged between 55 to 64 particularly overrepresented at 26% of the affected population[2].

Given that, in 2022, according to Schroders, three quarters of an adviser's clients were aged 51–64, and a quarter are 65 or older and St James's Place found that most advisers' clients are aged 46–60, while a third are over 60[3], many client banks will have plenty who could benefit from advice in this area. That could equate to an average of over eight clients for every individual in the UK authorised to provide retail investments advice[4].

[1] Economic and fiscal outlook, Office for Budget Responsibility October 2024

[2] Policy paper, Capital Gains Tax — rates of tax, HMRC, Updated 6 November 2024

[3] https://www.professionaladviser.com/feature/4056596/advisers-ageing-industry-clients-grey-hairs

[2] The number of individuals in the UK authorised to provide retail investments advice February 2024: 31,182.
https://www.ftadviser.com/your-industry/2024/03/12/worry-for-profession-as-young-adviser-numbers-plummet/

Continue

In fact, by December 2024, CGT receipts had already jumped up to £335m and the April to December figure stood at £1.85bn, up from £1.44bn during the same period the year before. The main drivers were taxpayers taking action ahead of anticipated tax changes, coupled with the effects of a reduced CGT annual exempt amount and are unlikely to have yet included rises as a result of the 30 October rates hike.

When it comes to pensions, the move to bring unspent pots into the scope of inheritance tax from April 2027, the government has calculated this will affect around 8% of estates each year and that out of around 213,000 estates with inheritable pension wealth in 2027 to 2028, 10,500 estates – or around 1.5% of total UK deaths - will become liable to pay Inheritance Tax where this would not previously have been the case.

That still translates to around 38,500 estates paying more IHT than would previously have been the case. This group are forecast to have an existing average Inheritance Tax liability of £169,000, increasing by around £34,000 on average when pension assets are included in the value of the estate[1].

As pension scheme administrators (PSAs) will become liable for reporting and paying any Inheritance Tax due on unused pension funds and death benefits, PSAs, clients and advisers will be incentivised to find alternative methods to reduce or eliminate the standard 40% IHT charge.

All that said, **Emily Deane** TEP, Technical Counsel and Head of Government Affairs at STEP has commented that *"Extending the freeze of the nil-rate band, added to rising asset values, could expand the scope of IHT on more estates than initially intended."* Indeed, there have been widespread accusations of an underestimation of the impact of the budget changes. For example, some have pointed out that many more estates will have to engage in processing IHT checks than the limited numbers projected to be affected by the government.

Jonathan Gain

CEO and asset backed

STELLAR

> The HMRC statistics, whilst accurate, are only a snapshot of the people who have died with BR qualifying assets. They take no account of those who are still alive and hold Business Relief qualifying businesses or those who have invested in them over the last several years. It's illogical that the only thing business owners have to help them leave a legacy and help create the opportunity for their businesses to continue has been taken away from them at a time when the economy is stagnating.

[1] Open consultation, Technical consultation - Inheritance Tax on pensions: liability, reporting and payment, HMRC, Published 30 October 2024

Continue

With regards to the amount of IHT that will be collected, the Institute for Fiscal Studies has suggested that the government projections are based on the wealth of those currently dying, but does not take into account the increased level of affluence of those whose deaths will not be taking place for another decade or so.

Richard Roberts

Head of sales development

Foresight
Invest Build Grow

> "IHT receipts went through £7bn for the first time last tax year. The forecast because of frozen allowances and changes is that this will go to £10bn by 2030[1]. So, this is not just a tiny impact. This is another 30%+ on top. It's a huge level of change given the fact we're in 2025 already. I think advisers are subliminally aware of this, but they should now be asking themselves when was the last time they had their client check what their house is worth and what is the current total value of their estate and then benchmarking it against the impact of these changes, even before factoring in their pension.

[1] ONS and HMRC Tax Receipts and National Insurance Contributions Bulletin

CASE STUDIES:
PRE BUDGET vs. POST BUDGET SCENARIOS

BUSINESS RELIEF AND APR APPLICATION

The reduction in relief translates into a higher taxable estate, potentially increasing the IHT liability although, if any assets are held personally but used in the business (which under the current rules will qualify for relief at 50%), the value of these assets will not utilise the £1 million allowance.

Pre budget

Case study 1

An individual's estate includes £1.5 million in agricultural property and £800,000 in qualifying business assets. Currently, the estate would qualify for 100% relief on both types of assets.

IHT Calculation:

Agricultural Property Relief	£1.5 million at 100% relief of 40% IHT = £600,000
Business Relief	£800,000 at 100% relief of 40% IHT = £320,000
IHT to pay	**£0**

Post budget effective from 6 April 2026

Case study 1

Under the new rules, the estate's total relief will apply only up to £ 1 million, with the remainder qualifying for 50% relief.

As the total value of the qualifying property to which 100% relief applies is more than £1 million, the allowance is applied proportionately across the qualifying property.

IHT Calculation:

Agricultural Property Relief	£1.5 million is split as follows:
	£650,000 *(£1.5m equates to 65% of the combined APR and BR allowance, applied pro-rata to the £1 million combined allowance)* = £650,000 at 100% relief of 40% IHT = £260,000 IHT relief
	£850,000 = £850,000 at 50% relief of 40% IHT = £170,000 IHT relief, leaving £170,000 IHT payable
Business Relief	£800,000 is split as follows:
	£350,000 *(remaining portion of the £1 million allowance)* = £350,000 at 100% relief of 40% IHT = £140,000 IHT relief
	£450,000 = £450,000 at 50% relief of 40% IHT = £90,000 IHT relief, leaving £90,000 IHT payable
IHT to pay	**£260,000**

BR AND GIFTING

Recent research from The Association of Lifetime Lawyers reports findings that 68% of their lawyers have seen a significant rise in IHT-related enquiries following the October 2024 latest budget announcements. What's more, over three-quarters (77%) of legal professionals observed a growing trend of clients looking to gift assets during their lifetime to reduce the IHT bill their loved ones might have to pay.

There are though, potential risks of giving away money and assets. Where the gift is of shares in a family business, for example, it's important to consider the possible loss of control of the company or the need for income/capital value.

Despite the rising demand for gifting, 66% of lawyers believe many people remain unaware of their options for IHT planning.

Continue

Pre budget

PETs and failed PETs

If someone gifts a Business Relief qualifying asset to another individual then the gift is a potentially exempt transfer ("PET") for IHT purposes so there would be no IHT effect unless the donor does not survive seven years after the gift is made. If that's the case, for a normal PET the value of the gift comes back into the person's estate for IHT and will be subject to IHT on that value (subject to their nil rate band and the tapering rules).

However, if a Business Relief qualifying gift were to come back into the estate in these circumstances the value can still be nil (or 50%) for IHT purposes so there are no IHT consequences.

However, for Business Relief to apply to the gift in this way the person who received the gift must still own the property at the time the person who made the gift dies, AND the property must still qualify for Business Relief at that time (although the two-year rule is not applicable here).

If these conditions are not met, then the original gift loses its Business Relief and comes back into the estate at its value at the time of the original gift.

Case study 2

Brian, who is divorced, gifts his shares in his trading company to his daughter Lisa at a time when they are worth £3 million. Brian dies four years later and has used his entire RNRB and NRB. Lisa still owns the shares at that time so Business Relief can still apply to 100% of the original gift.

IHT Calculation:

BR qualifying shares	£3 million
	100% IHT of £1,200,000 fully relieved
Total relief	**£1.2 million**

However, if Lisa had sold the shares before Brian died then his claim to Business Relief on the original gift fails and the £3 million value comes back into his estate for IHT purposes.

Continue

Post budget effective from 6 April 2026

Case study 2

Under the new rules, the estate's total relief will apply only up to £ 1 million, with the remainder qualifying for 50% relief.

IHT Calculation:

BR qualifying shares	£3 million
	100% IHT relief applies to the first £1 million of shares = £400,000 relief
	50% IHT relief applies to the remaining £2 million of shares = £400,000
Total relief	**£800,000**

There is likely to be a window of opportunity to act between now and April 2026 to make gifts to at least start the seven-year clock ticking.

IHT is not the only tax liability to take account of when making gifts – capital gains taxes may also be incurred. But, gift hold-over relief remains available for APR and Business Relief qualifying assets where they are given away. This relief defers capital gains tax by the transferor and transferee jointly claiming gift hold-over relief, until the person given them disposes of them.

For gifts of business assets, the donor must be a sole trader or business partner, or have at least 5% of voting rights in a company (known as your 'personal company') and use the assets in their business or personal company.

For gifts of shares, they must be in a company that's either not listed on any recognised stock exchange or the donor's personal company. The company's main activities must be in trading, for example providing goods or services, rather than non-trading activities like investment.

An example of the relief would be where Jen has an asset she acquired for £30,000. Five years later she gifts this asset to a friend, Phoebe. At the time of the gift it was worth £60,000. The chargeable gain was therefore £30,000. If hold-over relief is claimed then Jen does not have to pay CGT on this gain. On the future disposal the cost used to calculate the gain is the market value at acquisition less the amount of the gain held-over. In this case, the market value was £60,000; however, the gain held-over was £30,000, therefore the acquisition cost would be £30,000 in any future CGT calculation.

Continue

Where a transferor continues to benefit from gifted property, careful planning may need to be enacted to ensure the Gift With Reservation rules, that can make the gift ineffective for inheritance taxes, do not apply.

There have been no changes to the tax-free transfer of assets between spouses, on a 'no gain - no loss' basis.

HMRC case study to demonstrate application of the £1 million allowance where immediately chargeable lifetime transfers are made within seven years of a failed PET

Case study

Marilyn transfers £500,000 of relievable agricultural land into trust in March 2026.

In May 2026 she transfers a further £500,000 of relievable agricultural land into trust.

In May 2031 she gifts £500,000 of relievable agricultural property to her son Lee.

Marilyn dies in May 2034 and leaves an estate of £1 million, including £500,000 of qualifying business property.

There is no tax to pay on the first transfer (March 2026) as it was made before 6 April 2026. As Marilyn did not die within seven years 100% relief applies, based on the rules at that time. The £1 million allowance also does not apply to this transfer.

There is no tax to pay on the second transfer (May 2026) as it is within the £1 million allowance and gets 100% relief. As it is more than seven years before the date of death (May 2034) this does not reduce the £1 million allowance available to the death estate.

The third transfer (May 2031) is taxable on death because it is a failed PET. As it was made within seven years of the May 2026 transfer there is £500,000 of the £1 million allowance available to set against it (£1 million less £500,000 relief applied to the transfer in May 2026), so it too gets 100% relief.

This leaves £500,000 of the £1 million allowance remaining so the relievable business property in the death estate valued at £500,000 is therefore fully covered by 100% relief.

If Marilyn had died in May 2032 within seven years of the first gift in March 2026, made during the transitional period (30 October 2024 to 5 April 2026), this gift would be subject to the £1 million allowance on death and get 100% relief. This would reduce the amount of the £1 million allowance available by £500,000.

Continue

The second gift in May 2026 would use up the remainder of the £1 million allowance, meaning that the failed PET in May 2031 and the relievable business property in the death estate would only get relief at 50%.

Source: Open consultation, Reforms to Inheritance Tax agricultural property relief and business property relief: application in relation to trusts, HMRC, 27 February 2025

Sophie Haslehurst

Senior financial planner / chartered financial planner

Integrity 365

> We've got to be so careful about giving money and assets away and we have to factor in that most people who are concerned about IHT are also worried about how much their care is going to cost and sometimes you'll need a lot of cashflow modelling and difficult conversations so that people really understand the impact of giving away money, particularly in light of the very hefty care costs that can apply.

Harry Bell

Certified financial planner

CHARLES STANLEY

> One example I have come across recently is a client with c£1.7m left of a fully crystallised pension and two children. He and his wife gifted large sums (£1m) to one of the sons for business ventures with the idea that this was going to get equalized by the property (worth around £1m) going to the other son. There aren't any other assets other than the pension. Now though, their estate is in excess of £2 million, so their RNRB will be tapered £1 for every £2 above this level, so they have to then change their will to ensure it reflects their wishes.

Continue

BR AND TRUST INTERACTIONS

Currently, when Business Relief qualifying shares are settled into a discretionary trust, 100% relief applies to the chargeable lifetime transfer charge on entry (typically 20%). If the settlor survives for seven years, the settlement is out of scope for inheritance tax. If not, provided the trust still owns Business Relief qualifying shares, the top up charge to inheritance tax that would otherwise arise (at a maximum rate of 6% every 10 years or if assets are distributed from the Trust) benefits from 100% relief.

Gifts into trust made after 6 April 2026 will utilise the £1m Individual Allowance on settlement, with any excess qualifying for 50% Business Relief. In practical terms, for example, the value of shares transferred into trust which qualify for Business Relief will be subject to a taxable lifetime charge at a tax rate of 10% (based on current rates) on any value exceeding £1 million.

For assets settled into trust after the budget of October 30 2024 and before 6 April 2026, if the donor doesn't survive for seven years after making the gift and dies after 6 April 2026, the £1 million allowance is used.

The trustees' £1 million allowance will not apply to exit charges for any qualifying agricultural or business property which has been settled into trust on or after 30 October 2024, and subsequently exits the settlement before 6 April 2026. Any such exits will receive 100% relief from exit charges and will not reduce the value of the trustee's £1 million allowance at the next 10-year anniversary charge.

Additionally, for new trusts being set up post Budget Day, the government intends to introduce rules to ensure that the allowance is divided between trusts where a settlor sets up multiple trusts on or after 30 October 2024. This will be allocated in chronological order, with priority given to the first settlement, then each successive settlement in order until £1 million of qualifying property has been settled and the entire £1 million allowance for 100% relief has been allocated to the trustees. The allocation of the single £1 million allowance applicable to each trust will apply for the lifetime of the trust.

If qualifying agricultural or business property is transferred into two or more trusts on the same day, the £1 million allowance will be apportioned across the value of the qualifying relievable property in the same way as the nil rate band.

Trusts settled before 30 October 2024 will have their own £1m allowance.

For those Trusts created before the Budget on 30 October 2024, from 6 April 2026 the new rules will apply to the Trust on 10 year anniversary charges and exit charges so that, for example, shares in a trading business held in trust will benefit from 100% Business Relief on the first £1 million (AIM shares do not count towards this threshold and will only qualify for 50% Business Relief) and thereafter only qualify for 50% Business Relief.

Continue

Similar to personal estates, trusts will have a £ 1 million allowance for 100% Business Relief and APR on each 10-year anniversary charge or exit charge, consistent with the treatment of qualifying property chargeable to inheritance tax on death.

£1 million allowance for 10-year anniversary charges and exit charges

The £1 million allowance will apply when calculating the amount of relief available at each 10-year anniversary charge and on exit charges. Trusts with a combined value of more than £1 million of qualifying agricultural and business property will receive 100% relief against ongoing trust charges up to a value of £1 million, and 50% relief thereafter.

The £1 million allowance for relevant property trusts will refresh every 10 years, so that qualifying agricultural and business property held in that trust benefits from 100% relief up to a value of £1 million on each 10-year anniversary charge. This means that if the open market value of qualifying agricultural and business property held in a relevant property trust remains below £1 million (and assuming that there have been no exit charges between 10-year anniversaries), then the property will always be within the allowance at 10-year anniversaries.

The £1 million allowance will also apply to qualifying agricultural and business property which is subject to an exit charge. This means that 100% relief will be available on up to £1 million of qualifying agricultural or business property when it is distributed from a trust, irrespective of when this occurs within a 10-year period. If there are multiple exits during a 10-year period, then the relief is applied cumulatively. For example, if the first exit uses £250,000 of the £1 million allowance, then 100% relief can then be used against the next exit charge up to a value of £750,000, and so on until the next 10-year anniversary.

Any £1 million allowance which is used against an exit charge will reduce the maximum allowance that is available at the next 10-year anniversary. This ensures that the £1 million allowance applies across all trust charges, and prevents the allowance from being applied twice, once on exit and again at the following 10-year anniversary. In line with existing rules, there is no exit charge in the first quarter following the creation of the trust and a 10-year anniversary charge, so the £1 million allowance will not apply to such exits.

Qualifying agricultural and business property settled into a relevant property trust before 30 October 2024 will be brought into the new regime on the trust's next 10-year anniversary charge which falls on or after 6 April 2026.

With the planned changes not coming in until April 2026, there is time to review any existing trusts to consider options available. For example, it may be an opportune time to distribute assets to beneficiaries prior to the trusts next ten-year charge, consider what the tax charges might be and if trustees have liquid assets to meet them.

Continue

Pre budget

Case study 3

Mia is 63 and is keen to put £1.5 million cash from the sale of her business a few months ago, into a discretionary trust for her grandchildren. The business undertook BR activities for ten years. She has already used her NRB by establishing other trusts and making personal gifts. Consequently, Mia would be liable for the chargeable lifetime transfer into trust: 20% charge on £1.5 million = £300,000 IHT due.

To avoid the charge, Mia reinvests the money into BR within three years of the sale of the business. She can then immediately move the assets into trust with the chargeable lifetime transfer charge at 0% thanks to BR qualification.

IHT Calculation:

BR qualifying shares	£1.5 million
	100% of 20% IHT liability of £300,000 fully relieved
Total relief	**£300,000**

If Mia dies within seven years of settling the shares into trust and if the trustees disposed of the Business Relief qualifying assets within those seven years, the transfer into trust would fall back into charge and IHT would become payable on the amount by which the value transferred exceeded the NRB.

If the trustees hold the Business Relief qualifying investment for a minimum of two years and the asset itself continues to qualify for Business Relief, no periodic or exit charges will arise.

Post budget

Case study 3

Mia reinvests the proceeds of sale of the business into Business Relief within three years of the sale of the business holds the shares for two years and then immediately moves them assets into trust after the budget of October 30 2024 and before 6 April 2026.

IHT Calculation:

BR qualifying shares	£1.5 million
	100% of 20% IHT liability of £300,000 fully relieved
Total relief	**£300,000** (no IHT to pay)

If Mia dies within seven years of settling the shares into trust and if the trustees disposed of the BR qualifying assets within those seven years, the transfer into trust would fall back into charge and IHT would become payable on the amount by which the value transferred exceeded the NRB.

If the trustees hold the Business Relief qualifying investment for a minimum of two years and the asset itself continues to qualify for Business Relief, no periodic or exit charges will arise for the first £1 million and 50% of usually applicable periodic and exit charges will apply to the £500,000 excess.

Case study 3

Mia reinvests the proceeds of sale of the business into BR within three years of the sale of the business holds them for two years and then immediately moves them assets into trust 6 April 2026.

IHT Calculation:

BR qualifying shares	£1.5 million
	100% of 20% IHT liability on first £1 million of BR assets is fully relieved: £200,000
	50% of 20% IHT liability on £500,000 of BR assets exceeding £1 million is relieved: £50,000
Total relief	**£250,000** (£50,000 IHT to pay)

If Mia dies within seven years of settling the shares into trust and if the trustees disposed of the BR qualifying assets within those seven years, the transfer into trust would fall back into charge and IHT would become payable on the amount by which the value transferred exceeded the NRB.

If the trustees hold the Business Relief qualifying investment for a minimum of two years and the asset itself continues to qualify for Business Relief, no periodic or exit charges will arise for the first £1 million and 50% of usually applicable periodic and exit charges will apply to the £500,000 excess.

HMRC case study to demonstrate how the £1 million allowance for individuals will refresh every seven years on a rolling basis when Business Relief qualifying assets are transferred into trust:

Immediately chargeable lifetime transfers made on or after 6 April 2026:

Case study

Olivia transfers qualifying private company shares valued at £2 million into trust on 10 April 2027, assuming no chargeable transfers in the previous seven years.

On 11 April 2040 she transfers qualifying agricultural land valued at £1 million into trust.

Both transfers took place after 6 April 2026 and will be subject to the £1 million allowance.

The transfer of qualifying private company shares valued at £2 million on 10 April 2027 will benefit from the £1 million allowance. Relief at the higher rate of 100% will apply to £1 million of the shares, and relief at 50% will apply to the remaining £1 million of shares.

Inheritance Tax due on the transfer into trust:

- £500,000 - (minus) £325,000 (nil rate band) = £175,000 x 20% = £35,000
- The transfer of qualifying agricultural land valued at £1 million on 11 April 2040 will also benefit from the £1 million allowance as this is more than seven years after the previous transfer.
- Relief at the higher rate of 100% will apply to the qualifying agricultural land valued at £1 million so no Inheritance Tax is payable on this transfer into trust.

Source: Open consultation, Reforms to Inheritance Tax agricultural property relief and business property relief: application in relation to trusts, HMRC, 27 February 2025

CORPORATE BUSINESS RELIEF

Until the October 2024 budget, most small businesses over two years old were completely outside of the Inheritance Tax charge because they qualify in full for Business Relief. However, where businesses hold excess cash, which is not allocated to specific upcoming activity, Business Relief is unlikely to be granted (a buffer to protect against unexpected events at some unknown time is insufficient for HMRC to grant Business Relief).

Such a scenario would previously have resulted in a loss of 100% on the relevant funds and for deaths after 6 April 2026, could either lead to 100% Business Relief loss, or 50% on amounts above the £1 million cap.

However, using Replacement Business Property rules, any assets that qualify for Business Relief can be disposed of and replaced without the need to reset the two-year holding period required to obtain the relief. Some specialist Business Relief investment managers offer services specifically designed to address the issue of excess non-trading assets within a business by utilising the surplus cash in Business Relief qualifying investments.

Pre budget

Case study 4

Raol, 67 and in good health, owns 100% of the shares (unquoted) of a successful shop that has been in his family for generations. He has used his NRB and RNRB. This trading business is valued at £3.2 million, but £800,000 of that is sitting in the company's bank accounts in cash and will not qualify for Business Relief since it is not being used for trading purposes and isn't earmarked for future identifiable business use. That means it will be considered an 'excepted asset' by HMRC and a proportion of the value of the shares wouldn't qualify for Business Relief. This could cost Raol's estate £320,000 on death (£800,000 x 40%).

IHT Calculation:

BR qualifying shares	£3.2 million value less £800,000 excepted assets = £2.4 million
	100% of IHT liability (40% of £2.4 million) of £960,000 fully relieved
	No Business Relief qualification or IHT relief on excepted assets of £800,000, leaving IHT liability of £320,000
Total relief	**£960,000**

Continue

If, before Raol's death, a corporate Business Relief service puts in place a structure to utilise the excess cash in Business Relief qualifying trading activities within the business, retaining access to it if required, the new assets should immediately qualify for Business Relief as its main activity is Business Relief qualifying and makes up more than 50% of the activity of the business.

IHT Calculation:

BR qualifying shares	£3.2 million
	100% of IHT liability (40% of £3.2 million) of £1,280,000 fully relieved
Total relief	**£1,280,000**

Post budget effective from 6 April 2026

Case study 4

IHT Calculation:

BR qualifying shares	£3.2 million value less £800,000 excepted assets = £2.4 million
	100% of IHT liability (40% of first £1 million) of £400,000 fully relieved
	50% of IHT liability of Business Relief qualifying assets over £1 million (20% of £1.4 million), leaving £280,000 IHT payable
	No Business Relief qualification or IHT relief on excepted assets of £800,000, leaving IHT liability of £320,000 *(Giving an IHT total of £320,000 + £280,000 = £600,000)*
Total relief	**£680,000**

Using the corporate BR service would still capture a 50% reduction in the IHT liability due on the £800,000 excepted asset.

IHT Calculation:

BR qualifying shares	£3.2 million
	100% of IHT liability (40% of first £1 million) of £400,000 fully relieved
	50% of IHT liability of Business Relief qualifying assets over £1 million (20% of £2.2 million), leaving £440,000 payable
Total relief	**£840,000**

Continue

Jonathan Gain

CEO and asset backed

STELLAR

“

I see the budget changes impacting most significantly at two extremes; being caught by IHT is going to become much more mainstream, and there will be an increase in clients for whom a relatively small Business Relief investment works. At the other end of the scale businesses will now be subject to a black and white limit on what qualifies for 100% Business Relief, with no room for argument and the potential for significantly increased IHT burdens. Although there are clearly going to be HNWIs in the middle who are caught by higher bills, I see the biggest impacts at the lower and upper ends of the scale. That’s where our Business Relief private trading company (PTC) model, could offer benefits in the new environment because we run it on a managed basis as a family business, acting as a sort of IHT-focused family office. That means we naturally take account of the wider estate position of our clients and their overall goals and in theory, someone who already has a PTC solution with Stellar, may well find themselves in a much advanced position in terms of understanding what their entire estate looks like in the round and how the recently announced changes are going to impact it.

Continue

RNRB INTERACTIONS

With pensions forming part of the estate for considering whether the residence nil-rate band (RNRB) can be claimed from April 2027, this allowance is more likely to be tapered away, with the taper starting for estates worth more than £2 million. More estates will now be at risk of losing some or all of this allowance.

Business Relief can be part of a solution to reduce the estate size down to a value below £2 million.

Pre budget

Case study 5

Rajesh's estate is valued at well £3.2 million, including a residence with a value of £1.5 million. He has two adult children and is divorced with full mental capacity. He does not want his RNRB to be tapered away (£1 relief lost for every £2 estate value above £2 million). He invests £1.2 million of his estate into Business Relief qualifying shares. He holds them for two years and then gives them to his sister Sara. Rajesh dies two years after that.

IHT Calculation:

BR qualifying shares	£1.2 million
	After Business Relief qualification once held for two years, giving them to Sara reduces Rajesh's estate value to £2 million, so the full RNRB of £175,000 is claimable on his house value (which he leaves to his children)
	It also reduces the £480,000 otherwise payable IHT liability of this failed PET to £0
Total relief	**£655,000**

If they are held at the date of death, Business Relief qualifying investments remain part of the estate value calculation for the purposes of the RNRB, so simply investing in the Business Relief qualifying shares without then gifting them to a person or trust would not lead to reinstating of the RNRB.

The gift is a failed PET because Rajesh did not survive seven years from the date of the gift. However, failed PETs are not added back into the estate for RNRB purposes and the relief, gained by avoiding the taper, is retained.

If the asset qualified for Business Relief in Rajesh's hands at the date of the gift and is retained by Sara until the date of Rajesh's death and it still qualifies for Business Relief at the date of death, it retains its Business Relief status in Rajesh's estate and there is no additional IHT due.

Post budget effective from 6 April 2026

Case study 5

While the same planning still largely works, the level of relief gained is reduced by the £1 million Business Relief allowance with only 50% applying to the excess.

IHT Calculation:

BR qualifying shares	£1.2 million
	After Business Relief qualification once held for two years, giving them to Sara reduces Rajesh's estate value to £2 million, so the full RNRB of £175,000 is claimable on his house value (which he leaves to his children)
	It also reduces the £480,000 otherwise payable IHT liability of this failed PET to £40,000 • 100% of IHT liability (40% of first £1 million) of £400,000 fully relieved • 50% of IHT liability of Business Relief qualifying assets over £1 million (20% of £200,000), leaving £40,000 IHT payable
Total relief	**£615,000**

WILLS AND BENEFICIARIES

An individual can leave their spouse or civil partner unlimited assets without incurring an IHT liability, essentially deferring the IHT liability until second death. It is also possible for an individual to transfer their £325,000 NRB to their surviving spouse so on second death there is £650,000 available although this is only applicable if the two parties are married at death, so it does not work for a divorced couple.

Taken together, a married couple has a combined Individual Business Relief Allowance of £2 million, which they can use to leave qualifying assets completely free from inheritance tax. But, unlike the NRB and RNRB, the Individual Business Relief Allowance is not transferable. That means that each individual spouse must use their own allowance or it will be lost on death.

As a result, married couples with an excess of £1 million invested in Business Relief qualifying shares will find that holding joint portfolios, for example, where the second spouse must inherit the entire portfolio on the first death, will not maximise the allowances. Instead, it is adviseable that neither spouse holds more than £1 million of Business Relief qualifying assets (as far as possible). This might be attainable through tax-free gifts between spouses.

Continue

Families should consider the benefits of land and business property being passed to the next generation on the death of the first spouse rather than passing to the surviving spouse, which could potentially waste the £1 million allowance.

Pre budget

Case study 6

Simon owns 100% of the shares in the family company which has been undertaking a Business Relief qualifying trade for 20 years and is worth £2 million when Simon dies in August 2025. His estate claims 100% IHT relief on the full value of the shares.

IHT Calculation:

BR qualifying shares	£2 million
	Business Relief qualification reduces the £800,000 otherwise payable IHT liability to zero
Total relief	**£800,000**

Post budget

effective from 6 April 2026

Case study 6

Simon owns 100% of the shares in the family company which has been undertaking a Business Relief qualifying trade for 20 years and is worth £2 million when Simon dies in August 2026.

The first £1 million will be subject to 100% relief from IHT and the balance will be subject to 20% IHT creating a tax charge of £200,000.

IHT Calculation:

BR qualifying shares	£2 million
	Business Relief qualification the £800,000 otherwise payable IHT liability to: • 100% of IHT liability (40% of first £1 million) of £400,000 fully relieved • 50% of IHT liability of Business Relief qualifying assets over £1 million (20% of £1 million) of £200,000 • Total liability: £200,000
Total relief	**£600,000**

If Simon and his wife Tilly owned the company on a 50:50 basis, each of them would be entitled to the £1 million relief from IHT on the shares. However, they must ensure that they do not leave their shares to the surviving spouse to avoid wasting the £1 million relief.

Richard Roberts

Head of sales development

Foresight

Invest Build Grow

“Interspousal transfers will not work for Business Relief after 6 April 2026 – each spouse will have to use their own allowance, something that will create planning opportunities. People will need to start looking at their wills. There is no point in having all this planning if you haven't adjusted your wills to reflect this issue. Good financial planning and housekeeping needs to start with 'where does this impact and what do you do'.

Continue

PENSIONS

If a pension is left to a spouse, it will continue to pass free from inheritance tax and the income tax treatment of pensions remains as follows:

→ 25% of the pot (to a typical maximum of £268,000) can be withdrawn tax free by the pension owner. Withdrawals above this amount will be subject to income tax at the investor's marginal rate.

→ Pensions inherited from someone who dies before the age of 75 can be drawn by beneficiaries free from income tax.

→ Pensions inherited from someone who dies at 75 or older will be subject to income tax as drawn at the beneficiary's marginal rate.

As a result, the undrawn pension pot of someone who dies aged over 75 risks being subject to an effective inheritance tax rate exceeding 80%, if they die after April 2027.

This could work as follows:

An estate is made up of a free estate valued at £1 million and a pension fund valued at £100,000. It benefits from the £325,000 Inheritance Tax nil-rate band. No other nil-rate bands, exemptions or reliefs apply. The pension fund passes to Judy. The Inheritance Tax bill for the free estate (the £1 million) is £281,818.18. The Inheritance Tax bill for the pension fund (the £100,000) is £28,181.82. The personal representatives pay the whole of the £310,000 Inheritance Tax due, but are entitled to be reimbursed the £28,181.82 from Judy. Judy's marginal rate of Income Tax is 40%. Judy therefore has to withdraw sufficient funds from her pension so that she has £28,181.82 to pay to the PR after paying Income Tax at her marginal rate.

IHT Calculation:

Taxable estate	**£1.1 million - £325,000 = £775,000**
	40% of £775,000 = £310,000
	10/11 is due from the free estate = £281,818.18
	1/11 is due from the pension = £28,181.82

Continue

As her marginal rate is 40%, she has to withdraw £46,969.70 from the pension fund (£46,969.70 income - £18,787.88 Income Tax at marginal rate = £28,181.82 received). So, to settle her Inheritance Tax liability, Judy has had to withdraw much more from her pension. Judy has paid £46,969.70 in Inheritance Tax and Income Tax on the pension fund and will still be liable for Income Tax at her marginal rate when accessing the £53,030.30 remaining in the pension.

Source: Technical consultation - Inheritance Tax on pensions: liability, reporting and payment, HMRC Published 30 October 2024

Pre budget

Case study 7

Hans and Beatrice, husband and wife have a home worth £900,000, a Sipp worth £500,000 and Business Relief qualifying shares of £1.2 million, so an overall estate of £2.6 million, which they are leaving to their two children. Both die before April 6 2027 but after April 6 2026 with their full NRBs and RNRBs.

IHT Calculation:

£500,000 defined contribution pension: Not subject to IHT or considered in the estate value	
Estate value for IHT calculation is £2.1 million	
RNRB is tapered by £1 for every £2 above £2 million estate value (£50,000 leaving £300,000 combined RNRB) • Less £300,000 combined RNRBs and £650,000 combined NRBs	
Leaves £1,150,000 Business Relief qualifying shares subject to 100% IHT reduction	
Total liability	**£0**

Case study 8

Jeff, aged 75, dies with a DC pension worth £700,000 and other assets worth £800,000 before April 6 2027. He didn't use his pension during retirement, as he relied on other savings.

IHT Calculation:

£700,000 defined contribution pension: Not subject to IHT or considered in the estate value	
Estate value for IHT calculation is £800,000 • After applying the £325,000 nil-rate band, his estate owes IHT of 40% of £475,000.	
Total liability	**£190,000**

Post budget effective from 6 April 2027

Case study 7

Both die after April 6 2027 with their full NRBs and RNRBs.

IHT Calculation:

£500,000 pension considered in the estate value

Estate value for IHT calculation is £2.6 million

RNRB is tapered by £1 for every £2 above £2 million estate value (£300,000 leaving £50,000 combined RNRB)

- Less £50,000 combined RNRBs and £650,000 combined NRBs

Leaves £1.9 million of which £1.2 million is Business Relief qualifying:

- 100% of IHT liability (40% of first £1 million) of £400,000 fully relieved
- 50% of IHT liability of Business Relief qualifying assets over £1 million (20% of £200,000) of £40,000
- Remaining £700,000 taxed at 40% totalling £280,000

Total liability	**£320,000**

This assumes that the husband and wife have undertaken some succession planning to 'bank' the first £1 million BR allowance as this does not automatically roll-over to the surviving spouse, so without planning would be lost.

Case study 8

Jeff dies after April 6 2027. Example of how the nil-rate band will be spread proportionately between the non-pension estate and the pension estate based on the relative size of their taxable amounts.

IHT Calculation:

£700,000 defined contribution pension is included in the estate value

Estate value for IHT calculation is £1.5 million

- After applying the £325,000 nil-rate band, his estate owes IHT of 40% of £1,175,000.

Total liability	**£470,000**

Since 7/15 of the estate is in the pension the pension fund will cover 7/15 of this liability: £219,333. The remaining £250,667 is payable by his estate

Continue

Harry Bell

Certified financial planner

CHARLES STANLEY

"

Another point to make is clients should review their nominations and think about how they carve their specific assets up. For example, if they have a beneficiary who they know is never going to be a high-rate taxpayer, they might consider assets that may generate an income tax liability (pension/insurance bond) going to a non or basic rate tax payer and then other assets going to another beneficiary. It's important to think beyond the initial inheritance tax saving into the next generation.

Alex Sumner

Group commercial director

BLACKFINCH

"

For individuals with significant pension assets, there will be a stronger incentive to consider tax-efficient drawdown strategies to reduce IHT exposure over time. Rather than simply leaving large pension funds untouched for inheritance purposes, clients may be encouraged to take withdrawals earlier, use pension wealth for retirement income, and shift surplus capital into alternative structures that remain outside the IHT net. Gifting of surplus income (out of normal expenditure rules) will likely increase, as people drawdown from their pensions and gifts surplus income to beneficiaries e.g. funding a whole of life assurance, or making pension contributions for grandchildren.

POTENTIAL PLANNING ALTERNATIVES

It's clear that the changes announced at the Autum budget 2024 will change the IHT position of a substantial number of individuals. There are, however, various options and alternatives that can be considered to help to mitigate tax increases.

MOVING FROM AIM BUSINESS RELIEF OFFERS TO ASSET BACKED BUSINESS RELIEF OFFERS

Peter Steele

Retail operations director

SENECA PARTNERS

“ For the first £1 million of a Business Relief/APR portfolio, there will likely be many investors looking to move to a private company investment in order to obtain 100% Business Relief. For those investors, the question is whether they should do this now or leave it until the last minute in March 2026. With Section 107(2) of the Inheritance Tax Act stating that such relief shall 'not exceed what it would have been had the replacement or any one or more of the replacements not been made', it seems that every month they delay will add a further month where relief is only available at 50%.

Given the new limitations on 100% Business Relief and the reduction of relief available on AIM shares to 50%, it's perhaps not surprising the likelihood is that first £1 million of most Business Relief portfolios will be invested into fully unquoted, asset backed offers and after that AIM will be used as a diversifier, levering off its liquidity and growth potential. Certainly, this is what compliance teams will probably be most comfortable with, despite the ongoing positives of AIM shares.

Alex Sumner

Group commercial director

BLACKFINCH

“ Despite the reduction in Business Relief, AIM IHT solutions still remain a valuable component of a well-diversified, tax-efficient portfolio. The 50% relief still offers a substantial tax advantage compared to fully taxable assets, whilst the ability to hold AIM shares within an ISA wrapper adds tax-free income and capital growth benefits, enhancing the overall tax efficiency. Advisers may consider maintaining or incorporating AIM investments within client portfolios if in an ISA for those seeking tax-efficient growth. While the change in BR on AIM shares will of course necessitate a strategic review, the inherent combination of partial IHT relief, ISA compatibility and access to high-growth companies will continue to present a compelling opportunity to advisers and their clients.

Continue

Helpfully, Business Relief has a mechanism – replacement relief (also known as rollover relief) - which is specifically targeted at allowing investors to shift between Business Relief qualifying assets without having to restart the two-year clock on their minimum holding period. However, if, after 6 April 2026, the rules are applied as they are currently, if an investor sells AIM quoted Business Relief qualifying shares and then reinvests the proceeds into unquoted asset-backed Business Relief qualifying shares they will have two years where only 50% replacement relief is available on their death.

That is based on Section 107(2) of the Inheritance Tax Act 1984 which limits the amount of BR to what would have been available had the replacement not been made (during the initial 2-year period of ownership). An example of how this may apply is as follows:

Mrs Smith has owned a portfolio of AIM shares for 3 years. She is considering selling the AIM shares and using the proceeds of sale to invest into unquoted Business Relief qualifying shares.

The application of this legislation to the example above for Mrs Smith is as follows:

1. Mrs Smith sells her BR qualifying AIM shares on 1st March 2025 and reinvests the proceeds into unquoted shares which qualify for BR. The unquoted shares are allocated on 1st March 2025.

2. From 1st March 2025 to 5th April 2026, in the event of Mrs Smith's death, the unquoted shares should qualify for 100% IHT relief. The is because the rate of IHT relief available on AIM shares for this period is 100%.

3. From 6th April 2026 to 28th February 2027, if Mrs Smith dies, the rate of IHT relief available will be 50%. This is because Mrs Smith has owned her new unquoted shares for less than 2 years meaning that the relief available is based on the original (AIM) shares.

4. From 1st March 2027 onwards the unquoted shares will qualify for 100% IHT relief as Mrs Smith has owned those shares for more than 2 years.

Emily Deane TEP

Rtechnical counsel and head of government affairs

STEP

> The reduction in relief may deter investors seeking AIM shares purely for IHT efficiency.

Continue

JOINT OR INDIVIDUAL BUSINESS RELIEF APPLICATIONS

The new £1million allowance will not be transferable between spouses or civil partners. This means that the allowance will be wholly or partly lost if either spouse or civil partner does not have £1million of relievable assets eligible for 100% relief.

As a result, each partner should own a share of qualifying assets to maximise both allowances and this could mean that joint portfolios of Business Relief qualifying shares are no longer suitable. Generally, these are held as joint tenants, with assets automatically passing to the surviving spouse upon the first death.

Depending on the value of the holding, this could leave the surviving spouse with more than £1 million of Business Relief qualifying investments and relief on the excess will be restricted to 50%, should they die after 6 April 2026. Consequently, it may be advisable to talk to your Business Relief investment manager about splitting the portfolio into individual holdings.

Options to best use the individual Business Relief allowances include the spouse with qualifying investments in excess of £1 million gifting some or all of the excess to their spouse during their lifetime. This has the benefit of attracting no capital gains tax as for spouses, the recipient spouse takes on the original purchase price of the donor spouse.

In addition, even if the original owner dies within seven years of the lifetime gift, the £1 million allowance of the original owner should not be used.

Spouses and civil partners may wish to consider how assets are held in order to best utilise the allowance. This may involve reviewing existing wills and exploring the option of leaving Business Relief qualifying investments exceeding £1 million between them to children on the first death.

BUSINESS RELIEF AND DEATHBED PLANNING

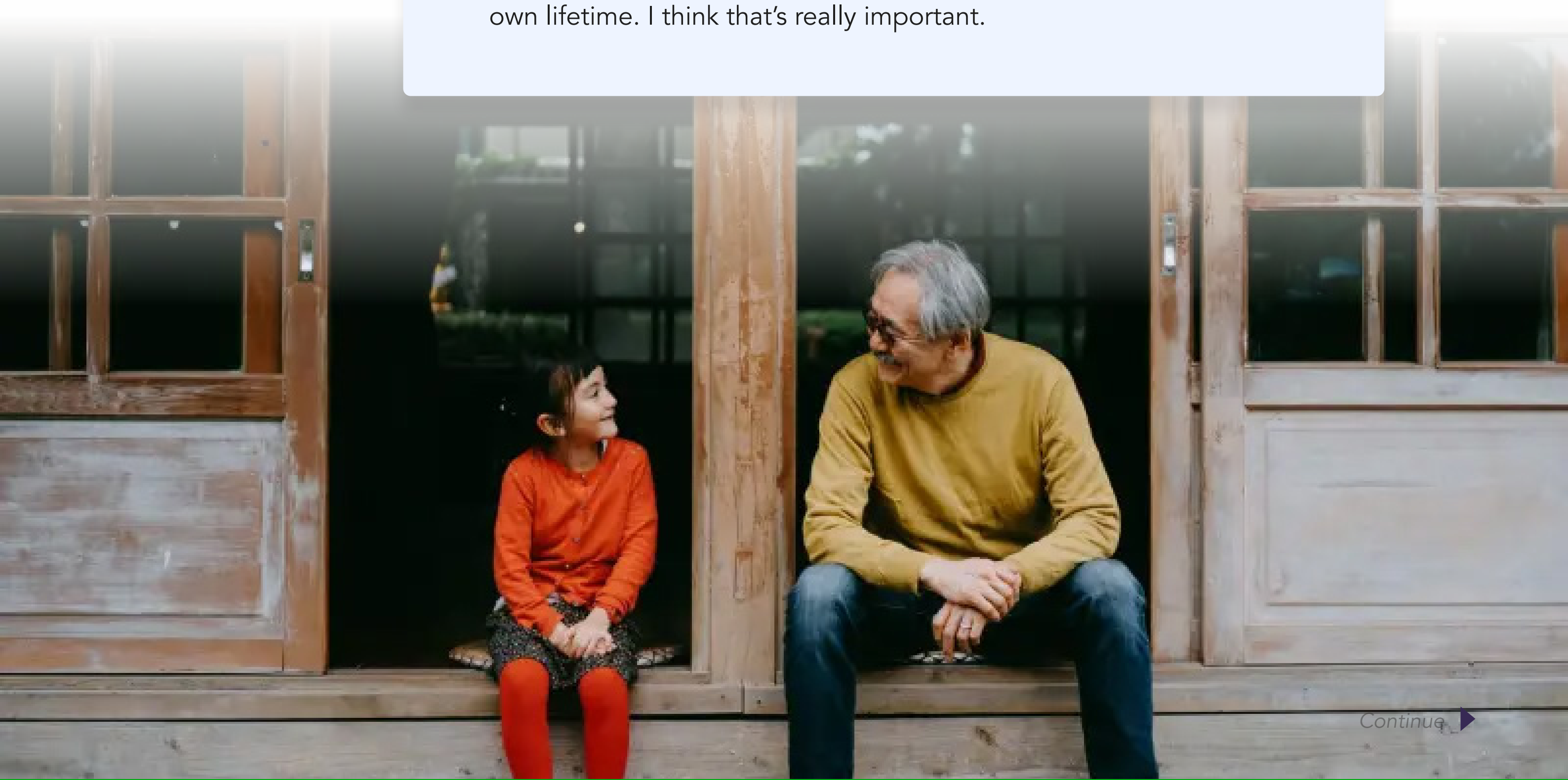
Business Relief qualifying failed PETs do not come back into the estate for the purposes of calculating the estate size for the RNRB taper. As a result, it is possible to make gifts of such assets in the knowledge that they will definitely become failed PETs, in order to gain the advantage of being in a position to claim the RNRB.

Jessica Franks

Head of investment products

octopus

"Business Relief qualifying investments are counted as part of the value of an estate for the £2m Residence Nil Rate Band taper threshold. We find that clients make qualifying investments and hold them for the longer term, maintaining access and control to wealth, but that over time, as financial needs crystalise, these investments can be gifted to beneficiaries or settled into trust. This has an immediate impact on the RNRB threshold where relevant, in addition to some probate and planning benefits. We talk to advisers who say 'as clients get older and they get more comfortable with the visibility of money they're going to need themselves, they can start making lifetime gifts to bring their estate down below £2 million. Even if they don't live for seven years, it doesn't matter.' It is important to remember that the trust or beneficiary must continue to own the gifted shares for at least 7 years, or until the donor passes away (whichever is sooner). This can enable investors to maximise available reliefs while keeping ownership and control, because that's where Business Relief is hard to beat – the investments are still in your own name, which often enables people to start planning younger without giving up access and control to the wealth you may need during your own lifetime. I think that's really important.



Continue

There are also potentially CGT benefits from the last-minute planning, for example:

> Gail and Brian own 50% each of Newton and Ridley, a highly respected brewery which qualifies for Business Relief and is worth approximately £50 million. Unfortunately, Brian only has days to live after an accident. In some hasty tax-planning at Brian's bedside Gail gifts all her shares to Brian. Brian also then leaves all his shares to his kids before dying. Because Brian dies before 6 April 2026 full Business Relief is available on his shares and the kids inherit them with a base cost of £50 million. Assuming Gail lives beyond 5 April 2026, this planning will save a lot of tax because her shares would otherwise be subject to IHT at 20% for all value over £1m. This would also mean that the kids would have a lower base cost on a future disposal - they can sell the company for £50 million with no tax implications.
>
> *Source: Forbes Dawson*

BUSINESS RELIEF QUALIFYING AIM SHARES IN PENSIONS

There has been some discussion regarding whether it will be possible to hold Business Relief qualifying AIM Portfolios inside SIPP wrappers. Previously there was no additional IHT benefit of holding AIM shares in SIPPs because, as pensions, they were IHT-free anyway, but that will change from April 2027.

Some believe that, since qualification for Business Relief relies on investors owning the shares directly, it would not be applicable since assets in a SIPP are held in a trust for the benefit of the settlor. Others have pointed out that the ownership test can be passed if the Business Relief qualifying assets are held directly or where the investor has a beneficial interest, thus allowing AIM shares in SIPPs to be eligible for Business Relief.

If that is the case, AIM Portfolios in SIPPs may become a useful method of mitigating at least 50% of IHT liabilities without undertaking drawdowns where pensions are overloaded with capital at death. However, confirmation of the tax treatment here is still required.

Continue

Peter Steele

Retail operations director

> Up until now, there was no need to hold AIM shares in SIPPs for IHT purposes because pensions were IHT-free anyway, but that changes from April 2027. The Business Relief rules suggest that AIM shares in SIPPs may well be eligible for Business Relief, (see here). If that's correct, AIM Portfolios in SIPPs might be a way of further mitigating IHT for high net wealth individuals although, to satisfy the Business Relief 2-year ownership rules in time, any such investment would best be considered in the 2024/25 tax year. Any other strategy would require the pension to be drawn down and thereby attract income tax (beyond any tax free allowances), although this could be offset in full or in part by an investment into VCT or EIS, if that is appropriate

OTHER PENSIONS CONSIDERATIONS

Pensions are still a tax-efficient vehicle for building up retirement funds provided the intention is to use this to fund retirement, so that it all gets used. From the tax advantaged pension contributions, to tax-free growth and compounding, and then the tax-free lump sum on withdrawal, pensions still benefit from many tax advantages.

However, where it is clear that some pension capital will not be used during lifetime, according to **Harry Bell**, *"there are examples where you could theoretically take everything out of your pension, use EIS to reclaim the income tax (if you've already withdrawn your tax-free pension commencement lump sum) and then in two years, it qualifies for Business Relief. So, if you can afford to do that, then it is at least a consideration. Even above the £1m limit, you're still getting a 50% cut in your IHT and income tax relief. This, of course, depends on your personal circumstances, attitude to risk and capacity for loss as well. You could do this partially – for a proportion of your pension."*

VCTs could also be used to reclaim the income tax, although for IHT efficiency, VCTs would need to be sold and the subsequent money (including any CGT-free growth) would need to be used to acquire Business Relief qualifying shares after the five year holding period required for VCT tax relief qualification. For an example of how this might work in practice, see the Other tax efficient planning impacts section of this guide.

Even where clients have not yet used their 25% tax-free pension commencement lump sum, the way drawdowns are managed will likely be very different because clients will be more inclined to remove excess funds from their pensions (particularly if it is tax-free to do so) and give away their non pension assets rather than use them to provide an income. That lump sum might now be considered for making gifts or funding lifetime expenditure.

Buying an asset with it, though, will not help reduce the size of the IHT liability unless the intention is to free up capital to undertake planning such as via Business Relief investments or making gifts of normal expenditure which could include income withdrawn from a pension.

Jonathan Prescott

Partner

praetura INVESTMENTS

"With unused pensions forming part of an individuals' estate from April 27, the tax implications are significant—especially if you're drawing an income but not touching the capital. Without action, you could easily lose £350,000 of the Residence Nil Rate Band (RNRB). Many people aim to preserve their pension capital for the next generation, drawing a conservative 4% to maintain their wealth. But now we know that approach creates an IHT liability, and for those over 75, it could mean IHT plus additional lump sum tax charges for their children—potentially pushing the total tax burden as high as 90%. One way to manage this is by increasing pension drawdown to 8%, accelerating access to funds. But naturally, that also triggers a tax charge.

INSURANCE

Advisers do see insurance as a potential option and some Business Relief investment managers are undoubtedly looking at combining their offers with an insurance element that covers an amount of additional IHT liability if the Business Relief qualifying assets in an estate breach the £1 million threshold.

The obvious question is whether clients will want to insure against that and much of the decision here will depend largely on cost. Unless such a policy is taken out relatively early it's likely to be expensive, include exclusions and will perhaps require a medical that might be intrusive. In fact, the coverage would, unlike current policies that pay out if an investor dies without living for the two-year minimum holding period to qualify for the relief thereby focusing on short term mortality risks, take into account long term mortality risks and might be attractive for providers where the policy holder is under the age of 60.

Insurance could provide peace of mind for those with serious concerns about how the increased IHT on the assets they are bequeathed can be paid. For a business or a farm, this could be particularly problematic as, for example, after 6 April 2026, a business worth £10 million will generate an IHT liability of £1.8 million. While that can be paid over 10 years; £180,000 for the next 10 years interest-free, and it could be taken out of the company as a dividend, which itself may have tax implications, it's still a big sum that would very likely be better used within the business.

Other planning options would be to make a lifetime transfer of the shares, removing control from the original owners, put the business into trust which would involve tax and administration costs or take out a life insurance policy. The latter, in the form of a whole-of-life policy that pays out on second death would allow everything to remain the same in terms of the business ownership and control but decent sized insurance premiums would be significantly less than the IHT bill they would cover.

That said, premiums could potentially be paid out of regular pension drawdowns or from dividends paid from VCTs (possibly from pension drawdowns invested into VCTs) as normal expenditure out of income. **Sophie Haslehurst** though, warns *"you need to be careful about what HMRC views as normal income. People using withdrawals from a pension, which is true income as you control that and how much it is, is likely to be something that's more commonly used. The issue with tax-free dividends from VCTs is obviously how frequently it is paid and does that match the insurance premium dates. VCT dividends are not guaranteed."*

ADDITIONAL GIFTING

Nevertheless, **Harry Bell** agrees with the new emphasis that will be placed on *"the ability to create and utilize excess income."* But timing of additional gifting of that income will be crucial to maximise the tax planning. The changes announced in the budget now put a slightly different slant on whether gifting assets in a client's lifetime or on their death is more tax efficient.

The OBR has already pointed out that where assets qualify for APR or Business Relief, even if an estate is above the new shared cap, there would still be a tax benefit from holding assets to death as the CGT rate is likely to be higher than the CGT rate applicable to those assets in a lifetime transfer. The bigger benefit though, in holding the assets until death is arguably the CGT rebasing on death of all assets that the inheritor receives.

Even if a client is keen to gift away their assets and has time for a seven-year clock during their lifetime, if there has been a substantial uplift in the value of the asset, the potential CGT due on transfer could be a greater issue than the IHT.

Although, where gift hold-over relief is available, the CGT could be deferred, it's also worth remembering that if a client realises an asset such as an investment, but does not do anything with the proceeds before death, such as gifting, it will remain in their estate, so they will be liable to the CGT and then the IHT.

Jessica Franks

Head of investment products

octopus

"CGT rates increasing might have more impact on lifetime gifting than BR qualifying investments. This is because such investments are typically held until death. Whereas giving away assets that have increased in value during your lifetime will typically trigger CGT – if sold in order to gift cash there will be proceeds to cover, but the risk of paying CGT and ultimately not surviving for the seven years needed to ensure the gift is effective for IHT may be increasingly off putting.

CONSUMER DUTY IMPERATIVES

The Consumer Duty requires proactive and ongoing engagement with clients throughout the advice process. When changes to their circumstances or the context of their planning threaten to negatively impact projected outcomes, advisers must take action to identify the potential repercussions and how and to what extent, they can be mitigated to meet client objectives.

IDENTIFYING FORESEEABLE HARM

When it comes to foreseeable harm, firms are only responsible for addressing the risk of it when it is foreseeable at the time, throughout the customers journey and lifecycle and the FCA has stated that it expects firms/advisers to be proactive in avoiding forseeable harm where it is within their control to do so.

When it comes to IHT and Business Relief, the 2024 Labour budget has absolutely introduced the possibility of changes to the external environment crystallising into foreseeable harm to planned outcomes. With the ceiling to be applied to the amount of claimable Business Relief, pensions being brought into the estate for IHT purposes and asset values going up with inflation while the NRB and RNRB remain fixed for an additional two years, it's fairly safe to assume that if you have clients with an IHT liability now, in two or three years it's only going to be worse and the number of those in your client bank with estate planning requirements will rise.

One of the most obvious potentially foreseeable harms is a client's failure to live for the full two years Business Relief qualifying period. Life insurance is available and some services use it to cover the costs of the IHT liability if the policyholder dies within the first two years. The premiums paid during the policy-holders lifetime will also reduce the value of the estate for IHT purposes, with no investment risk.

There are several reasons why it might not be possible or advisable to incorporate such insurance into your plan for the client; the client cannot obtain cover or the cost is prohibitive. Then of course, a life insurance policy on someone with no dependent beneficiaries can be a waste of money or if all the wealth is being left to a spouse or civil partner because transfers between married couples and civil partners are not usually subject to IHT. (Although the surviving spouse may then decide to take out single life insurance if their health is unreliable and because any transfer on death will now not be made to a spouse).

It's also been suggested that the changes to Business Relief will drive new insurance product development to cover the additional 20% IHT over the £1 million threshold. This is likely to be dependent on sufficient demand pushing underwriters to work with Business Relief investment managers. In the meantime, it may be possible for advisers to price such a life insurance policy themselves, independently of any Business Relief offer, to cover the potential additional 20% tax, although the cost could be substantial.

Continue

Sophie
Haslehurst

Senior financial planner / chartered financial planner

Integrity 365

> I think typically most clients with an IHT bill now are going to have an even bigger one post 2027. With Business Relief in general it's worth keeping in mind that with the two-year clock, there'll still be the benefit of 100% IHT relief if clients invest now, for the first million.

TARGET MARKET REVIEW

For those who recognize this growing market for potential Business Relief recommendations, despite the limits to be introduced on the value of IHT relief claimable via Business Relief, you might want to look again at your client base to understand its make-up in light of the changes to analyse whether your target market needs to take new or further account of these types of planning needs. While the FCA has stated that, *"the initial target market for a financial advice firm's services might be any customer with a potential pension and investment need"* for complex or niche products (some might categorise Business Relief as such) firms may need to define target markets in more detail, considering increased risk of consumer harm.

Having said that, though, **Sophie Haslehurst**, highlights that, although, *"BR itself is fairly straightforward, how these changes will impact people is down to them having the right advice around them because they might not realise what they don't know."*

Continue

COMMUNICATION OF NEW REALITIES IS KEY

The Consumer Duty expects firms to communicate effectively so that consumers remain responsible for their own actions, by enabling and supporting them to make:

> *"informed decisions in their interests through firms creating the right environment. Firms must proactively and reactively focus on putting customers in a better position to make decisions in line with their needs and financial objectives."*
>
> *Source: FCA final Consumer Duty Guidance*

According to the Duty, customers must:

> *"be given the information they need, at the right time, and presented in a way they can understand. This is an integral part of firms creating an environment in which customers can pursue their financial objectives"*
>
> *Source: FCA final Consumer Duty Guidance*

You also need to be very clear on the client understanding of the risks in the client file, including a full discussion of attitude to risk, capacity for loss, and how your recommendation takes them into account. Where the recently announced changes to IHT and Business Relief are concerned, it is critical that you convey to each individual an understanding of what threats they pose to the desired outcomes and the adjustments that could minimise them.

RISK IS NECESSARY

Risk, though, is not outlawed by the Consumer Duty and in November 2024, the FCA's chief operating officer, **Emily Shepperd**, said that, *"without risk, there is no growth, no innovation, no progress. But we do need to make a distinction between 'good' risk and 'bad' risk. Good risk is thoughtful, calculated. The kind of risk that drives innovation and opens up new opportunities. Bad risk is reckless, short-sighted and ultimately harmful to us all. The Consumer Duty provides a framework for navigating that distinction."*

Continue

Meanwhile, **Sarah Pritchard**, executive director for markets at the FCA asserted that, *"we must respond to an ever-evolving landscape and – crucially – maintain our ability to think ahead, anticipate challenges and seize opportunities… It will require some open and frank conversations on risk and how we balance that. But all in order that we might reap the rewards."* In December 2024, the FCA's chief executive, **Nikhil Rathi**, confirmed that the regulator wants to facilitate *"more informed and responsible risk-taking"* by authorised firms and consumers.

In fact, Barclays has identified that there are 13 million UK adults holding £430 billion of "possible investments" in cash savings, revealing the scale of the opportunity if the UK can empower more people to invest, some at higher risks, to meet their financial objectives.

The FCA classifies all Business Relief products as being high-risk. But, as with all risk profiles, there are variations between product types and individual offerings. Business Relief offers, particularly those that invest in AIM shares, often target more established and stable companies and others benefit from substantial asset-backing to give some security.

Jonathan Prescott

Partner

praetura INVESTMENTS

> We're going to see a younger demographic engaging with Business Relief. As estates grow—especially with unused pension capital factored in—people will need more ways to manage their wealth and take action earlier whilst retaining access to their capital.

MANAGING RISK AND MONITORING SUITABILITY

With larger estates diversification of both estate planning methods in general and Business Relief investments more specifically, diversification becomes even more important. Certainly, the bigger the Business Relief case, the more diversification is needed to offset the risks of putting all your eggs in one basket. Having a broader range of Business Relief trades and managers as well as exposure to different underlying sectors should reduce risk.

It's also important to remember that you are required to monitor that your clients remain suitable during the lifetime of any investment, not just at the outset. With a build-up of assets, potentially greater IHT liabilities, particularly where adjusted planning could put the client in a position of limiting those liabilities, ongoing review, already a key component of the Consumer Duty, becomes even more important than ever. This will help track when clients meet eligibility thresholds for the £1 million Business Relief band, for example, and when the RNRB taper is activated by the overall estate size exceeding £2 million.

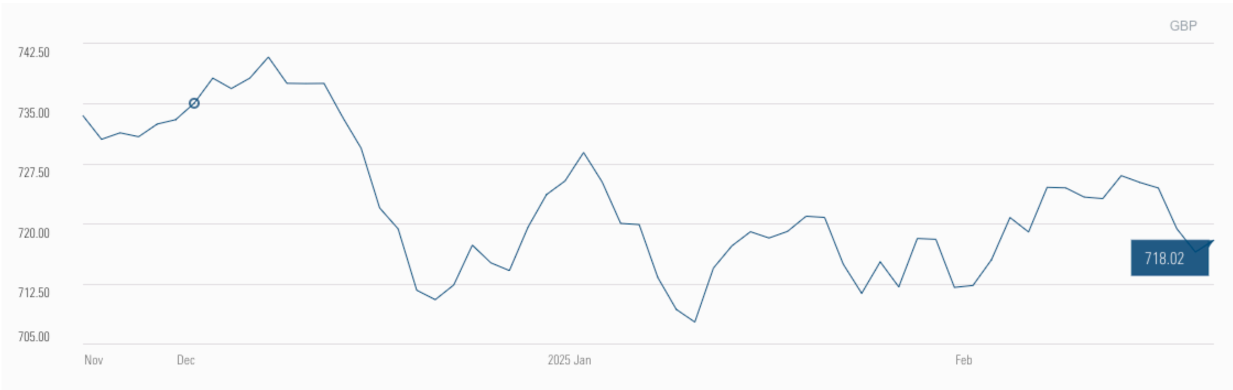
Ensuring wills are correctly drafted and understanding if there is likely to be an IHT liability are the first steps in deciding whether there is an estate planning need which is at the foundation of any suitability for a Business Relief recommendation.

AIM IMPACTS

Estimates put the value of IHT investment scheme assets on AIM at around £6bn[1] and for 21/22, around 40% of all estates claiming Business Relief claimed it on AIM shares (at least partially) in a sample of 2021 to 2022 tax returns. Around 20% of the value of all qualifying investments for Business Relief were AIM investments[2].

There was some trepidation before the budget that AIM shares that qualify for Business Relief would lose 100% of their IHT relief, so the 50% cut avoided the worst-case scenario and helped to shore up confidence in the market. As a result, on budget day, the AIM All Share index jumped 4% from 715 to 744 following the announcement. However, the projections that the 50% cut will impact valuations over the longer term, came to fruition by the end of January 2025 by which time the index had dropped back to 715.

AIM ALL-SHARE PERFORMANCE OCTOBER 2024 TO 24 JANUARY 2025



Source: https://www.fidelity.co.uk/shares/ftse-aim-all-share/

[1] Charles Hall, Peel Hunt's head of research: https://www.investmentweek.co.uk/news/4363777/city-moguls-warn-government-scrapping-tax-breaks-aim-stocks

[2] HM Treasury Policy paper: Summary of reforms to agricultural property relief and business property relief, 30 October 2024

Continue

Jessica Franks

Head of investment products

octopus

> The government has also protected the relief on AIM, recognizing the AIM market is a valuable piece of the puzzle of the capital markets in the UK and that retail investors are a cornerstone of it. Holding BR qualifying AIM shares in an ISA remains the only way to plan for IHT while also benefitting from lifetime tax breaks on income and gains, and is therefore expected to remain a key planning tool for suitable investors.

Sophie Haslehurst acknowledges that AIM performance over the last two to three years has not been as strong as in previous years and that Business Relief qualification of some AIM shares may have over inflated the price of some stocks. But, *"if you look at some of the underlying companies, some are really strong. As an example, take ugov, a hugely important database of information that people use all the time, and the true value of that business is probably still inherently there."*

She goes on, *"for most of my clients it's still appropriate for them to hold AIM shares because at least a 20% IHT bill is less than a 40% bill. Unless they're going to sell and use reinvestment relief to reinvest the money within asset backed Business Relief schemes, (I'd be surprised if they have AIM shares in the first place if they haven't already invested in asset backed BR) I'm definitely telling my clients to hold in general at the moment because I think there needs to be more post budget feedback on how the AIM market is going."*

AIM also benefits from the liquidity that daily trading offers, something *"we shouldn't underestimate alongside other investments. So for new clients, I'd still be discussing all the different elements of IHT planning and not excluding AIM before talking about it. There are not many things we can use nowadays to really save IHT and 50% relief isn't to be sniffed at. So, I think it's just about finding the right AIM manager for you and your clients."*

For **Harry Bell**: *"the change to AIM shares being capped at 50% BR is certainly changing the way we think about it because before it was always a consideration around risk/volatility. I've always been a firm believer in getting the next generation involved when we're considering Business Relief investments as ultimately the investment is for them. if it is likely the next generation weren't intending or required to sell the investments on inheriting them, then AIM investment, with the opportunity for considerable capital growth in exchange for volatility became a more attractive option. The conversation then became a case of 'what do you prefer'."*

"Now the default is going to go to private company Business Relief because you're getting 100% relief on the first million. Unless there's a very good reason, not only do you need to justify it to the client, but from a compliance point of view you've got to justify why are you investing in something that offers 50% less relief than the alternative. So, I think investee company Business Relief is going to be the first port of call when a Business Relief investment seems like it's going to be appropriate."

Continue

Richard Roberts

Head of sales development

Foresight
Invest Build Grow

"Where people are selling down AIM stock, the time out of the market is going to be an issue for them as they're basically going from Business Relief to cash and then back to Business Relief. The risk is dying while not holding Business Relief qualifying shares and then losing all access to Business Relief. Since so many Business Relief shareholders are in their late 70s, or 80s, the risk is heightened, so if you are considering selling down AIM stock to reinvest into unquoted Business Relief you have to think about that 'time out of the market' exposure and maybe speaking to your Business Relief investment manager about the ways they can help you do this. Some have processes that could limit that risk.

"With tax benefits halved, investors will need to be more positive on return prospects to allocate cash to AIM and this could swing allocations towards other areas," said Abrdn UK Smaller Companies fund manager **Abby Glennie**. But could it also make the most successful stock pickers for AIM Business Relief funds even more popular?

Jonathan Prescott

Partner

praetura INVESTMENTS

"AIM could now play an even greater role in estate planning. If you hold more than £1 million in Business Relief-qualifying shares from April 26', it might make sense to take a higher-risk approach with capital above £1 million, focusing on growth. Up to that threshold, capital preservation focussed assets are likely to be more attractive to the majority, but beyond that, a growth mandate could be a smart move - especially if the returns outperform the 20% IHT charge.

Stephen English

Investment director, head of AIM

STELLAR

"While the change didn't quite represent the clearing event we were hoping for, 50% relief is still relatively generous and acknowledges the important role that AIM has to play as a provider of growth capital to smaller-sized companies. An initial relief rally was short lived, but we think is more related to the wider macro backdrop and a view that interest rates will be "higher for longer". Valuations remain once in a generation cheap, companies are buying their own shares back in record volumes, and M&A, after a hiatus in Q4, is very likely set to ramp up again this year. As such, we remain constructive on the return potential of our AIM IHT strategy from these levels.

OTHER TAX EFFICIENT PLANNING IMPACTS

As part of the tax efficient planning continuum, the seed enterprise investment scheme, enterprise investment scheme and venture capital trusts are often mentioned alongside Business Relief, although their risk profiles are markedly higher because of the specific focus on young companies posing substantial risk to capital.

Tax is certainly a big part of the conversations that advisers have been having with clients in recent years, with the slashing of annual CGT allowances from £12,000 down to £3,000, the dividend allowance cut from £2,000 to £500 and more people than ever falling into the additional rate tax bracket.

With these new IHT changes, that creates the need for a more engaged planning journey with more decisions and considerations for those who want to make the most of their assets and save prudently without losing large portions of their diligently gathered capital at the end of their lives.

Jessica Franks

Head of investment products

octopus

“ Business Relief is a piece of the conveyor belt of incentives encouraging investment into early stage, unlisted and AIM listed companies alongside EIS and VCT. EIS and VCT are aimed at very early stage, very high-risk companies, with Business Relief recognised as a very important incentive to invest in unquoted and scale up businesses, typically at a later stage. Like EIS and VCT, the government recognises that people need to be incentivized for taking that extra risk with their capital and that's what Business Relief is doing.

Peter Steele

Retail operations director

SENECA PARTNERS

“ Will the change affect the appeal of EIS investing? Perhaps, in part, although investors rarely go into an EIS investment solely to obtain Business Relief – there are other Business Relief qualifying investments that perhaps carry less risk – so this shouldn't really move the dial to a significant degree.

The venture capital schemes certainly offer the potential benefits of taking greater risk with a portion of a portfolio. As well as the possible growth premium, they can also offer tax-free growth in retirement and, in the case of VCTs, tax-free income rather than loading pensions to generate it, leaving the capital to create a possible IHT liability.

Another benefit of VCTs is that, after the five-year minimum holding period, investors can access the capital as it is not locked into a wrapper like a pension which doesn't allow access until retirement without potential tax penalties. So, there are avenues to explore for planning that complement pension planning, such as using EIS or VCTs to reclaim income tax payable when removing excess capital from pensions and then, if necessary (if the relevant assets do not qualify for Business Relief) after the three or five year minimum holding period, shifting those investments to Business Relief qualifying ones to offset potential IHT (with no CGT payable on any growth achieved within either EIS or VCT wrapper).

Example

Blanka, 77, has a £1.5m pension scheme but does not need to touch it because she is living off capital and income from personal investments (and has withdrawn her tax-free lump sum). Having used all her NRB and RNRB, if she dies after 6 April 2027 her pension will be taxable to IHT at 40% totalling £600,000 and then her son, Jacob, will pay 45% income tax on the £900,000 remainder, leaving him with **£495,000 inheritance**.

Instead of leaving these assets to be eroded by IHT and income tax Blanka decides to syphon money out of her pension and invest the money into EIS as follows to recoup some of the income tax payable on the drawdowns and qualify for Business Relief to reduce the IHT liability:

1. For ten years she takes £70,000 from her pension to take her income up to £100,000 annually (this creates marginal income tax of £27,431.40)

Tax Band *		Rate of tax *	Tax
Personal Allowance	Up to £12,570	0%	£0.00
Basic rate	£12,571 to £50,270	20%	£7,539.80
Higher rate	£50,271 to £125,140	40%	£19,891.60
Total			**£27,431.40**

2. She then uses this to make a £70,000 EIS investment (which gives rise to 30% or £21,000 income tax relief).

3. She intends to live for more than two years and so the plan is that her son will inherit the shares free from IHT.

4. £700,000 is removed from the pension at an income tax cost of £274,314. That is offset by £210,000 of EIS income tax relief, to leave an overall tax cost of £64,314.

Continue

5

If the shares simply keep their value, then on Blanka's death 12 years after 6 April 2027, Jacob will inherit:

£700,000 Business Relief qualifying shares benefitting from 100% IHT relief	
£264,000 pension. *(Having used all her NRB and RNRB the £800,000 remaining pension is taxable to IHT at 40% totalling £320,000 and then her son, Jacob, will pay 45% income tax on the £480,000 remainder, leaving him with £264,000).*	
Total inheritance	**£964,000 less £64,314 income tax cost = £899,686**

Alex Sumner

Group commercial director

BLACKFINCH

"With Business Relief now reduced, investors may increasingly look at S/EISs as an alternative for estate and capital gains tax planning, particularly where they are comfortable with the higher-risk, early-stage nature of these opportunities. The ability to shelter CGT by reinvesting into S/EIS remains a key attraction, and I would expect some investors to diversify their tax planning strategies by using S/EIS due to its ability to defer CGT, provide substantial income tax relief, and qualify for up to 100% IHT relief (after two years and if held at time of death – subject to the personal cap of £1m Business Relief-qualifying holdings). These incentives ensure S/EIS retains a valuable role in long-term tax and estate planning while also directly supporting innovative UK companies. Under the new rulings, AIM EIS will attract 50% BR.

Richard Roberts

Head of sales development

Foresight
Invest Build Grow

"If advisers are willing to embrace the tax-efficient landscape, they can do some really powerful and value-add planning activities for their client that can really shift the dial on what advisers are excelling. Some of those opportunities could be substantial. This is where I think the market will possibly polarize – there will be people that embrace all of the tax advantaged investment solutions – EIS, VCT, Business Relief and show material value add in terms of pounds and pence savings for their clients and there will be a group that just say this is too difficult, we're not going to do it. But, the VCT market is going to raise another £1bn this year and Business Relief is doing £1 - £1.5bn per year in inflows[1]. These are not small markets anymore. They are increasingly more mainstream and if advisers are not using them, they'll get left behind.

[1] Source - BR: TER fundraising data.
VCT: Forecast, based on open offers and current fundraising - Wealthclub data.

Jonathan Prescott

Partner

“ There’s a huge opportunity for investment platforms to evolve, offering access to a wider range of tax-efficient wrappers—including Business Relief and other estate planning solutions. The days of relying solely on ISAs, GIAs, and pensions are long gone. More sophisticated clients need a broader toolkit to optimise their tax position. If platforms don’t adapt it’s very likely we’ll begin to see greater capital flows than we’ve seen to date away from platforms as advisors and clients adopt the use of other solutions.

Jonathan Gain

CEO and asset backed

“ I would expect an increase in activity in insurance, trusts, Business Relief EIS, SEIS and VCTs as well as greater interplay between them all. For many financial advisers and clients at the smaller end, before the recent changes, it might have been much more typical for them to use insurance solutions rather than Business Relief. It may be now that the increased awareness of Business Relief has encouraged them to think about the use of Business Relief in a strategy combining and pensions. As the numbers are getting bigger both in terms of people with an IHT liability and the overall amount of IHT becoming due, I foresee wider take up of IHT mitigation methods.

VCT AND S/EIS TAX RELIEFS SUMMARY

	Enterprise Investment Scheme (EIS)	Seed Enterprise Investment Scheme (SEIS)	Venture Capital Trust (VCT)
Minimum holding period	3 years from the acquisition date of the shares (however, if the company is not trading when the shares are issued, the period ends on the third anniversary of commencement of the trade)	3 years from the acquisition date of the shares (however, if the company is not trading when the shares are issued, the period ends on the third anniversary of commencement of the trade)	5 years from the acquisition date of the VCT shares
Annual maximum investment eligible for tax reliefs	£2,000,000 (where anything above £1,000,000 is invested in a knowledge-intensive company)	£200,000	£200,000
Income Tax relief	Up to 30% of the value of the EIS qualifying shares subscribed for	Up to 50% of the value of the SEIS qualifying shares subscribed for	Up to 30% of the value of the VCT shares subscribed for
Capital gains tax free growth	100% CGT exemption on EIS qualifying shares sold at a gain (provided income tax relief has been claimed and not subsequently withdrawn on the EIS shares). Gains exempt after 3 years and relief applies to unlimited gains	100% CGT exemption on SEIS-qualifying shares sold at a gain (provided income tax relief has been claimed and not subsequently withdrawn on the SEIS shares). Gains exempt after 3 years and relief applies to unlimited gains	100% CGT exemption on VCT shares sold at a gain. No minimum holding period applies and and relief applies to unlimited gains
Capital Gains Tax deferral relief	Yes. 100% of a gain can be 'deferred' if it is invested in qualifying shares	No	No
Capital Gains reinvestment relief	No	Yes. A maximum of 50% of a chargeable gain can be treated as exempt from Capital Gains Tax, where all or part of the amount of the gain is reinvested in qualifying SEIS shares. Reinvestment relief is limited to half the amount reinvested.	No
IHT Relief	100% of the value of the EIS shares at the time of death (or other chargeable event for IHT purposes). From April 2026 a £1 million limit will apply jointly to the value of assets claimed under agricultural property relief (APR) and Business Relief, which allow for a full exemption on IHT for qualifying agricultural land, business assets and unlisted shares. The existing full relief will apply below the £1 million threshold, and a reduced 50% relief above it. Also, if the EIS qualifying shares are AIM quoted, Business Relief on those shares will be restricted to 50%.	100% of the value of the SEIS shares at the time of death (or other chargeable event for IHT purposes). From April 2026 a £1 million limit will apply jointly to the value of assets claimed under agricultural property relief (APR) and Business Relief, which allow for a full exemption on IHT for qualifying agricultural land, business assets and unlisted shares. The existing full relief will apply below the £1 million threshold, and a reduced 50% relief above it. Also, if the SEIS qualifying shares are AIM quoted, Business Relief on those shares will be restricted to 50%.	No
Loss Relief	Losses (less the income tax relief) can be offset against other capital gains in the year of the loss and any excess can be carried forward. Losses can also potentially be offset against income tax in the current or preceding tax year	Losses (less the income tax relief) can be offset against other capital gains in the year of the loss and any excess can be carried forward. Losses can also potentially be offset against income tax in the current or preceding tax year	No
Tax-free dividends	No	No	Yes. No minimum holding period applies

Sophie Haslehurst

Senior financial planner / chartered financial planner

Integrity 365

> "For a lot of my clients who invest in EIS, the Business Relief is an added bonus, so it hasn't had a major impact on them other than the fact that, the chances are that, if you can afford to invest a lot in EIS, you're probably going to have a massive IHT bill, so it might be that you've got EIS running alongside Business Relief. As advisers we need to be aware of the fact that your EIS is likely to use some of that £1 million allowance for Business Relief 100% IHT exemption as that's one of those things people may not consider when it comes to the overall advice picture especially when we're seeing so much change in a very short space of time.

For more on S/EIS and VCTs, take a look at our latest adviser guide on alternative tax efficient investments here.

TAX EFFICIENT SOLUTIONS
AN ADVISER GUIDE

An important resource for any adviser active in this market or wishing to develop their business in this area.

Access guide →

Guide author
Lisa Best

Lisa Best is a financial journalist with a focus on tax-efficient investments. She won the EISA's award for Best EIS Journalist or Advocate in 2022, was a finalist in 2024 and has edited and written multiple guides and insights on Business Relief, SEIS, EIS and VCT.

Adviser Home
DEVELOPMENT PLATFORM
Adviser Home Ltd registered number 07565978

March 2025