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Inheritance Tax Planning for Businesses in 2025/26

Navigating the changes.

Key reforms to Inheritance Tax were announced in the Autumn Budget 2024:

1. Changes to Agricultural Property Relief (APR) and Business Property Relief (BPR).
2. Inclusion of unused pensions within the scope of Inheritance Tax (IHT).

This document is designed to guide your tax planning in light of the changes and their potential impact on you and your business.

We will highlight the key dates these changes will come into effect, and the circumstances in which you may be affected.

We also offer guidance on key tax planning options available that will help you to mitigate the impact of these changes on their businesses.

IHT reforms may be subject to further change so we recommend reviewing your tax and wealth planning regularly, especially in light of changing rules and personal circumstances, to ensure your plans remain tax-efficient and aligned with your financial goals.

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What's changing and when?

April 2025

Capital Gains Tax

The rate of CGT that applies to Business Asset Disposal Relief has increased to 14% in April 2025 and will rise again to 18% in April 2026.

April 2026

Combined Assets

From April 2026, the first £1m of combined business and agricultural assets will continue to attract no inheritance tax at all, but for assets over £1m, inheritance tax may apply with 50% relief, at an effective rate of 20%.

April 2027

Pensions, APR & BPR

From 6 April 2027, unused pensions are expected to be subject to inheritance tax.

Inherited pensions will likely be brought into IHT from April 2027, along with reforms to Agricultural Property Relief and Business Property Relief.

Who will be affected?

- OMB and family-owned businesses.
- Individuals with trust arrangements in place.
- Individuals with significant dividend income.
- Individuals who are retired or close to retirement.

Key points to consider

- For all but the smallest businesses, doing nothing is likely to waste potential savings.
- Any transfer of shares will require robust valuation including consideration of minority interest discounts.
- Strong consideration should be given to insuring potential liabilities.
- Any planning needs to be cognisant of wider commercial and family factors and should involve a financial planner.

Frequently asked questions about the upcoming changes:

1 What happens if I choose to do nothing, and instead wait and see?

Doing nothing would have been the preferred option before the changes announced in the Budget, as 100% BPR would have been available. Now however, for businesses worth over £1m, IHT is likely to apply.

The majority of wills will be set up to leave everything to the surviving spouse at the first death. This potentially wastes £1m of BPR resulting in an increased IHT liability of £200k, because unused BPR is non-transferable between spouses under the new rules.

2 Can I gift my shares to my spouse?

The spousal exemption still applies, allowing transfer of assets to a spouse with no IHT. Transferring at least £1m worth of shares to a spouse will potentially save £200k in IHT by utilising both spouses BPR limits.

Consideration should be given to amending both wills to leave the first £1m of value in the business to children / trust, as this will preserve both spouses BPR limits regardless of order of death.

3 Can I gift my shares to my children?

Gifts to children will be potentially exempt transfers (PETs), falling out of the estate if the donor survives 7 years. CGT on gifts can potentially be held-over, meaning no immediate tax to pay for the donor but an increased gain should the recipient sell the shares in the future. This is, amongst other things, subject to the nature of the business and assets held in the company.

Transferring shares to a spouse (as suggested above) should also be considered alongside the gift.

4 Can I give my shares into a trust?

Transfer to trust will be a chargeable lifetime transfer (CLT) at a lifetime rate of 20%. However, BPR may be available to reduce the charges. Transfers made pre-April 2026 may benefit from unlimited BPR at 100%, thereafter the first £1m at 100% limit may apply.

While gifts made before April 2026 may qualify for full relief if the 7-year rule is met, a death after April 2026 and within the 7-year period could mean the gift falls under revised IHT rules. Given this uncertainty, a reducing life insurance policy written in trust may be appropriate to help cover any potential IHT liability.

Trusts are subject to a ten-year charge on the value of the trust property at a maximum of 6% (reduced to 3% by BPR at 50%).

5 Can I sell the business to my children?

There are several tax efficient ways to have children succeed into the business, including family buyouts. These options offer flexibility for current owners to realise some cash, whilst also gifting a percentage of the business.

6 Are pensions still efficient for IHT purposes?

From April 2027, pensions are expected to fall within the scope of Inheritance Tax (IHT), which may reduce their effectiveness for estate planning. This is particularly relevant for estates where the pension holder is over 75, as the pension fund could be subject to both IHT and income tax. Given the complexity of this area, it is important to seek professional advice tailored to your circumstances.

For further assistance

Please contact your usual MHA adviser for more guidance on these changes and help in reviewing your tax plan. Alternatively, please contact your local office and we will be happy to assist you.

This communication is for general information only, not intended to be individual investment advice, a recommendation, tax, or legal advice.

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