

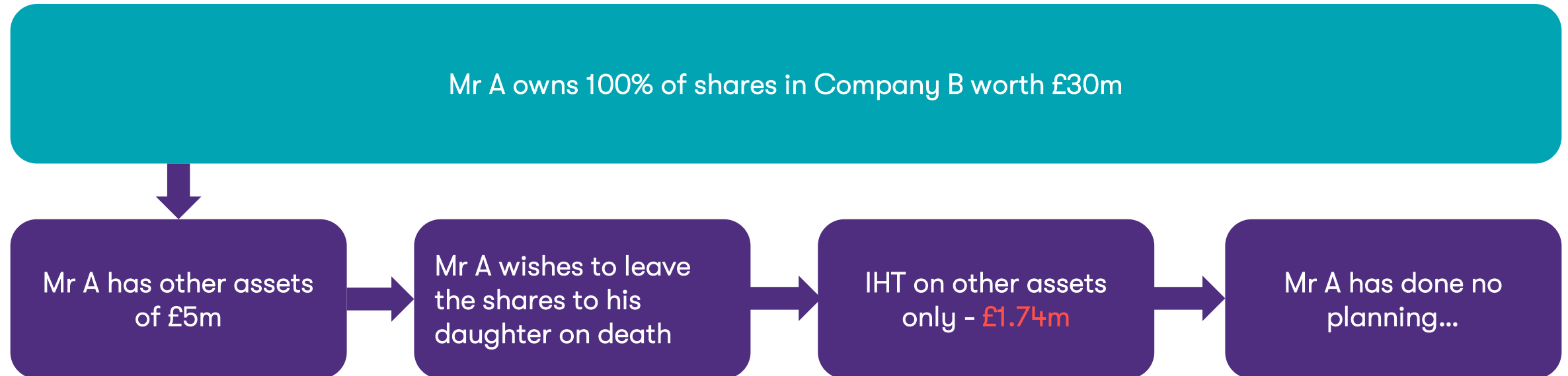
Impact of Business Property Relief reform – what is the risk and the opportunity?

3 July 2025

Overview of the law and proposed changes

Inheritance tax – BPR/APR current rules

What is BPR and why is it important?



What were the changes?

Business Property Relief ("BPR") and Agricultural Property Relief ("APR"), will be capped from 6 April 2026

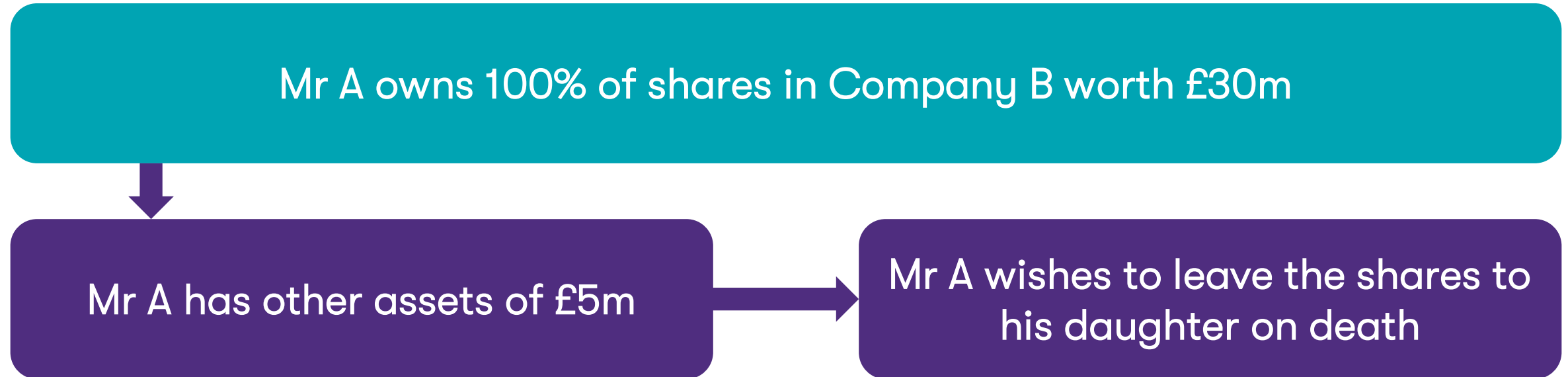
100% BPR and APR will be limited to the first £1m (combined limit), with 50% relief available thereafter

AIM shares will also be limited to 50% BPR relief and the £1m allowance will not apply

CGT rebasing on death still applies

Inheritance tax – BPR/APR

What does this mean?



Inheritance tax – BPR/APR

What does this mean?

Asset	Value (£)	IHT (£)
Personal Estate	5,000,000	1,740,000
Company shares	30,000,000	5,800,000
Total		7,540,000
10 annual instalments		580,000
Gross up (dividend rate)		956,307
Pre-tax profit required (gross up Corporation Tax)		1,275,076

Approach to developing a succession strategy

Inheritance tax – BPR/APR

What can you do?

Step 1: Understand and quantify the risk. Minority discounts can be important. Valuations can go up!

Step 2: Get the housekeeping right. Wills, letters of wishes, life insurance

Step 3: What is the plan? Family, sale, management, employees, a combination, don't know.

Step 4: What can you do now to accelerate or plan for step 3?

Then what?

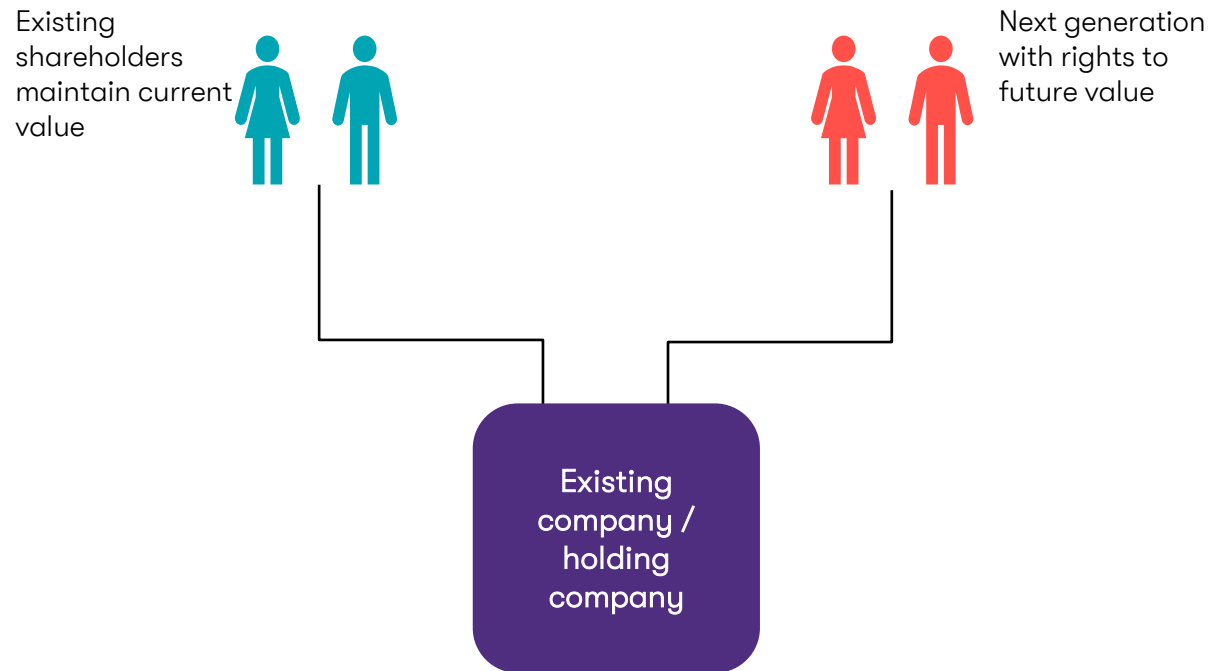
- For younger shareholders – a good Will and life insurance may be the answer. If on road to exit this is a temporary risk which lends itself to insurance.
- Minority shareholdings – Think about funding exit if unexpected death (eg insurance, external funding)
- For concentrated shareholdings:
 - Important to engage with a succession plan at an early stage.
 - Window of opportunity to gift into family trust pre-6 April 2026 with 100% BPR.



Giving shares away – direct gift vs transfer to trust

	Direct gift to an individual	Gift to trust
Control/protection	Directly held by recipient who can deal with the shares freely. Certain protections can be secured in Articles.	Typically, wide discretion in hands of trustees (usually including the person who settled the shares). Some legal protection from divorce/bankruptcy, legal advice required.
Voting rights	In hands of recipient unless carve out voting rights into a different share class	With trustees, often the settlor, so they can retain influence and sometimes, control
Tax outcomes	No immediate IHT liability. Seven-year survival period to be free of IHT, taper relief applies after three years. CGT may arise and conditions need to be met to holdover. Shares form part of recipient's estate for IHT purposes – moves the problem down a generation.	Immediate IHT liability will arise in absence of a BPR claim, so the opportunity to set up a trust without immediate tax will be lost for many post 5 April 2026. Seven-year survival period to be free of IHT, taper relief applies after three years. CGT may arise but less conditions need to be met to holdover. Shares in no one individual's estate but trust IHT rules apply including 10-year charges.
Relative complexity	Relatively simple implementation and reporting, but CGT reporting and holdover claim required. Tax return required by recipient if income paid on shares.	BPR review essential to avoid immediate IHT on setting up the trust. Legal drafting to set up the trust. Trust Registration obligations and trust tax return likely required. Annual trustee meeting recommended. Trust accounts optional. Trust IHT reporting every 10 years.

‘Capping the problem’ – can you give away future value?



- How can this be achieved?
- What about future income needs?

Other potential succession outcomes

Accepting the tax but accelerating a liquidity event to remove funding uncertainty

Do nothing as a conscious decision, but consider insurance

Do nothing now, but have a proposed future strategy for future diversification of shareholdings

Note of caution – do your shares qualify for BPR?

Stage One – Threshold Test

Two year holding period (note of caution regarding spousal transfers)

Unquoted trading company shares. Includes AIM but note different treatment of AIM shares under new BPR rules.

Company must “wholly or mainly” NOT deal in securities or stocks and shares, deal in land and buildings, or make or hold investments

Therefore, applies to most unquoted trading company shares.

Stage Two – Any excepted assets?

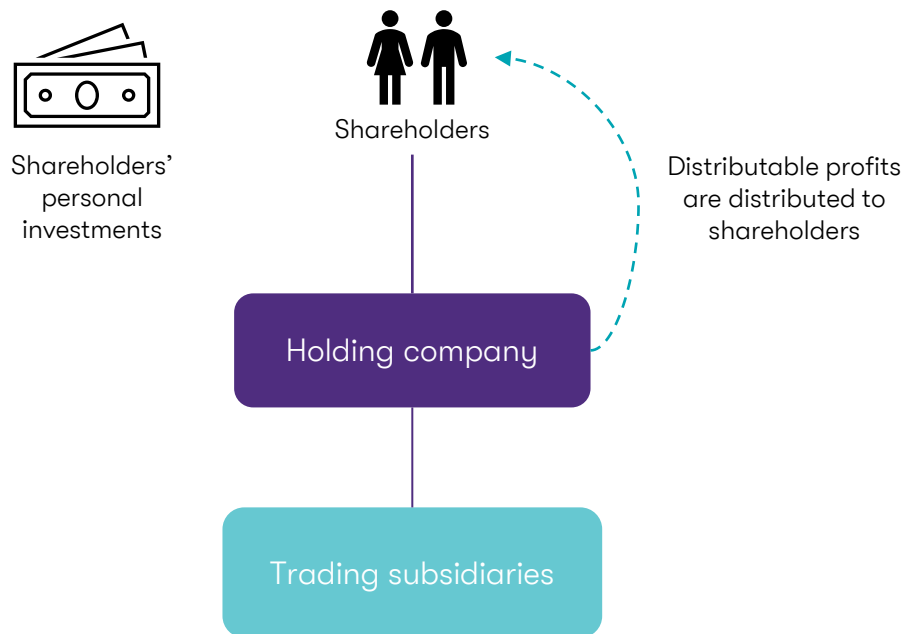
- 1) Establish the assets used in the business (easy for a company but more difficult for sole traders/partnerships)
- 2) Apply the excepted asset test i.e.

- were the assets used wholly or mainly for the purposes of the business throughout the whole or the last two years of the relevant period or
- are they required for future use for those purposes?

Keep your balance sheet ‘clean’ if this is a concern – typically aligns to commercial considerations which drive value at an exit.

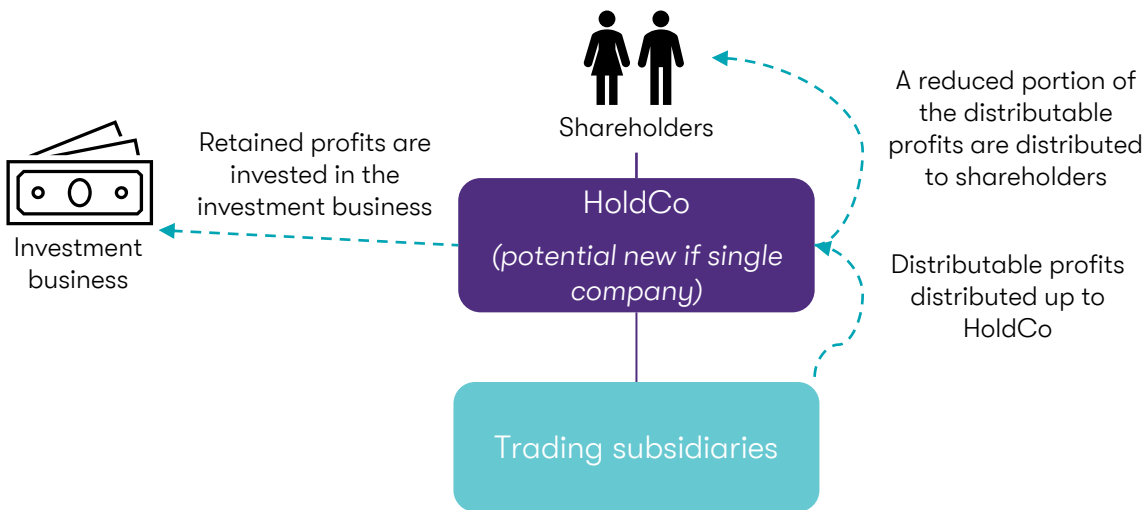
The hybrid business

Typical structure



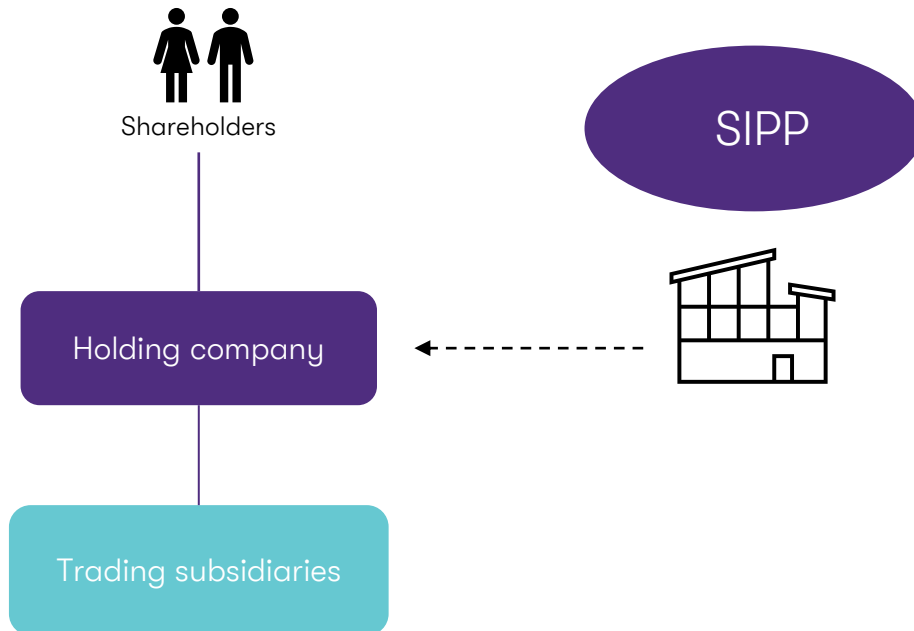
Hybrid structure

Potentially significant income tax and IHT savings but must take care to maintain 'wholly or mainly' trading status



Trading property and pensions

Is a SIPP the best place to hold a trading premises post BPR and pension IHT reform?



Opportunity

Property may immediately qualify for BPR, even at 50%

Increased liquidity in pension for diversified investment or withdrawal

Consideration can be left outstanding if insufficient day one cash

Risks

SDLT on transfer

Future commercial impact

Pension consultation still ongoing – uncertainty of law

How can Grant Thornton help?

We provide consultancy services to help entrepreneurs and their family think about what the right form of succession is for them, balancing:

- Ongoing success of the business
- Balancing the interests of the shareholder, the family, the business and management
- Managing conflict



Contacts

For further guidance, get in touch with us



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Dan Hartland heads up GT Private nationally, a multi-disciplinary team that supports the tax needs of entrepreneurial individuals and their families. He has advised extensively on tax structuring and supporting entrepreneurial families in achieving their succession objectives. Dan has been a partner for with Grant Thornton for 17 years.



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Rachel has over 15 years of experience supporting individual clients with bespoke planning solutions to efficiently manage their personal and business tax affairs. She is a member of the Chartered Institute of Tax along with the Society of Trust and Estate Practitioners and works with ultra-high net worth individuals and entrepreneurs, supporting them to grow and protect their wealth.



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