



## Inheritance Tax reliefs for business owners and farmers

**Inheritance Tax (IHT) can have a significant impact on estates that include farms or trading businesses. Many of these estates are asset-rich but generate limited cash, making it difficult to meet an IHT bill without selling land or business assets. For many years, this risk was reduced by two important reliefs, Agricultural Property Relief (APR) and Business Property Relief (BPR).**

Recent policy announcements initially proposed major restrictions to these reliefs. Following strong reaction from business groups and the farming sector, the government has now reversed part of that policy and increased the level of protection available. While this adjustment is welcome, it does not fully restore the previous position. Understanding what has changed is essential for business owners and farming families.

### How Inheritance Tax normally applies

IHT is generally charged at 40% on the value of an estate above the available allowances. Most individuals have a nil rate band of £325,000. An additional residence nil rate band may apply where a main home passes to direct descendants.

Without special reliefs, business and agricultural assets are treated in the same way as other property. This can lead to substantial tax liabilities, even where there is little spare cash available within the estate.



### Business Property Relief explained

Business Property Relief reduces the taxable value of qualifying business assets for IHT purposes. Traditionally, many business assets qualified for relief at 100%, meaning no IHT was payable on their value.

Assets that may qualify include:

- A sole trade or partnership interest
- Shares in an unlisted trading company
- Certain shares listed on alternative markets

To qualify, the business must be trading rather than mainly investment based. Activities such as property investment, asset holding, or excessive cash retention can restrict or deny relief.

### Agricultural Property Relief explained

Agricultural Property Relief applies to the agricultural value of qualifying farmland and buildings. In many cases, relief has been available at 100%.

APR can apply to:

- Agricultural land and pasture
- Farmhouses that meet occupation and character tests
- Farm buildings used for agricultural purposes

Relief applies only to agricultural value. Any development or non-agricultural value may still be exposed to IHT unless other reliefs apply.

### The original policy changes announced

Under the policy originally announced, both APR and BPR were to be significantly restricted from 6 April 2026.

The key proposals were:

- Full 100% relief would be capped at £1 million of qualifying assets
- Any value above that threshold would receive only 50% relief
- This would result in an effective IHT charge of up to 20% on excess value

For many family farms and owner-managed businesses, this would have introduced IHT liabilities for the first time.



## The recent reversal of policy

Following extensive consultation and lobbying, the government has revised its approach.

The most important changes are as follows:

The cap on assets qualifying for 100% relief has been increased from £1 million to £2.5 million per individual. This applies to the combined value of qualifying agricultural and business property.

Assets above this £2.5 million threshold will still qualify for relief, but only at 50%. This means that up to 20% IHT may be payable on the excess value.

Unused relief can be transferred between spouses or civil partners. In practical terms, this means a couple may be able to pass on up to £5 million of qualifying assets before any reduction in relief applies.

The reforms also extend the option of making annual interest-free instalments over 10 years for liabilities arising from APR or BPR.

Shares designated as “not listed”, such as those traded on AIM or EIS, will attract BPR at a flat rate of 50% (reduced from 100%) from April 2026. This measure was unaffected by the latest announcement even if they otherwise meet the qualifying criteria.

This represents a significant easing compared with the original proposals. However, it does not restore the previous unlimited relief position. Larger estates will still face increased IHT exposure.

## What this means for business owners

Business owners should be aware that:

- Trading status will continue to be closely reviewed
- Surplus cash and non-core assets within companies may not qualify for full relief
- Businesses with mixed trading and investment activities may see partial restriction of BPR
- Ownership periods and the timing of restructuring remain important

For some businesses, separating trading and investment activities or reviewing how assets are held may improve eligibility for relief.

## What this means for farming families

For farming families, the increased threshold provides reassurance, but risks remain.

Key considerations include:

- Whether farmhouses meet the required occupation and character tests
- How land is farmed, particularly where land is let or managed under contract farming arrangements
- The impact of diversified or non-agricultural activities on APR

High land values mean that some farms may still exceed the £2.5 million threshold, particularly where development value exists alongside agricultural use.

## Lifetime planning is increasingly important

One clear message from the revised policy is that relying on reliefs on death alone is becoming less certain.

Planning during lifetime may include:

- Gifting assets to the next generation
- Using partnership or shareholder agreements to support succession
- Reviewing business and land ownership structures
- Considering the careful use of trusts where appropriate

Many of these steps take time to implement and may require several years to be fully effective.

## The importance of records and evidence

Relief claims are increasingly evidence based. Executors may need to demonstrate that conditions for APR or BPR were met throughout the required period.

This may involve providing:

- Accounts showing active trading
- Partnership or company agreements
- Evidence of agricultural occupation and use
- Valuations separating agricultural and non-agricultural value

Good record keeping can significantly reduce the risk of challenge by HM Revenue and Customs and help avoid delays in settling estates.

## Impact on families and succession

For many families, farms and businesses represent more than financial value. They are often multi-generational assets with emotional and community significance.

The revised reliefs reduce the number of estates affected but do not remove uncertainty entirely. Early discussions within families about succession, ownership, and control are now more important than ever.

Tax planning should support long-term commercial and family objectives, rather than driving decisions in isolation.



## When to review your position

A review of your IHT position may be appropriate if:

- Your farm or business assets approach or exceed £2.5 million in value
- You have not reviewed succession plans in recent years
- Assets are diversified, let, or held in complex structures
- The next generation is already involved, or expected to be involved, in the future

We can help identify risks, explain options, and coordinate advice with legal or specialist tax advisers where needed.



## Final thoughts

The recent reversal of policy on Business Property Relief and Agricultural Property Relief offers welcome protection for many family farms and businesses. However, relief is no longer unlimited, and larger estates will face greater exposure to IHT than in the past.

Regular reviews, early planning, and clear documentation are now central to protecting business and agricultural assets for the next generation.

If you would like to understand how these changes affect your own circumstances, speak to your usual adviser for tailored guidance.

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