

Adviser Edge

Reforms to Business Relief and Agricultural Property Relief

CATEGORY: INVESTMENT AND TAX

Key Takeaways

- A new combined £2.5m allowance will apply across qualifying Business Relief (BR) and Agricultural Property Relief (APR) assets
- AIM shares and certain other market-traded holdings that previously benefited from full relief will be reduced to 50% relief
- Trust planning becomes more complex, with a separate trust allowance and greater relevance of periodic and exit charge

The reforms to Business Relief (BR) and Agricultural Property Relief (APR) mark a significant shift in the inheritance (IHT) tax planning for business and agricultural assets. For financial advisers, the changes mean greater focus on the level of relief available and the planning implications.

Why this matters for financial advisers

For many years, estate planning involving qualifying business and agricultural assets has often been built on the assumption that those assets could pass with little or no IHT exposure, provided the relevant relief conditions were met. That assumption is changing.

The reforms do not remove BR or APR, but they do reduce the extent to which large estates, private company interests, farming assets and BR focused portfolios can be passed free of IHT. For advisers, the practical effect is that planning conversations will need to shift from a simple question of “does it qualify?” to the more important question of “how much of it qualifies for full relief?”

The new combined £2.5m allowance

The headline change is the introduction of a single combined £2.5m allowance for qualifying BR and APR assets.

From 6 April 2026, the first £2.5m of combined qualifying BR/APR value can receive 100% relief. Any excess above that threshold will only receive 50% relief.

For larger estates, this introduces the possibility of a meaningful residual IHT charge where previously no charge may have been expected.

For advisers, that means clients with larger trading businesses, agricultural estates or mixed BR/APR holdings may now need earlier cashflow and succession planning.

Example:

If a qualifying business is worth £4m, the first £2.5m may be fully relieved, while the remaining £1.5m may receive only 50% relief.

In broad terms, that leaves £750,000 (50% of £1.5m) exposed to IHT. At 40% this would create a potential liability of £300,000, subject to the wider estate position and available nil rate bands.

It also increases the importance of valuation work, because the tax outcome will depend not just on whether relief applies, but on how much value sits within the fully relieved band and how much is above it.

It is, however, important to note that this allowance applies per person so a couple could pass up to £5m in BR/APR IHT free. In cases, where the allowance has not been used on first death – so where assets pass to a spouse/civil partner, any unused allowance will be transferable (including where first death is before 6 April 2026) - much like the transferable nil rate band and residence nil rate band.

Reduced relief for AIM holdings

The second major change is the reduction in relief for AIM listed shares and certain non-recognised exchange holdings. From 6 April 2026, these assets will attract 50% relief rather than 100%.

This is highly relevant for advisers using AIM portfolios as part of IHT planning.

The change does not make AIM inappropriate in every case. However, it does materially alter the planning proposition, due to the reduced tax relief, as the clients will still be exposed to:

- market risk
- liquidity risk
- concentration risk
- business qualification risk

As a result existing recommendations and client expectations may need to be revisited. Suitability reports, review documentation and client communications should reflect that BR based AIM solutions may still mitigate IHT, but to a lesser extent than under the previous regime.

It is also worth remembering that BR is not automatic. The underlying company still needs to satisfy the relevant trading and business activity tests, so advisers should avoid recommending AIM strategies as a guaranteed tax solution.

Trusts: greater need for review and modelling

Trust planning is another area where the reforms may have significant impact.

Trusts are expected to have their own £2.5m allowance, refreshed every ten years. That allowance applies to the combined value of BR and APR assets held in the trust, with any value above the threshold receiving only 50% relief.

For clients using trusts to hold business or agricultural assets, this creates several practical issues.

1. The trust structure may no longer deliver the level of shelter previously assumed, particularly where values have grown materially.
2. The 10-year periodic charges and exit charges may become more significant if they are calculated by reference to value that is no longer fully relieved.

This makes regular trust reviews more important. Advisers working alongside solicitors and tax specialists may need to revisit, whether;

- the trust structure remains appropriate
- projected asset growth could create future charge exposure
- upcoming ten-year anniversaries need particular attention
- distributions or restructuring should be considered

For families with multiple trusts, the reforms may have a direct bearing on succession planning and the continued use of trusts as BR/APR planning vehicles.

Interest-free instalment option

The reforms also extend the interest-free instalment option, allowing IHT on qualifying BR/APR assets to be paid over 10 equal annual instalments, without interest.

This is potentially helpful where the new regime creates an IHT liability on assets that remain illiquid, such as private company shares or agricultural land.

For advisers, this may ease liquidity concerns in some cases, but it should not be mistaken for measure that reduces tax. It helps with timing and affordability, not with reducing the underlying liability.

In practice, it may still be sensible to review how any future IHT bill could be funded and whether wider liquidity planning is needed.

Lifetime gifting considerations

The reforms also affect lifetime gifting.

Gifts of BR/APR assets made on or after 30 October 2024 may reduce the amount of relief available on death if the donor dies after 6 April 2026. In broad terms, transfers that may previously have been expected to sit outside the estate without affecting the fully relieved amount may now erode the available allowance.

For advisers, that means historic and planned gifting strategies should be reviewed carefully.

This is particularly important where gifting was intended to “bank” relief before the new regime takes full effect. In some cases, the outcome may be less favourable than clients expect, and poorly timed gifts could reduce rather than preserve relief.

Practical implications for financial advisers

For UK financial advisers, the reforms create a number of immediate planning considerations.

1. Review existing BR and APR cases

Clients should be identified and reviewed that hold:

- Private company shares
- Farming assets
- Landed estates
- AIM portfolios
- Trust structures involving BR/APR assets

2. Reassess suitability of AIM based BR portfolios

Where BR portfolios were recommended largely for IHT efficiency, the advice rationale may need to be revisited. Reduced relief changes the balance between tax benefit and investment risk.

3. Model what the new IHT liability might look like after April 2026

- Advisers should consider working with tax specialists to model likely IHT outcomes under the new rules, particularly for estates above the £2.5m threshold.

4. Revisit trust planning

Trusts holding material BR/APR value may need updated reviews, especially where there are future ten-year anniversaries, expected growth or contemplated appointments.

5. Recheck gifting strategies

Past recommendations involving lifetime gifts of BR/APR assets should be revisited to confirm they still achieve the intended outcome under the new rules.

Conclusion

These reforms do not remove Business Relief or Agricultural Property Relief, but they do make them less generous and more complex in practice.

For advisers, that means existing assumptions should be revisited. The key planning issue is no longer simply whether the asset qualifies for relief but how much value will qualify. In addition, where a tax exposure may arise and whether existing arrangements still meet the client’s original objectives.

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