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Discussing Changes to Business Relief and Agricultural Property Relief

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For business owners and farmers, inheritance tax planning can present a major concern. Often, businesses and farms will form a significant part of the value of an individual's estate, and one which they envisage passing on to their children or grandchildren.

If businesses or agricultural property were not subject to any IHT reliefs, assets exceeding the nil-rate band (NRB), currently £325,000 for the 2026/27 tax year, could give rise to substantial inheritance tax liabilities following the death of the business owner and pose a risk to the continuity of these businesses or farms when passed on to future generations.

Beneficiaries would then be required to sell land or other business assets to fund significant IHT liabilities, which may make it difficult or impossible to continue running the inherited business or farm.

Business Relief (BR) and Agricultural Property Relief (APR) help prevent detrimental scenarios like these by reducing the inheritance tax burden on certain qualifying business and agricultural assets.

This article outlines the key features of Business Relief and Agricultural Property Relief, as well as the recent changes in the April 2026 reforms – which may mean some estates now face an IHT liability that they did not previously expect.

What is Business Relief (BR)?

Business Relief (BR) reduces the amount of Inheritance Tax (IHT) payable on an individual's estate by reducing the value of qualifying business assets for IHT purposes.

The relief applies to qualifying assets transferred on death, as well as to certain lifetime transfers, provided that the donor has owned the assets for at least two years immediately before the transfer.

Assets qualifying for 100% IHT relief include trading businesses or an interest in a trading business (such as sole traders and partnerships) and unquoted shares of smaller, unlisted companies (excluding Alternative Investment Market (AIM) shares).

BR provides 50% IHT relief on assets such as shares traded on the Alternative Investment Market (AIM), listed company shares (if they hold over 50% of the voting rights), and land or machinery used in such businesses.

As BR applies to private investments in certain qualifying unlisted companies, it has been used as an estate planning tool to reduce an individual's IHT liability at death while retaining access to the investment capital and income.

However, qualifying private investments tend to be in unlisted, smaller, riskier companies, which must be held for at least two years to qualify, and there is always a risk that companies may no longer qualify for relief when IHT is payable.

Finally, BR does not extend to all business assets. Businesses that primarily deal in investments, land, or buildings, as well as businesses subject to a binding contract for sale, usually do not qualify for BR.

What is Agricultural Property Relief?

Agricultural Property Relief (APR), like Business Relief, reduces the value of qualifying agricultural property when calculating the Inheritance Tax liability due on lifetime transfers or after death.

APR relief is available at 50% or 100% on qualifying agricultural assets. The rate depends on the type of property, length of ownership, and whether it is vacant or owner- or tenant-occupied.

Again, only certain assets qualify for APR. Some examples of qualifying assets include agricultural land, growing crops, and stud farms for breeding horses and grazing.

It should not be assumed that every agricultural asset qualifies for APR. Common agricultural property such as farm equipment, machinery and harvested crops do not qualify for APR. Agricultural property subject to a binding contract for sale is also excluded. The position on whether a farmhouse qualifies is also not always obvious and is subject to much previous case law.

Qualifying property must have been owned and occupied for agricultural purposes for at least two years if the owner occupied it before the transfer, as for BR, but at least seven years before the transfer if it was tenant-occupied.

How are these reliefs applied?

Historically, all qualifying business and agricultural property in an individual's estate could receive 100% BR or APR. From 6th April 2026 however, 100% relief only applies to qualifying assets up to a £2.5 million limit per person – the new combined allowance for 100% BR or APR. Above this allowance, further assets can only receive up to 50% relief (an effective IHT charge of 20%).

Lifetime gifts of business or agricultural assets can benefit from relief, provided the donor owned them throughout the two years before the transfer (or potentially longer for agricultural assets).

During lifetime, the allowance can be applied when making a gift to an individual (a Potentially Exempt Transfer, or PET) or a trust (a Chargeable Lifetime Transfer, or CLT). The 100% relief allowance can even reduce the value of a Chargeable Lifetime Transfer value to nil, meaning gifts of more than the usual £325,000 can be given to a trust without any lifetime IHT applying. Any amount over the £2.5 million allowance receives 50% relief.

As with other IHT allowances and nil rate bands, this £2.5 million allowance is applied in strict chronological order. Firstly, it applies to lifetime transfers made in the seven years before death including failed PETs or CLTs. After considering lifetime transfers, the remaining allowance reduces the value of qualifying business or agricultural assets in the estate at death.

It is also important to note that BR and APR on lifetime transfers can be withdrawn and reliefs “clawed back”. This would occur if the transferor died within seven years of making the gift, if the beneficiary no longer owned the asset, or if it no longer qualified for relief.

<u>What changed in the 6th April 2026 BR and APR reforms?</u>

From 6th April 2026 the rules changed, such that individuals with larger estates or substantial business and agricultural assets could now have a more substantial IHT liability.

As mentioned, this reform introduced a limit of £2.5m to the combined APR and BR available to an individual’s estate, and this threshold is fixed until at least 5th April 2031. Additional qualifying assets receive 50% relief (an effective IHT charge of 20%).

This new £2.5m allowance is transferable to a surviving spouse or civil partner after an individual’s death. Their surviving spouse or civil partner can therefore use any remaining allowance. A married couple or civil partnership could therefore still pass on up to £5m of business or agricultural property assets between them free from IHT.

Another change is that individuals can now pay Inheritance Tax liabilities in up to 10 equal interest-free annual instalments for IHT payable on all assets qualifying for BR and APR, which aims to make new unexpected tax liabilities easier to pay. Previously, instalments were available only for specific assets (there being no need for the installment option on assets which were previously entirely free of IHT).

Another significant change, specifically for private investors, is that certain shares such as AIM shares, which used to qualify for 100% BR, will now only qualify for 50% BR. In the past AIM share portfolios have been used for IHT planning and investors may have expected to pass them on free of IHT, but this is no longer the case.

Finally, the new regime may affect gifts made on or after 30th October 2024 in some cases if death occurs on or after 6th April 2026. There are complex transitional rules and these situations should be considered on a case-by-case basis.

<u>How does this affect financial planning?</u>

These changes will have significant implications for business owners, farmers and private investors, particularly those with larger estates or substantial qualifying business and agricultural assets.

The introduction of the £2.5m allowance for 100% BR and APR means estates that previously expected to pass on business or agricultural assets free from IHT could now face a significant tax liability.

BR and APR will continue to play an important role in wider IHT and Estate Planning, which should consider the value and nature of assets held within an estate, the length of ownership, lifetime gifts already made, and whether relevant allowances are no longer available as a result.

With the rules now more restrictive, early planning may help business owners and farmers understand their potential IHT exposure and consider appropriate steps to protect the value of their estate and enable the future continuity of their business or farm.

As this is a complex and evolving area of legislation, professional financial, tax and legal advice is essential to understanding how the BR and APR rules apply to individual circumstances and how they interact with other available reliefs and allowances.

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This article is not a recommendation to take any particular course of action and should not be construed as advice.

This article is provided strictly for general consideration only and is based on our understanding of current law and HM Revenue & Customs practice as at 22nd September 2026 and the contents of the Autumn Budget 2025. No action must be taken or refrained from based on its contents alone.

Accordingly, no responsibility can be assumed for any loss occasioned in connection with the contents hereof or any such action or inaction. Professional advice is necessary for every case.

If further advice on this subject or any other aspect of your financial planning will be welcome, please do contact us and we will be delighted to help.