

IHT business and agricultural property relief - an overview of the Autumn Budget reforms

Synopsis: The reforms to agricultural property relief and business property relief announced in the Autumn Budget. Additional detail and some further thoughts.

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Under the current inheritance tax (IHT) regime, business and agricultural property relief provide 100% relief from IHT in respect of trading assets (including shares in unquoted trading companies) and agricultural property, provided the relevant ownership conditions are satisfied.

From April 2026, business property relief (BPR) and agricultural property relief (APR) will be restricted. A 100% rate of relief will continue to apply for the first £1 million of combined qualifying agricultural and business assets and, thereafter, relief will be at 50%.

The rate of BPR applying to shares designated as not listed on the markets of a recognised stock exchange, such as the AIM market, will also be reduced to 50% in all circumstances.

The £1m allowance

As mentioned above, from April 2026, the Government will [introduce](#) a new £1m allowance which will apply to the combined value of property in an estate qualifying for 100% BPR and 100% APR and replace the current regime under which relief is unlimited for both asset types. If the total value of the qualifying property to which 100% relief applies is more than £1 million, the allowance will be applied proportionately across the qualifying property, with any excess qualifying for relief at the lower rate of 50%.

For example, if there was agricultural property of £3 million and business property of £2 million, the 100% allowance for the agricultural property and the business property will be £600,000 and £400,000 respectively (and vice versa), with the remainder qualifying for relief at 50% only.

Assets automatically receiving 50% relief (such as assets owned personally and used in the business of a trading company) will not use up the allowance. The £1m 100% allowance would seem to apply to each individual transferor (so £2m between spouses/civil partners if they each own £1m of qualifying business and/or agricultural property) but unused allowance will not be transferable between them.

The policy paper published alongside the Autumn Budget states that the allowance will cover the following transfers...

- property in the estate at death;
- lifetime transfers made to individuals in the seven years before death (“failed potentially exempt transfers”);

- chargeable lifetime transfers where there is an immediate lifetime charge, so for example when property is transferred into trust.

No draft legislation or technical guidance is yet available, so detail is limited, but it sounds as though the allowance will be a lifetime allowance that will apply only to the first £1m of business and/or agricultural property transferred by the same transferor – whether during lifetime or on death.

The £1m allowance will take effect for deaths on or after 6 April 2026. However, anti-forestalling measures will provide that the new allowance will also apply to failed lifetime transfers of business or agricultural property made on or after 30 October 2024 if the donor dies on or after 6 April 2026 (although it would appear that business owners and farmers in a position to transfer business or agricultural property into trust prior to 6 April 2026, would be able to do so without any immediate IHT charge regardless of the value transferred).

Trusts

The trustees of certain trusts are liable to an IHT charge of up to 6% of the value of property held in a trust every ten years. There is also an exit charge when property leaves the trust. APR and BPR can apply to property in trust.

There will be a combined £1 million allowance for trustees on the value of qualifying property to which 100% relief applies, on each ten-year anniversary charge and exit charge, consistent with the treatment of qualifying property chargeable to IHT on death. The Government will publish a technical consultation in early 2025 on the detailed application of the policy to charges on property within trust.

Settlers may have set up more than one trust comprising qualifying business property and/or agricultural property before 30 October 2024, in which case, from 6 April 2026, each trust would have a £1 million allowance for 100% relief. However, the Government intends to introduce rules to ensure that the allowance is divided between these trusts where a settlor sets up multiple trusts on or after 30 October 2024.

Restriction of relief for AIM shares

The Government will also reduce the rate of BPR to 50% for shares that trade on a market which is not designated as a “recognised” stock exchange. A full list of recognised stock exchanges can be found at www.gov.uk/government/publications/designated-recognised-stock-exchanges-section-1005-income-tax-act-2007.

As discussed above, business relief at 100% currently applies to shares in unquoted trading companies. For these purposes, shares may still be “unquoted” if they trade on a market which is not designated as a “recognised” stock exchange. The Alternative Investment Market (or AIM) is not a “recognised” stock exchange. So, holding a portfolio of unquoted shares listed on AIM has been a long standing estate planning technique, particularly for older clients who are unable or unwilling

to make gifts (perhaps due to access requirements) or who are concerned that they may not live the seven years required to make an IHT saving.

The rate reduction seems intended only to catch shares which are listed otherwise than on a “recognised stock exchange” – so the 100% rate of relief should still be available for unquoted/unlisted shares in privately held trading companies as well as for investments in unlisted IHT portfolios marketed by the likes of Octopus, Time, Close Brothers and Intelligent Partnership, and [EIS shares](#) not listed on AIM or on the Aquis Stock Exchange.

However, these investments will be subject to the £1m cap on 100% relief, meaning that the value of such investments in excess of the cap will be subject to an effective IHT rate of 20% on death of the investor.

Comment

While the reduction in the rate of business relief applicable to transfers of AIM shares introduces an effective IHT rate of 20% on the death of the investor (compared with the investment being fully mitigated for IHT purposes), the Budget announcement has been largely welcomed by investors and providers, many of whom feared that IHT relief would be eradicated for both AIM shares and unlisted portfolios, which would have likely caused an influx of forced sellers.

However, the wider restriction to APR and BPR will be a concern for many business owners and their families who may now need to consider how to fund an IHT bill without breaking up or selling the family business. The potential adverse implications of denying or reducing the availability of APR to working farmers are also obvious. There is an option to pay IHT in ten annual instalments on such assets until they are sold. However, late payment interest at the new higher rate, currently 9%, would be due on these instalment payments.

Although it would appear that business owners and farmers in a position to transfer business or agricultural property into trust prior to 6 April 2026, would be able to do so without any immediate IHT charge, regardless of the value transferred, careful consideration of the long-term ramifications of this will be essential. While a tax rate of 3% every ten years on value in excess of £1m may sound more appealing than the 20% rate which would otherwise apply on a death, the implications for trustees holding business or agricultural assets are significant.

Where (for example) trustees hold shares in a trading company as their sole asset, there may be no options for funding the charge other than taking a dividend from the company – which will be taxable in their hands at 39.35%. This increases the overall tax payable to around 5%; not far off the 6% rate which would apply if no relief were available at all.

In many cases, life insurance in trust may be the best option for clients facing new liabilities as a result of the changes. This will be especially so for farmers who may find it more difficult than business owners to make lifetime transfers of qualifying property without relinquishing control and IHT efficient access.

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