ICAEW
REPRESENTATION 30/25

REFORMS TO INHERITANCE TAX RELIEFS: CONSULTATION ON PROPERTY SETTLED INTO TRUST

Issued 23 April 2025

ICAEW welcomes the opportunity to comment on the Reforms to inheritance tax reliefs: consultation on property settled into trust published by HMRC on 27 February 2025, a copy of which is available from this link.

ICAEW fully supports the Government in helping to achieve its ambitions of securing economic growth based upon long-term policy certainty and an environment conducive to investment. We also support the Chancellor in her determination to put the public finances on a firm and sustainable footing. However, the proposals contained in this consultation do not meet this ambition, and their implementation will result in greater hardship on business owners who are elderly and in poor health, the demise of previously viable multi-generational businesses and an adverse impact on economic growth in many communities.

The effect of the proposed changes to business property relief (BPR) and agricultural property relief (APR) have tended to focus on the impact on those claiming APR as there is a wealth of data available related to that sector (and that it also reflected in ICAEW's response). However, the figures show that in overall terms the potential impact on those claiming BPR is even greater. Given that the BPR and APR rates were increased from 50% to 100% in March 1992, this certainty of tax treatment that has existed for a generation will now be undermined, with potentially severe consequences for the whole of the UK business and agricultural sectors.

To be consistent with the wider inheritance tax (IHT) regime, the allowance should be transferable between spouses.

If the policy intention is that 75% of estates will be exempt, then ICAEW questions whether the proposed £1m allowance is sufficient.

The measure is also disproportionate for the owners of smaller businesses that exceed the valuation threshold but who cannot afford expensive tax planning advice and trusts.

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ICAEW notes that the consultation period is less than eight weeks and it straddles the Easter bank holidays. When a consultation period is less than 12 weeks, it can affect the detail of our responses. It would be useful if consultations were clear on when draft legislation is expected to be published.

This response of 23 April 2025 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 170,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

ANSWERS TO SPECIFIC QUESTIONS

£1M ALLOWANCE FOR INDIVIDUALS

Question 1: Are the rules on the application of £1 million allowance for individuals sufficiently clear for transfers made on or after 6 April 2026? What are your views on this?

1. ICAEW fully supports the Government in helping to achieve its ambitions of securing economic growth based upon long-term policy certainty and an environment conducive to investment. We also support the Chancellor in her determination to put the public finances on a firm and sustainable footing. However, the proposals contained in this consultation do not meet this ambition, and their implementation will result in greater hardship on business owners who are elderly and in poor health, the demise of previously viable multi-generational businesses and an adverse impact on economic growth in many communities.

THE TARGET OF THE RULES

2. Our first concern is that the policy is not targeted specifically at any category of owner, such as larger landowners who buy land to rent it out and claim APR. Rather, it appears that all business owners and active farmers will be affected.

3. ICAEW's Autumn Budget submission (ICAEW REP 65/24) highlighted at paragraph 19.c. that while any alteration of the IHT regime is a political decision for the government, it should be mindful to ensure that changes do not adversely impact investment in, or the development of, SMEs. IHT also affects succession of family businesses, who are an important segment of the UK economy and of communities across the country. Multi-generational succession strategies for these businesses will have been based on a stable system of reliefs.

4. Some family business organisations have undertaken research to examine how family business are responding to the proposals. Family Business UK researched over 4,000 business and farms across the UK and found that the proposed changes to IHT reliefs is having an impact on investment decisions and could reduce business turnover and headcount. This survey predicts a net fiscal loss to the government from the changes. Family Business United also surveyed business in January and reported that the changes had lowered business confidence, reduced growth plans and that businesses expect to need to sell all or part of their assets to meet an IHT liability.

5. ICAEW notes that other countries impose conditions on their reliefs that the UK could look to replicate. For example, in order to qualify for agricultural relief in the Republic of Ireland, either the recipient of a gift or inheritance, or the tenant if the land is let out, must either hold an agricultural qualification or they must farm the land for at least 50% of their normal working hours.

6. Ireland also has conditions for business relief where the recipient of unquoted shares must either

    a. own 25% of the voting rights;

    b. control the company; or

    c. if they have worked full time for the company throughout the five years ending with the deceased's date of death, they must own at least 10% of the value of shares and securities after they inherited the shares.

    Business relief in Ireland can also be withdrawn if there is a cessation of trade, or a part or full disposal, within six years of the valuation date, or if there is a disposal of development land within 10 years.

7. The consultation considers the position for individuals, executors and trustees. In some cases, business or agricultural property may be held in private pension funds, which will

become taxable from 6 April 2027. Could the government confirm whether property in pension funds will qualify for the £1m allowance?

8. ICAEW considers that the rules unfairly target the elderly, those in poor health, including those with a terminal diagnosis. There is a risk that these groups may lack the testamentary capacity to take action. In terms of the agricultural sector, DEFRA's 2024 agricultural workforce survey estimated that 38% of farmers were aged 65 or over (Figure 5). They may have farmed for the last 30 years and intend to hold the property until death with the expectation that they would get 100% IHT relief and a CGT step up in value of death. They are now faced with an IHT charge or making lifetime gifts, parts of which may not qualify for CGT gift relief (eg, furnished holiday lets, as these are no longer treated as a trade) and hope they survive another seven years for the lifetime gift to be exempt from IHT. To address this issue, ICAEW recommends that enhanced taper should apply to lifetime gifts where the gift is made during the transitional period (from 30 October 2024 and 5 April 2026), and death occurs within seven years of the gift.

9. Alternatively, a transitional relief for active farmers and active business owners, over the age of say 65, could be introduced to allow them to make gifts without the need to survive seven years. These could be based on the existing rules for sideways loss relief for income tax, including the rules for active partners.

THE ALLOWANCE

10. Our concern with the proposed £1m allowance is that it is too low and will affect many more businesses and farms than anticipated. We note HMRC's IHT statistics of 31 July 2024, which indicate at paragraph 5.2 that for 2021/22:

    a. BPR claims of £2.9bn were made by 4,170 estates; and

    b. APR claims of £1.6bn were made by 1,730 estates.

11. However, these figures appear to exclude BPR or APR claims made by trustees in relation to ten-year charges or proportionate charges.

12. In addition, many IHT forms containing BPR or APR claims for the 100% rates of relief will be based only on an estimate and no professional valuation will have been obtained. Relief at 100% has been available on most BPR-qualifying assets and for APR-qualifying land with vacant possession since 10 March 1992. Prior to that, the rates were generally 50% for both BPR and APR. Since September 1995, APR at 100% has also been given on land let out under the Agricultural Holdings Act. As there has been no cap on the amount of relief at 100% for over 30 years, it didn't matter whether values were agreed by HMRC. While values at the date of death become the capital gains tax (CGT) base cost for those who inherit, valuations are usually deferred anyway when CGT holdover relief is claimed on any subsequent lifetime gifts by heirs.

13. For these reasons alone, aside from the variances between HMRC's data and figures published by DEFRA and the Country Landowners Association, ICAEW is concerned that the government's estimates of the number of affected businesses and farms is far too low.

14. Table 1.1 of DEFRA's figures show that the average farm in England is 88 hectares, which is around 217 acres. Table 6.2 of DEFRA's data also indicate that for English farms, their return on capital employed (ROCE) is under 2%.

15. In the second quarter of 2024, Knight Frank put the average agricultural value of UK farmland at over £9,300 per acre. This means that any farm over 100 acres should expect to have an IHT liability, including those that may not be considered as viable. Under capital transfer tax (para 5, Sch 8, FA 1975), which preceded IHT, agricultural relief was given on up to 1,000 acres. In 1981, the exemption was amended to a 50% rate of relief on all agricultural property. The exemption for 1,000 acres remains a feature of the current 100% APR that is available under s116(2)(b), IHTA 1984 where the transferor was beneficially entitled to the

land prior to 1981. ICAEW is concerned that the government is in essence now only offering APR on one one-tenth of the acreage that was offered previously, based on current agricultural values.

16. As APR is only available for the agricultural value of land and buildings, most farms also need to claim BPR for the value of their working capital (cash), harvested crops, livestock, farming equipment and supplies. Modern farming equipment, such as combine harvesters, are expensive and such items of machinery could potentially use up the £1m allowance on their own.

17. Once the value of an estate exceeds £2m, the £175,000 residence nil rate band (RNRB) starts to be tapered and is lost completely once the estate's value exceeds £2,350,000. It is therefore misleading to claim that the total allowances that are available to a married couple are £3m.

18. The Autumn 2024 policy document stated that: "Almost three-quarters of estates claiming agricultural property relief and the majority of estates claiming business property relief in 2026 to 2027 are expected to be unaffected by these reforms". If the policy is that 75% of estates should be exempt, ICAEW questions whether a £1m threshold is sufficient based on the external data noted above.

19. ICAEW also recommends that in the interests of fairness the allowance should be increased annually in line with CPI. £1m is an insufficient amount now and it will be further eroded by inflation if it is not up-rated. The £325,000 nil rate band (NRB) has been frozen since 2009 and will continue to be frozen, along with the £175,000 RNRB, until at least 5 April 2030.

LACK OF TRANSFERABILITY OF THE £1M ALLOWANCE

20. ICAEW is also concerned about the lack of transferability of the £1m allowance between spouses. When the ability to transfer the NRB was announced at the Pre-Budget report of 9 October 2007, which was a welcome measure, para 5.76 of the report stated that:

    "The Government will therefore make the IHT system fairer by ensuring that if a person's tax-free allowance is not used on their death, it can be transferred to their surviving spouse or civil partner."

    This measure reduced the need for discretionary will trusts and post-death deeds of variation, that many taxpayers simply cannot afford, that ensured that the NRB was fully utilised on the death of the first spouse.

21. Similarly, when the RNRB was introduced from 6 April 2017, that allowed for the transfer of unused allowances between spouses.

22. The inability to transfer the £1m allowance will mean that Wills will need to be redrafted to ensure the allowance is used on first death. This will lead to greater complexity in ownership structures, including the use of trusts, which are costly to set up and run. ICAEW expects that the discretionary will trust industry will be resurrected, which will only increase costs and complexity for taxpayers.

23. ICAEW asks that the government considers making the £1m allowance transferable between spouses.

    ICAEW is concerned that the chronological application of the £1m allowance could produce disadvantageous results if it is applied to potentially exempt transfers (PETs) or chargeable lifetime transfers (CLTs) that took place between three and seven years before death, as this is the point when the rate of IHT starts to be tapered. If the £1m of 100% relief will reduce the value of property which is subject to IHT at a rate of less than 40%, it will effectively reduce the 'value' of the £1m. Is it the intention that the £1m allowance is effectively devalued if the taxpayer survives their gifts by long enough for their lifetime gifts to be tapered?

THE NEED FOR VALUATIONS

24. Our next concern is that the rule will require more professional valuations to be obtained, the costs of which will be an additional financial burden. We refer you to our earlier comments at paragraphs 12 to 16.

25. Valuations do fluctuate, particularly for shares in unquoted trading businesses. Smaller businesses and/or farms whose valuation is close to the £1m allowance, (eg, in the £800,000 to £2m range), are likely to be disproportionately affected by HMRC valuation enquiries, compared to higher value businesses and farms.

26. ICAEW asks the government to make it clear for how long a valuation will be considered valid.

27. The IHT valuation team within HMRC will need to be properly resourced, so that estate administration and the grant of probate are not delayed by challenges to valuations. Beneficiaries may already be facing delays to distributions from deceased estates when pensions become liable to IHT from April 2027, because of the proposed process where pension scheme administrators will need to liaise with executors concerning the NRB.

PAYING THE INHERITANCE TAX

Farms

28. Our members have asked ICAEW to highlight that farms are already struggling financially due to various factors, including:

    a. The weather/climate change

    b. Crop prices

    c. The abolition of subsidies. We have been told that their replacement, the Sustainable Farming Incentive (SFI), only pays farms about 50-60% of the amounts they previously received as subsidies.

    d. The abolition of furnished holiday letting (FHL) regime for income tax and capital gains tax purposes (eg, gift holdover relief), when diversification has been encouraged.

29. Farming income in England for 2023 decreased by an average of 21% on the 2022 figures, according to section 1 of DEFRA's Total Income From Farming (TIFF).

30. Funding the payment of IHT will be a practical problem for both businesses and farms. DEFRA's figures (Table 6.2) indicate that many farms only make a return on capital employed of around 1-2%. Estates will be able to pay IHT over 10 years interest free, but in many cases, one-tenth of the IHT will exceed the annual profits that the farm generates. See Case Studies 2, 3 and 4 in Appendix 2.

Funding IHT due on company shares

31. ICAEW considers that the £1m allowance is actually a bigger problem for those family businesses relying on BPR because of the potential double tax charge if the personal representatives need to extract funds from a company to fund the IHT due on the company's shares. If the company doesn't have sufficient distributable reserves, it may need to sell trading assets to generate funds and it will pay corporation tax at up to 25% on the resulting gains. The company then pays a dividend from its after-tax profits, which the estate will suffer income tax on at 39.35%. The estate needs to be left with enough cash, after the income tax, to pay the IHT. If key business assets need to be sold, then ICAEW is concerned that this could harm the viability of a business. This is set out in further detail by Case Study 1 in Appendix 2.

32. If a company's directors ringfence funds in order to finance a future IHT liability of a shareholder, that pot could be seen as an excepted asset under s112, IHTA 1984, on which BPR would not be available.

33. Section 228(1)(c), IHTA 1984 currently provides that IHT on shares may be paid by instalments if it can be shown that a single payment would cause 'undue hardship'. We note the government's intention at section 7 of the consultation to make payment by 10 annual interest-free instalments available to all assets eligible for APR/BPR. However, as the draft legislation has not yet been issued, we are raising this issue in case this provision remains.

    Unquoted shares are qualifying property for the purpose of payment of IHT by instalments, if HMRC is satisfied that the IHT attributable to their value cannot be paid in one sum without 'undue hardship'. ICAEW requests that the lack of legislation or detailed guidance as to what constitutes 'undue hardship' is addressed.

    The example given in HMRC's manual, IHTM30218 described as a 'contrived situation', is of a gift only of unquoted shares to a trust and the trustees claim undue hardship on the grounds that they have no other resources to pay the IHT. HMRC's manual indicates such a claim should be referred to 'your manager'.

Issues for trusts

34. Trustees will also need to consider how they will pay IHT. The majority of a trust's assets may be illiquid if they consist mainly of assets that qualified for 100% BPR or APR up to 5 April 2026. See Case study 5 in Appendix 2. Trustees will need to consider the following:

    a. Whether they should borrow to pay the IHT (in line with their legal duty to preserve, rather than liquidate assets) or whether cash would need to be extracted in the form of a dividend to shareholders. A dividend would be subject to income tax at the rate applicable to trusts, significantly increasing the effective tax rate on the occasion of the relevant property charge.

    b. Where the trustees are not the sole shareholder, payment of a dividend to the trustees may also necessitate payment of a dividend to all other shareholders (unless different share classes exist that have different rights to dividends), who will each suffer their own income tax liability on the distribution. In practical terms, this common scenario would also mean more cash has to be extracted from the company than simply the amount required to meet the IHT due by the trustees, inhibiting and potentially adversely affecting the company's growth potential.

    c. Where the trust has a beneficiary who is entitled to the trust income and/or where the accumulation period of the trust has expired, the payment of a dividend will not result in the dividend becoming trust property which can be used to pay the IHT liability. Unless the trust has other assets it can sell, or can secure borrowing (which would come at a cost), how is it envisaged that the trustees would generate liquidity at trust level to pay the IHT?

35. One solution to the double tax charge at paragraph 31 above that the government may wish to consider is to extend the company purchase of own shares legislation. Currently, Condition B at s1033(3), Corporation Tax Act (CTA) 2010 exempts the payment to shareholders from being a distribution (ie, a dividend) where it is used within two years of death to pay IHT. The payment is instead treated as proceeds of a share disposal by the shareholders for CGT purposes. As this is only available following death, it is not available to trustees when they need to pay 10-year and exit charges. ICAEW suggests the following changes:

    a. An extension to cover payments of IHT by instalments on assets that are eligible for BPR and APR at 50%, (ie, once the £1m allowance has been exhausted).

    b. An extension to the rules to cover payments of 10-year and exit charges by trustees. Where the company has shareholders other than the trustees, the buyback would result in a change of ownership proportions, which may have other implications, commercial and otherwise, as other shareholders may cross critical valuation and control thresholds (eg, 25%, 50%, 75%).

c. Section 1033(4), CTA 2010 currently denies an exemption from Condition B if the IHT could be paid from other assets without 'causing undue hardship'. If the rules were extended to cover trustees and they have insufficient cash, would that be considered 'undue hardship'?

d. A one-time advance clearance procedure to avoid the need for annual clearances where IHT is being paid by instalments.

10-YEAR AND EXIT CHARGES

Question 2: Are the rules on the application of the £1 million allowance for 10-year anniversary charges and exit charges sufficiently clear for property settled on or after 6 April 2026? What are your views on this?

36. Further to our general comments on valuations at paragraphs 24-27 above, some trusts make distributions as often as every quarter. ICAEW is concerned as to whether valuations, which can be costly, will be needed every time that BPR/APR qualifying property leaves a trust and again on each 10-year anniversary. We therefore seek clarity on how long a valuation will be considered valid for where there are multiple occasions of charge within each 10-year period, particularly where the valuations fall within a close range of the £1m allowance.

37. The calculations are already complicated for trust charges and these new measures will only add to the complexity.

38. While we have not identified any specific concerns at this point, we would like some clarity on how the application of the £1m allowance for 10-year charges and exit charges will interact with the calculation of trust IHT charges that will be based on the long term UK resident status of the settlor (which has replaced the concept of domicile for IHT purposes).

39. As we have not seen any draft legislation, ICAEW is seeking clarity on how will the rules work for trusts that are caught under the proposed related property rules? Separate trusts are often set up for each child of a family to hold shares in a private trading company. That could mean – if there were three trusts – there could be three 10-year anniversary valuation dates. The valuation costs could be substantial. It will also be necessary to track appointments from such trusts so that the correct valuation thresholds are used.

40. As noted at paragraph 34.c above, pre-30 October 2024 trusts whose accumulation period has expired may not be able to pay their IHT charges, because the income has to be distributed. They may not be able to borrow commercially and selling the property may not be possible.

Question 3: What are your views on the proposal to standardise the calculation of Inheritance Tax exit charges, so that all exit charges are calculated based on unrelieved values regardless of whether the exit takes place before or after the first 10-year anniversary?

41. The intention may have been overall to ensure that very substantial relevant property trusts owning BPR/APR property should pay IHT. That is of course a policy decision for the government, but it should be undertaken in a way that causes minimal disruption and costs to trustees where the values held are lower. A more equitable approach might be to consider BPR/APR in calculating the amount of tax due using the existing framework. This should mean that trusts that are below the £1m threshold will continue as before, but that larger trusts will be caught.

TRANSITIONAL PROVISIONS

Question 4: What are your views on the proposed transitional provisions for qualifying agricultural and business property settled into a relevant property trust before 30 October 2024?

42. We have no comments on this question.

Question 5: What are your views on the proposed transitional provisions for qualifying agricultural and business property settled into a relevant property trust during the transitional period (30 October 2024 to 5 April 2026)?

43. ICAEW is unclear on what the distinction is between shares traded on, but not listed on markets of recognised stock exchanges and those listed on foreign exchanges. In part 2, under heading "Summary of Reforms" these are referred to as two different categories, and also look to be treated differently under transitional provisions (part 3, second para under heading "Transfers made on or after 30 October 2024 and before 6 April 2026: 'the transitional period'"), but they appear to be the same thing. We would welcome HMRC's clarification as to why the references in the transitional provisions are treating them differently.

MULTIPLE TRUSTS

Question 6: What are your views on introducing a single £1 million allowance for 10-year anniversary charges and exit charges where a settlor has transferred property into multiple trusts on or after 30 October 2024?

44. ICAEW believes that there is an argument that the £1m allowance should 'reset' every seven years (ie, if the settlor settles property qualifying for 100% BPR in year 1, that trust gets a £1m allowance but any new trust within the following seven years gets no allowance). But then a trust settled in year eight will get a £1m allowance, to reflect the 'reset' of the individual's allowance every seven years.

45. As proposed, the £1m allowance will be allocated to the first trust established after 30 October 2024. We are unclear on how the £1m allowance will be allocated in the future, if that trust has ceased to exist, or after it ceases to hold BPR/APR qualifying property. One solution could be for the settlor to elect how their £1m allowance should be allocated.

46. Practically, ICAEW is concerned that the government's proposal will require a lot of information sharing where multiple trusts are involved. The normal pattern is to have trusts for different branches of a family, rather than sub trusts.

47. There will need to be a duty imposed on trustees of separate trusts to share relevant information within a set timeframe.

48. ICAEW can see that there would need to be an anti-avoidance rule, but it does of course add to the complexity.

Question 7: What are your views on introducing rules similar to the existing 'related' property provisions for Inheritance Tax, so that multiple holdings by the same settlor across multiple trusts can be connected for valuation purposes?

49. There will be scenarios where the rules will not reflect the commercial reality.

    For example, consider a family business owned by a parent of three children who do not get on. For succession, the parent settles shares equally between three trusts, one for each child and their respective families.

    As proposed, the value placed on the shares under the related property rules would exceed the commercial reality of the situation.

    Had the parent gifted the shares outright to the children instead, the minority discount would apply, which would reflect the reality of the situation.

50. ICAEW seeks the government's confirmation that the proposed anti-fragmentation provisions will apply for property settled on/after 30 October 2024, as indicated in the consultation document.

TRUSTS OTHER THAN RELEVANT PROPERTY TRUSTS

Question 8: What are your views on the application of the £1 million allowance to special trusts, age 18 to 25 trusts and QIIP trusts?

51. ICAEW has no comments to make on the proposals.

OTHER POINTS

Question 9: Do you have any further views on the application of the £1 million allowance to property which has been settled into trust?

52. ICAEW has no further comments to make.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see https://goo.gl/x6UjJ5).

APPENDIX 2

CASE STUDIES – PROVIDED BY ICAEW MEMBERS UNLESS STATED OTHERWISE

CASE STUDY 1: EXTRACTION OF FUNDS FROM A FAMILY TRADING COMPANY (HYPOTHETICAL SITUATION)

Background to the business	Family-owned manufacturing company with a factory and warehouse, employing 20 people. The sole shareholder is a widower aged 70, who is in poor health, with two adult children who also work in the business.
UK region where it's based	England
Current value for APR	£nil
Current value for BPR	£10m (based on a multiple of future earnings)
Annual pre-tax profits	£1.5m
Expected IHT liability before these changes	£nil
Expected IHT liability after 6/4/2026	£2m (£10m x 50% BPR= £5m taxable @ 40%) NB this assumes the £1m allowance and NRB have been used elsewhere
How the IHT liability will be funded	Sale of company assets worth £4,396,812 Corporation tax on the gain at 25% (£1,099,203) Gross dividend to PRs £3,297,609 Income tax at 39.35% (£1,297,609) Net funds held by PRs £2,000,000
Any other comments	• IHT is 133% of the company's annual profits • Company needs to generate funds of almost 45% of its value, in order to pay a dividend to the PRs which leaves them with £2,000,000 of cash after tax. • The company must have enough distributable reserves to pay a dividend. • Realistically, the company will have to sell the factory and warehouse, which will mean the end of the business and the loss of 20 jobs. Alternatively, the whole business may have to be sold to a third party, but as this would be a 'fire sale', it would be for less than market value. There will be no business to pass on to his children.

CASE STUDY 2 – SOLE TRADER FARMER LEFT HIS ASSETS TO HIS SPOUSE (HYPOTHETICAL)

Background to the farm	Mr A farmed as a sole trader and passed away in September 2024. Under his Will, the farm and all his other assets passed to his wife Mrs A, which was exempt from IHT as a spouse transfer. Mr A had been diagnosed with dementia in January 2023 and lacked the legal capacity to change his Will. On Mrs A's subsequent death in June 2028, all her assets passed to their adult children.
UK region where it's based	England
Current value for APR for Mrs A	£3.8m. This includes a farmhouse valued at £600,000, of which two-thirds (£400,000) would qualify for APR.
Current value for BPR	£nil
Annual pre-tax profits	£72,000
Expected IHT liability before these changes	£nil on both deaths The chargeable value of the farmhouse would have been covered by Mrs A's NRB, including the transferable amount from Mr A's estate.
Expected IHT liability after 6/4/2026	Mr A's death: £nil (exempt as a spouse transfer) Mrs A's death: Total estate £3,800,000 Less 100% BPR on £1m (£1,000,000) Less 50% BPR on £2.6m (£1,300,000) (excl 1/3 of farmhouse) Chargeable estate £1,500,000 Less NRB (£325,000) Less transferable NRB from Mr A (£325,000) Taxable estate **£850,000** IHT at 40% **£340,000**
Comments	As Mrs A's estate is worth more than £2,350,000, the estate is not entitled to the RNRB. Mrs A's executors would need to fund the IHT. They could pay by 10 annual instalments, but as those would be around 50% of the farm's annual profits before the children have taken any drawings, farming assets may need to be sold.

CASE STUDY 3 – 1,000 ACRE FARMING PARTNERSHIP

Background to the farm	1,000 acre arable farming partnership which also does contract work on another 500 acres.
UK region where it's based	Southern England
Current value for APR	£12m
Current value for BPR	£3m
Annual pre-tax profits	£91,500
Expected IHT liability before these changes	£nil
Expected IHT liability after 6/4/2026	£2,800,000
How the IHT liability will be funded	The annual profits are insufficient to pay the IHT, even under the option to pay by 10 annual instalments of £280,000 each. Land will need to be sold which will affect the farm's viability.
Any other comments	Even though the farm is above average size, the IHT will be crippling.

CASE STUDY 4 – 70 ACRE FARM

Background to the farm/business (eg, type of activities, ownership structure, how long owned, number of employees, approximate age of owners)	70 acre arable farm. The famer has had to diversify so there are also 2 acres of land used for solar panels.
UK region where it's based	Southern England
Current value for APR	£666,000
Current value for BPR	£333,000
Annual pre-tax profits	£1,000
Expected IHT liability before these changes	£nil
Expected IHT liability after 6/4/2026	£nil (assuming the £1m valuation is accepted by HMRC)

CASE STUDY 5 – TRUST WITH A 10-YEAR CHARGE IN 2030 THAT PREVIOUSLY HAD FULL BPR

Background to the trust	Trust with £11m of shares that are eligible for BPR. The next 10-year charge is in 2030. There were no previous CLTs. There are other shareholders of the company.
Current value for BPR	£11m
Expected IHT liability on a 10-year charge before these changes	£nil
Expected IHT liability on first partial 10-year charge after 6/4/2026	a) First charge in 2030 (four years under the new rules) OMV after BPR £5,000,000 (£11m OMV - £1m allowance = £10m x 50% relief) NRB (£325,000) £4,675,000 Notional Tax at 20% £935,000 Effective rate (NT/OMV) 18.7% AR (ER x 30%) 5.610% Quarter reduction (40-24)/40 40% Transfer (after BPR) £5,000,000 Tax due (transfer x AR x 40%) £112,200
Expected IHT liability on each subsequent full 10-year charge after 6/4/2026	b) £280,500 Calculation is as above but without the reduction for quarters and assuming no change in OMV or the £1m allowance.
How the IHT liability will be funded	• Trustees would need dividends to be paid from the company, as trustees cannot benefit from purchase of own shares capital treatment. • Trustees would be liable to income tax on the dividend at 39.35% so would need a gross dividend of £462,490 to leave net funds to pay the IHT of £280,500. • If all shareholders hold the same class of shares, dividends will need to be paid to all shareholders, or obtain agreements for them to waive their dividends.