



# Business Property Relief Changes Explained

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# Your hosts

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# What we'll be covering today

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01 Current rules

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02 BPR / APR changes

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03 Current position and planning opportunities

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04 How trusts can help

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05 Other points

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06 Questions

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1.

Current rules



# Current rules: business property relief (BPR)

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## 100% relief from inheritance tax (IHT) for:

- A business or an interest in a business (e.g. sole traders or partnership)
- Shares in an unlisted company, including AIM shares
- Unquoted securities in a company that the individual controls

## 50% relief from IHT for:

- Shares in a quoted trading company (if the transferor had control)
- Land, buildings, or machinery owned personally but used in a qualifying business

## Key conditions:

- Must be an interest in a business which is wholly or mainly trading
- Asset owned for, and business meets the trading conditions for, at least two years
- Applies to UK and non-UK businesses
- Excepted assets / excluded subsidiaries



# Current rules: business property relief (BPR)

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- A business is wholly or mainly trading (50.1% trading is mainly trading)
- This includes shares in holding companies of trading groups
- No BPR can be claimed on value attributed to excepted assets. Common issues:
  - Cash
  - Property not used in business (property investment is not trading)
- Hybrid businesses?
- Consider restructuring/grouping where someone holds shares in trading companies and investment companies?
- Applying for clearance

# Current rules: agricultural property relief (APR)

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## 100% relief from IHT for:

- Land, buildings and assets personally farmed
- Land used by someone else on a short-term grazing licence
- Land or buildings let on a tenancy that began on or after 1 September 1995
- Separate conditions for property owned pre 10 March 1981

## 50% relief from IHT for:

- Land let on a tenancy that began before 1 September 1995

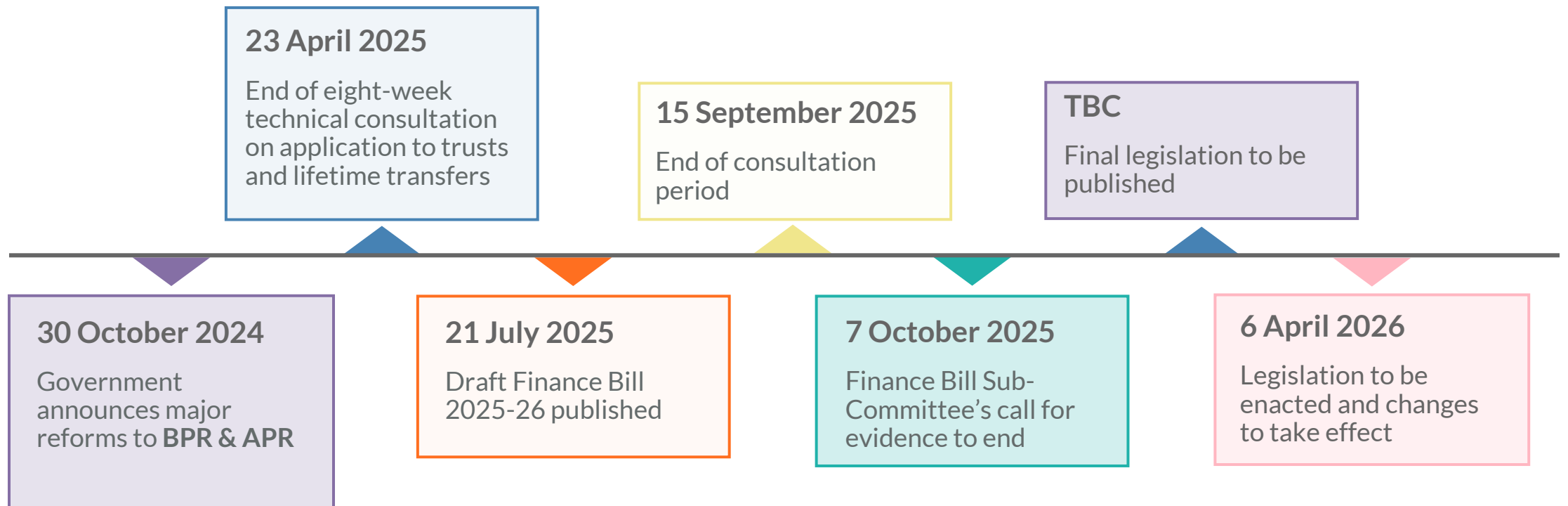
## Key conditions:

- Owned and occupied for agricultural purposes for two years if used personally
- Owned and occupied for agricultural purposes for seven years if used by someone else
- Only applies to agricultural value
- Must be part of a working farm in the UK

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BPR / APR changes

# BPR Changes: timeline



Other key changes in the draft legislation we are not covering on this webinar: IHT on pensions, PISCES, carried interest, employee car ownership schemes, umbrella companies

# BPR / APR: high level changes

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- No major changes to the core qualifying conditions
- £1 million cap on combined APR and BPR at 100% relief
- Unused allowance is not transferable to spouse or civil partner
- 50% relief applies above the £1 million cap – effective IHT rate of 20%
- Relief for AIM share restricted to 50% and not included at all in 100% relief
- IHT can be paid in 10 equal annual instalments, interest-free
- APR extended to land withdrawn from agricultural use under a qualifying environmental management agreement

# BPR / APR: recent example of IHT advice

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- Trading company worth £15m owned by single shareholder
- If they die before 6 April 2026, there will be no IHT due
- If they die on or after 6 April 2026, there will be £2.8m of IHT
- This can be deferred over and paid in equal instalments over ten years. Executors will still need to find £280k per year to pay the IHT
- Additional complication of there being over £1m of cash in the business for a “future project”. This could be an excepted asset
- It is too late to make a BPR qualifying potentially exempt transfer (PET) now

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## Current position and planning opportunities



# Current position

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- For death pre- 6 April 2026, the current rules will apply
- For death post- 6 April 2026, the new rules will apply
- Effect on PETs if donor dies post- 5 April 2026:
  - PET before 30 October 2024 – old rules apply
  - PET on or after 30 October 2024 – anti-forestalling measures included in legislation, so new rules will apply
  - No IHT implications if donor survives seven years
  - Taper relief if donor survives more than three years
  - £1m allowance refreshes after seven years
  - Donee is liable to pay the IHT – can pay in instalments provided they still own the asset

# New thinking around business assets

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- Changed mindset with assets that were previously exempt – lifetime planning is now critical and more in line with other assets.
- Structure of wills
- How assets are held with spouse
- Insurance – is current insurance sufficient?
- Gifting shares to family members during lifetime
  - Need to survive seven years
  - Need to consider capital gains tax (CGT) – rules are different
- Use of holding companies / family investment companies (FICs) to diversify holdings
- Consider the use of trusts

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How trusts can help

# How trusts can help: summary of rules

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- Pre-commencement trusts (settlements)
  - Commenced before 30 October 2024
  - Each settlement will get £1m allowance
  - Must have had “an amount” of qualifying assets on 29 October 2024
  - Nothing should be added which could affect future treatment
  - Qualifying assets can be purchased by the trust
- Post-commencement
  - Commenced on or after 30 October 2024
  - Maximum of £1m allowance is shared amongst all settlements created by same settlor based on qualifying value and order of settlement
  - Allowance is capped at value of qualifying assets settled
  - i.e. if £100 of shares which increases in value to £1m, only £100 of allowance can ever be claimed

# How trusts can help: other points

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- 3% IHT charge every 10 years. This can be paid over 10 years interest free. Effective charge of 0.3% every year – more manageable than the tax on death
- £1m allowance refreshes every seven years for transfers into trust
- £1m allowance is used up by capital distributions, but then refreshes at the 10-year anniversary
  - i.e. a capital distribution, qualifying for BPR, of £200k before the 10-year anniversary. Only £800k of BPR can be claimed at the 10-year anniversary
  - If there is a BPR capital distribution of £1m or more, there will be no allowance available for future capital distributions before the next 10-year anniversary
- Pre-commencement trust will be brought into the new regime on their next 10-year anniversary
  - The 10-year anniversary charge will be based on a combination of the old and new rules

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Other points

# Other points

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- Asset held personally and used for a business only qualifies for 50% BPR. Consider adding these to a company or group structure
- Valuation of business property is going to be more important and is likely to be scrutinised by HMRC. Especially minority discounts
- How are existing wills drafted? Do they specifically mention BPR qualifying assets going into trust or to the next generation?
- Don't leave planning and transferring into trust to the last minute
- This is only based on draft legislation and could be subject to further changes



# How we can help

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- Consider general estate planning
- Determine whether BPR is available (care re excepted assets)
- Lifetime planning:
  - Gifts
  - Spousal planning
  - Insurance
  - International aspects
  - Wills!
- Are trusts appropriate?

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Questions?

# Thank you

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