THE TAX SHOP GROUP — CLIENT GUIDE

What the April 2026 BPR Cap Means for Business Owners

How the new £2.5 million cap on Business Property Relief may create inheritance tax liabilities that did not previously exist, and the planning options now available. Updated for the 2026/27 tax year.

What changed on 6 April 2026

Business Property Relief (BPR) reduces the value of qualifying business assets for inheritance tax purposes. Until April 2026, BPR generally provided **100% relief with no upper limit**. A business worth £10 million could pass to the next generation entirely free of IHT.

From 6 April 2026, a cap applies:

- **100% relief** on the first £2.5 million of qualifying BPR and APR assets per person
- **50% relief** on qualifying assets above £2.5 million
- The cap is **shared** between BPR and Agricultural Property Relief (APR)
- Each person has their own £2.5 million allowance — married couples have £5 million combined

AIM-listed shares now receive 50% relief only, with no 100% tranche.

This change is currently intended to be permanent and is not time-limited under current legislation.

What this means in practice

The table below shows the new IHT exposure at different business valuations for a single business owner:

Business value	BPR relief	Amount exposed	New IHT liability
£2,000,000	£2,000,000 (100%)	£0	**£0**
£3,000,000	£2,500,000 + £250,000	£250,000	**£100,000**
£4,000,000	**£2,500,000 + £750,000**	**£750,000**	**£300,000**

£5,000,000	£2,500,000 + £1,250,000	£1,250,000	**£500,000**
£8,000,000	£2,500,000 + £2,750,000	£2,750,000	**£1,100,000**

The "amount exposed" is the value above £2.5 million after 50% relief. IHT is charged at 40% on this amount. In many cases, these liabilities **would not have arisen before 6 April 2026**.

> If you also hold qualifying agricultural land, it shares the same £2.5 million cap. A business owner with £2.2 million in trading shares and £800,000 in farmland has £3 million in qualifying assets but only £2.5 million eligible for full relief.

The shared cap between BPR and APR

The £2.5 million allowance covers BPR and APR combined. If you hold both qualifying business shares and qualifying agricultural land, the total relief at 100% is still capped at £2.5 million across both.

This means mixed estates — common among farming families who also run diversified businesses — may face larger exposures than expected.

Five planning options now available

Lifetime gifts — start the seven-year clock

Gift shares or other assets to the next generation. If you survive seven years, the assets leave your estate entirely. There are typically no ongoing tax charges, but the gift must be genuine with no retained benefit.

For business owners, structuring a gift of shares while remaining a director requires careful consideration. The distinction between retained involvement as a genuine employee — where salary reflects real services — and retained benefit as a de facto owner matters significantly. If HMRC characterises the arrangement as the latter, the gift with reservation of benefit rules may apply and the shares remain in the estate regardless of how much time has passed.

Discretionary trust — control without ownership

Settle assets into a discretionary trust for your family. You can remain a trustee and retain influence over distributions. The entry charge is 20% on amounts above the nil-rate band — half the 40% estate rate. Ten-year periodic charges apply (up to 6%), but the total effective tax cost over time can work out to be be lower than a 40% inheritance tax charge.

Family Investment Company — pass future growth, keep control

A Family Investment Company (FIC) is a private limited company that holds family wealth. You can retain full voting control through voting shares. Growth shares issued to the next generation at nominal value can allow future growth to accumulate outside your estate.

For business owners approaching a sale

Before a sale, trading shares may qualify for BPR. After a sale, the cash proceeds do not. The planning window is typically **before exchange of contracts**.

Post-sale options include funding a Family Investment Company with the proceeds, establishing a trust, making lifetime gifts, or a combination of these. The key point is that the structure should be in place before the cash arrives.

For couples

Each spouse has their own £2.5 million BPR allowance. If the business is owned entirely by one spouse, the other's allowance is unused. Restructuring shareholdings between spouses is a legitimate planning step — but must be genuine and properly documented.

Relying entirely on the spousal exemption (leaving everything to your spouse) defers the problem to the second death. It does not solve it.

What to do next

If your business is valued above £2.5 million, or if you expect it to reach that level, a review by ourselves of your IHT position may be worthwhile. The review will tell you:

- Your current IHT exposure under the new rules
- Which planning options are available to you specifically
- The projected reduction in liability for each option
- The timelines and costs involved

The review can be provided as a standalone written report that you can consider and act on in your own time.

The information in this guide is based on our understanding of current UK tax legislation as at April 2026. Tax legislation and HMRC practice may change, and the availability of reliefs depends on individual circumstances. This guide is not a substitute for personalised professional advice.

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