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Business Relief Guide

What is Business Relief?
Business Relief (BR) is an inheritance tax relief (IHT). It is designed to help business owners pass on their business or shares (during lifetime and on death) without needing to sell to pay IHT. It can also be beneficial to investors. This guide provides an overview of the relief based on the rules due to commence April 2026 and may be subject to future change. Understanding whether BR may be available in your situation is complex so getting professional advice in relation to your own situation and any changes is essential.

Why is BR important?

Inheritance tax saving – BR can significantly reduce your IHT liability.

Investment Opportunities - Investors can benefit from BR reducing their tax liability if the shares have been owned for two years at the time of death and qualifying criteria is met.

Trust Planning Options - Qualifying assets can be transferred into trusts without triggering an immediate charge to IHT. You can include a BR trust in your will to protect valuable assets and enable tax-efficient succession.

Eligibility for BR

From the 6th April 2026, the first **£2.5 million of qualifying assets will be effectively exempt from IHT (100% relief) and the excess will attract 50% relief**. The £2.5 million will be shared across assets qualifying for BR and Agricultural Relief on a pro-rata basis.

- Any unused allowance will be transferable between spouses or civil partners, even if the first death occurs before 6th April 2026.
- The £2.5 million relief allowance will refresh every seven years for lifetime gifts.

100% BR is available on business interests owned by sole traders, or partners and limited company shares owned by shareholders. There are also specific BR products that will qualify, however, shares traded on 'not listed' stock exchanges such as AIM will only qualify for 50% relief from 6 April 2026.

50% BR on assets used by a business that are personally owned by a business owner (or in a trust from which the business owner is entitled to income) and on controlling shares of a quoted company.

In all cases, to qualify for Business Relief, the business or assets must meet certain criteria *at the time of death or transfer into trust*.

- The business or assets must have been owned for two years before death or transfer (with exceptions where there have been replacements or transfers between spouses/civil partners).
- The business must be wholly or mainly (more than 50%) a trading business rather than an investment business. Assets owned by a business are excluded from relief if not for business use.
- The business must not be subject to a binding contract for sale.
- BR is reduced by the extent that a liability was incurred to acquire, maintain or enhance the asset.

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Example:
Mike is single and writes a will leaving his estate to his two adult sons. His personal estate is worth £500,000 and his twenty-year-old engineering business is valued at £3 million. This is a total estate of £3.5 million.

If Mike died on or after 6th April 2026, his executors could claim 100% BR on the first £2.5 million and 50% BR on the £500,000 excess. The IHT due in respect of the business assets would be £500,000 x 20% = £100,000. Mike's personal estate would be subject to £70,000 IHT (£500,000 -£325,000 nil-rate band = £175,000 x 40% = £70,000). This would take the total IHT bill to £170,000. Mike's estate cannot qualify for the Residence Nil-Rate Band allowance as his estate exceeds £2.35 million.

If Mike sells the business and holds the sale proceeds within his estate, i.e. within savings or general investments, he will have no qualifying assets upon death for BR to be claimed. His whole £3.5 million estate would be subject to IHT. £3,500,000- £325,000 (nil-rate band) = £3,175,000 x 40% = £1,270,000 IHT.

Mike could, however, purchase other 100% BR qualifying assets or products. Providing he does so within three years of selling his business it would immediately qualify for BR as replacement property.

If Mike gifts some of the shares of his business to his sons, then this uses part of the £2.5 million allowance if he dies within seven years.

If during Mike's lifetime he transfers less than £2.5 million worth of shares to a trust, it would not create an entry charge to IHT. If the shares increased in value to above £2.5 million or no longer qualified for BR (e.g. his business changed from a trading to investment business) there may be ten-year anniversary and exit charges when capital leaves the trust. The interaction of trust tax charges and the 100% relief allowance is complex and advice should be taken.

If Mike is concerned about his sons inheriting his business shares automatically because there is a risk that his sons may become bankrupt, divorced etc., Mike could leave his business shares to a BR trust in his will.

What is a Business Relief Trust?

A Business Relief Trust is a discretionary trust written into a will that receives qualifying business assets upon death.

Example:
Vijay and Suki are a married couple who have owned their manufacturing business for five years. They have two young children and want to maximise IHT reliefs.

If Vijay dies and leaves his shares to Suki	If Vijay leaves his shares to a BR trust
There would be no IHT due as the spouse exemption would apply.	No IHT arises on assets qualifying for 100% BR.
The value of the business shares will increase Suki's estate and reduce the availability of the RNRB if her estate exceeds £2 million. There is a risk that the shares may pass to third parties if Suki remarries, becomes bankrupt or has care needs etc.	Suki and the children can be beneficiaries. There is flexibility over who benefits and when. The trust assets are not part of Suki's taxable estate and are protected in the event of remarriage etc and could be exchanged for non-BR assets in her estate so reducing IHT due on Suki's death.
Suki may want to sell the business. BR would only be available on Suki's death if she still owns the business and it meets the qualifying criteria.	If the assets still qualify for 100% BR, there are no ten-year anniversary or exit charges.

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