

## **Business Property Relief – Why Family Business Owners Should Review Their Position Now**

Business Property Relief (BPR) remains one of the most valuable inheritance tax reliefs available to UK business owners. In the right circumstances, it can reduce the taxable value of shares in a trading company by up to 100% for inheritance tax purposes.

However, relief is not automatic, and HMRC scrutiny in this area has increased significantly in recent years.

At its core, BPR applies to businesses that are “wholly or mainly trading.” That sounds straightforward, but in practice many family companies evolve over time. Profitable trading companies often accumulate surplus cash, investment portfolios, or property assets. While commercially sensible, these can dilute the trading profile of the business and potentially jeopardise relief.

The difficulty is that there is no bright line test. HMRC considers factors such as income streams, asset base, management time and overall context. A company that began as a clear trading enterprise may, over time, drift into mixed activity territory without shareholders realising the inheritance tax consequences.

Share structure can also create complexity. Alphabet shares, growth shares, preference rights and differing dividend entitlements may affect valuation and, in some cases, the availability or extent of relief. Where material value is involved, a defensible professional valuation is essential.

Trust planning adds another layer. Transfers of qualifying business interests into trust may benefit from relief, but interaction with the relevant property regime and future ten-year charges must be considered carefully. BPR can mitigate entry charges, but ongoing trust planning requires coordination between legal and tax advisers.

For business-owning families, practical steps include:

- Reviewing whether the company remains predominantly trading
- Assessing the impact of surplus cash or investment activity
- Considering whether a separation of trading and investment assets is appropriate
- Ensuring shareholder agreements and Articles align with succession intentions
- Obtaining robust valuation support where significant value is at stake

Importantly, these reviews are best undertaken during lifetime, when restructuring and planning options are available. After death, flexibility is limited and disputes with HMRC can be time-consuming and expensive.

Business Property Relief remains an extremely powerful relief. But in an environment of tighter scrutiny and increasingly complex family company structures, periodic review is prudent. A proactive approach can ensure that relief remains available when it is most needed, rather than assumed and later challenged.