The Wills Clinic
LEGAL HEALTH SPECIALISTS

Business Property Relief: How to Pass On a Business Tax-Efficiently

For many business owners, the company they have spent years building is one of their most valuable assets. As a result, it is important to consider what will happen to the business after death and whether Inheritance Tax (IHT) could create financial difficulties for family members or successors. **One of the main reliefs available in England and Wales is Business Property Relief (BPR), which can help reduce or even eliminate Inheritance Tax on qualifying business assets.**

BPR was introduced to prevent family businesses and trading companies from having to be sold simply to pay an Inheritance Tax bill. Without this relief, some families might struggle to meet the tax liability arising when a business owner dies.

BPR can reduce the value of certain business assets for Inheritance Tax purposes. Depending on the type of asset involved, the relief may be available at either 100% or 50%. Where 100% relief applies, the qualifying asset may effectively be passed on free from Inheritance Tax.

The most common type of BPR is 100% relief on a business or an interest in a business. This can include a sole trader business or a partnership interest. Shares in certain unlisted trading companies may also qualify for 100% relief, provided the relevant conditions are met.

50% relief may apply in some other situations, such as certain business assets owned personally but used by a company or partnership in which the individual has an interest. The exact level of relief will depend on the circumstances and the nature of the ownership.

A key requirement is that the business must be a trading activity rather than an investment company, and should have been owned for over 2 years. For example, a manufacturing company, retail business or professional practice will likely qualify for BPR. By contrast, businesses that primarily deal with investments, such as property investment enterprises, may not be eligible for relief.

BPR can play an important role in succession planning. If a family-owned company qualifies for 100% BPR, its value may be excluded from the Inheritance Tax calculation. This can make it easier for children or other beneficiaries to continue operating the business without the pressure of finding funds to pay a substantial tax bill.

However, business owners should not assume that relief will automatically apply. **Whether a business qualifies depends on its activities, ownership structure and the relevant tax rules in force at the time.** Changes to the business over the years may also affect eligibility.

Regular reviews are therefore important. **A company that qualifies for relief today may not necessarily qualify in the future if its activities change significantly.** Estate planning should be considered alongside wider business succession planning to ensure both objectives work together.

Business Property Relief is designed to help business owners pass on qualifying businesses without creating an excessive Inheritance Tax burden for the next generation. While the rules can be complex, the basic principle is straightforward: **where the conditions are met, BPR can help protect a business and improve the chances of it remaining in family ownership after the owner's death.**