



Family Business UK Pre-Budget Submission

About Family Business UK

Family Business UK is the independent trade body representing the UK's private and family-owned businesses. Our members represent the bedrock of British enterprise – from small firms to global organisations. They span every sector of the economy, from manufacturing and retail to agriculture and professional services.

Family Business and the Growth Agenda

Family businesses are driven by long-term thinking and a responsibility to communities across generations. They have ridden out downturns, retained talent and kept headquarters - and tax receipts - in Britain when other capital has moved elsewhere. Collectively, family and private businesses employ over 15 million people and contribute hundreds of billions in tax - making them a vital engine of national prosperity and regional resilience.

They are rooted in their communities, provide stable employment in every part of the country, and typically take a longer-term approach to ownership and investment than many other business models. They are also disproportionately important to regional economies: in smaller towns and rural areas, the family firm is often the principal employer, sustaining supply chains and underpinning local tax revenues.

For that reason, the tax and policy environment facing family businesses is not a narrow concern but a matter of national economic strategy. When government decisions strengthen the ability of family firms to invest, expand and export, the benefits ripple through every region of the UK. Conversely, when policy uncertainty or punitive taxation falls on these businesses, the consequences for jobs, growth and fiscal sustainability are severe.

The UK economy is currently at a critical juncture. Growth has been subdued for more than a decade. Business investment has persistently lagged behind international competitors. Productivity has stagnated. Inflation, though now easing, remains higher than desired, squeezing household budgets and business margins alike. Confidence is fragile. Against this backdrop, the Government has rightly made growth its central mission, and the Chancellor has been clear that the credibility of this mission will be judged by delivery, not rhetoric. Policies must tangibly raise investment, expand exports and strengthen long-term economic capacity.

The Government continues to face a constrained fiscal environment, with a growing gap between public spending commitments and available revenues. Having committed not to raise the most broad-based taxes—National Insurance, Income Tax, and VAT—the Chancellor is increasingly reliant on narrower tax bases.

Business taxation has again become a target for revenue generation. For family-owned firms, which have already experienced rising tax and cost pressures over the past year, this trend is concerning.

At the previous Budget, the Chancellor stated that difficult decisions were being taken to avoid repeated reliance on business taxation. That commitment provided a degree of certainty for business owners, enabling them to plan investment with greater confidence. However, within a year, speculation has resurfaced regarding new business-related taxes, changes to dividend taxation, further reforms to inheritance tax reliefs, and the potential introduction of a wealth tax that could directly affect family-owned enterprises.

This ongoing uncertainty has tangible economic consequences. Family businesses typically operate with long-term investment horizons, reinvesting profits into growth, employment, and community engagement. When the tax environment becomes unpredictable, the rational response is to delay or scale back investment. This undermines business confidence and risks weakening the very growth the Government seeks to support.

The changes announced in October 2024 to Business Property Relief (BPR) and Agricultural Property Relief (APR) are a clear example of policy that undermines growth. By limiting full relief to the first £1 million of qualifying assets, the reforms impose a 20 per cent inheritance tax liability on the value above that threshold (potentially an overall 33% tax liability when taking into account the additional tax cost to extract funds from the business). For many family firms, where the owners' wealth is tied up in the trading business, this is not simply a matter of passing on assets; it is an existential challenge to continuity. The family may be forced to sell part of the business, scale back operations, or abandon investment in order to meet a future tax bill.

Family Business UK commissioned independent modelling from CBI Economics to understand the likely impact of these reforms. The results are sobering. The study found that the changes could reduce UK gross value added by £13.4 billion over this Parliament. More than 200,000 full-time equivalent jobs are at risk. Crucially, the analysis concluded that the Exchequer itself may lose out, with the behavioural responses of business owners — reducing investment, cutting employment, restructuring ownership — more than offsetting the static gains expected from inheritance tax.

The Government is therefore pursuing a policy that harms jobs, weakens growth, and may actually lower net revenues.

Against this backdrop, it is untenable to contemplate further business-targeted tax rises. A broad wealth tax, or new restrictions on dividend taxation that penalise owner-managers, would have a similar effect. The reality is that illiquid business wealth is not

an untapped source of government revenue; it is the working capital of firms. Taxing it aggressively forces asset sales, undermines investment and destroys the very businesses that generate jobs and taxes in the first place.

It should be noted that there are already significant taxes on the wealth generated by owner managed and family business, through 25% corporation tax on the profits, up to 39.35% income tax on dividends paid to the owners (giving an overall tax burden of c. 55%, significantly higher than employment income), 24% capital gains tax on any disposal and 40% IHT on the value extracted or re-invested in non-business assets.

If the Chancellor must raise additional revenue, it should come from the broad-based taxes that actually deliver scale: National Insurance, Income Tax and VAT. These account for more than 60 per cent of total receipts. By contrast, narrow levies on business equity or inheritance reliefs bring in modest sums at best and carry enormous collateral damage. Family Business UK recognises the political challenge created by manifesto commitments around headline rates. But we cannot ignore the economic truth that repeatedly taxing business is both inefficient and counterproductive.

Our Recommendations

- Avoid further taxes on business, which will undermine investment and stifle growth.
- Pause the proposals to restrict BPR/APR, and consult to find a route forward which reduces the impact on family and farming businesses.
- Publish a comprehensive roadmap, updated annually, setting out principles and policy direction across the full range of business taxation.
- Ensure that the future Transitional Relief Package for the 2026 revaluation is family business friendly and does not lead to significant increases in rateable values.
- We call on the Government to commit to a strategy to support mid-sized firms in unlocking long-term, sustainable growth across the whole of the UK.
- We call on the Government to put family firms at the heart of the devolution mission, working in partnership with them to deliver local investment and growth.
- We call on the Government to work with FBUK as a core partner to help deliver tailored advice and support to family businesses, to help them take advantage of new export opportunities and drive growth.
- We call on the Government to ensure export support and finance is better targeted to support family firms take their first steps into export, addressing the unique barriers they face.
- We call on the Government to reintroduce VAT free shopping.
- We call on the Government to take the macroeconomic family business situation into account when assessing the Low Pay Commission's advice on the NLW and NMW rates to come into effect in April 2026.

Inheritance Tax Changes

While the measures discussed in this submission are focused on how the Government can meet its growth ambitions, they must be considered against the backdrop of proposed changes to Business Property Relief (BPR). Without addressing this critical issue, growth will continue to falter, and family businesses—many of which are central to regional economies—will face heightened risk of disruption or failure.

Family Business UK is deeply concerned that the proposed reforms to BPR, including the introduction of a £1 million cap on 100% relief and a reduction to 50% relief thereafter, will significantly increase the inheritance tax burden on family-owned enterprises. These businesses are typically asset-rich but cash-poor, with value tied up in property, equipment, and unlisted shares. The reforms will make it more difficult for families to pass businesses on to the next generation without triggering substantial tax liabilities that may require the sale of core assets or extraction of taxable dividends—potentially resulting in an effective tax rate of over 30%.

Managing a smooth and successful transition of the business between generations is inherently complex and brings additional risk to the business. The unpredictability of a death that could create a liability of over 30% of the value of the business makes it even more challenging and increases the risk of business failure significantly.

The *Taxing Futures* report, commissioned by Family Business UK and conducted by CBI Economics, provides robust evidence of the economic harm these changes will cause. Based on responses from over 4,000 family businesses, the report estimates that the reforms could lead to a £14.8 billion loss in Gross Value Added (GVA) over the next five years and a potential loss of 208,500 full-time jobs across the UK. These impacts are not confined to agriculture - they extend across sectors including construction, manufacturing, and hospitality, with each forecasting average workforce reductions of approximately 11%.

The report also found that 60% of family businesses expect to reduce investment by more than 20%, and 23% have already reduced headcount in anticipation of the reforms. These figures reflect a sharp decline in business confidence. Family businesses typically operate on long-term horizons, reinvesting profits into growth, employment, and community engagement. When the tax environment becomes unpredictable, the rational response is to delay or scale back investment. This undermines business confidence and risks weakening the very growth the Government seeks to support.

Family Business UK urges the Government to reconsider the proposed changes to BPR and to engage in a full and formal consultation with affected stakeholders. Since the Budget last year many groups have put forward proposals to mitigate the impact of these changes, and they warrant a full consultation.

Without changes, the reforms risk triggering premature sales, restructuring, or closures that could have long-term consequences for employment, investment, and the preservation of family-owned enterprises. But any changes must work for both farming and family businesses – both the groups affected by the proposed changes.

The Government's growth agenda cannot succeed if it undermines the very businesses that deliver long-term investment, regional resilience, and generational continuity. Addressing the proposed changes to BPR is not a peripheral issue—it is central to the future of the UK's family business sector and to the broader economic strategy.

We call on the Government to pause its proposals to restrict BPR/APR, and consult to find a route forward which reduces the impact on family and farming businesses.

Business Tax

Uncertainty is itself a tax on investment. Family firms will not commit capital when the rules keep changing. That is why the Government's previous commitment to a business tax roadmap was so important. A clear, medium-term plan would give businesses confidence about the direction of travel on corporation tax, capital allowances, business rates, inheritance tax reliefs and dividend policy. It would allow firms to plan multi-year investments, succession arrangements and expansion strategies without the fear of sudden, damaging surprises.

To date, however, the roadmap remains incomplete. Only a partial version has been published, leaving major questions unresolved. A full roadmap would provide the stability needed to unlock investment and would demonstrate that the UK is committed to being a predictable and attractive place in which to do business.

We call on the Government to publish a comprehensive roadmap, updated annually, setting out principles and policy direction across the full range of business taxation.

Business Rates remains an archaic system and needs urgent reform to support the growth ambitions of UK family businesses. We are keen to work with the Treasury to meet their ambition of a full reset of the Business Rates Retention System, ensuring that we drive regional growth opportunities.

We call on the Government to ensure that the future Transitional Relief Package for the 2026 revaluation is family business friendly and does not lead to significant increases in rateable values.

Mid-Sized Firms

Mid-sized family firms across the UK have a vital role to play in the UK achieving the government's growth agenda. However, these businesses are often overlooked by

policymakers who tend to focus on either very large companies or start-ups. But the scaling opportunity for these businesses has, for too long, been overlooked.

There are over 21,000 mid-sized family businesses in the UK – representing half of all mid-sized companies – that have the potential to generate strong levels of sustained growth. In the North East and North West alone – two major areas of focus for UK regeneration – there are nearly 600 and 2,500 businesses, respectively.

Similar to the Mittlestand, the UK's mid-sized sector businesses hold huge potential and need to be harnessed to build a stronger economy at both a national and regional level. The UK needs a strategy which addresses the needs of these mid-sized businesses and supports their growth.

Empowering these businesses and supporting investment would see significant economic and employment benefits in their communities. Supporting mid-sized business growth is an opportunity to transform the business landscape in the UK by enabling these firms to expand from being regional players to national businesses to UK businesses competing internationally.

We call on the Government to commit to a strategy to support mid-sized firms in unlocking long-term, sustainable growth across the whole of the UK.

Regional Growth

The English Devolution and Community Empowerment Bill has the potential to unlock economic growth, but its implementation must be done in close partnership with family businesses.

Family businesses are deeply rooted in their local communities, and they are best placed to turbo charge local economies. They have anchored their local economies for generations, creating stable jobs and reinvesting profits locally. Local growth plans, led by new and existing mayors must be developed hand-in-hand with family businesses to deliver on the government's core mission of growing the economy.

Family businesses stand ready to play their part in growing regional economies, but plans must be backed by multi-year integrated funding, devolved skills budgets, and strategic planning powers.

The government's devolution agenda ensures that investment, skills and infrastructure strategies can be better tailored to the distinctive needs of local economies, where family firms are often the principal employers and long-term investors. The introduction of mayoral combined authorities and the roll-out of devolution deals, such as the "trailblazer" agreements in Greater Manchester and the West Midlands, show how local leaders can work with business to drive regeneration, upskill the workforce and strengthen local supply chains.

By bringing together their agility, multi-generational perspective, and strong local networks, family businesses can help ensure that reorganisation translates into tangible benefits for residents, while also securing opportunities for growth and influence in a changing civic landscape.

The Government's Levelling Up White Paper, alongside initiatives like the Investment Zones programme and the UK Shared Prosperity Fund, provides a framework for regional growth that can only succeed with the active involvement of family-owned firms.

By giving devolved administrations and local leaders the tools to support enterprise, and by engaging directly with family businesses, government can harness this sector's unique strengths. Further devolution therefore represents not just constitutional change, but a growth strategy rooted in community, continuity and with family businesses at its heart.

We call on the Government to put family firms at the heart of the devolution mission, working in partnership with them to deliver local investment and growth.

International Trade

In a changing world, family businesses stand out. They invest for the long term, plan across generations, and trade internationally with integrity. From exploring new markets to embracing technology and navigating policy changes, these businesses are leading with a global outlook and strong local roots.

However, there remains a significant volume of untapped trade potential within the family business community, with too many firms unsure where to turn for relevant, targeted support. This risks the UK missing out on growth opportunities, as exporting businesses are often more competitive, profitable and can grow their sales faster.

Many family firms lack international trade expertise—particularly in legal and compliance matters. Developing these skills would help them gain greater confidence in navigating the post-Brexit environment and understanding the evolving tariff system in the United States. This is critical, as the EU and USA remain the UK's two largest trading partners.

Family firms are also often constrained by a risk-averse approach to international expansion. A family firm with a third, fourth, or fifth-generation owner may be more reticent to expand internationally and potentially risk the legacy of the business and its future.

FBUK is ideally placed to work closely with Ministers and officials across government to ensure that small and medium sized businesses are taking full advantage of existing trade support. As the Government drives forward implementation work on the Trade Strategy, we are also well placed to serve as a strategic partner helping to shape future

provision and ensure that our members are informed of the positive support government is offering.

We call on the Government to work with FBUK as a core partner to help deliver tailored advice and support to family businesses, to help them take advantage of new export opportunities and drive growth.

The British Business Bank's new £6.6bn fund, introduced as part of the Government's Industrial Strategy, along with UK Export Finance, must prioritise targeted finance support for these more risk-averse businesses – and signpost businesses to international trade mentoring services.

Mid-sized family firms have the potential to scale rapidly, but it is essential that the Treasury monitors the impact of the funds provided and ensures that early-stage international trade support remains a key focus.

We call on the Government to ensure export support and finance is better targeted to support family firms take their first steps into export, addressing the unique barriers they face.

With the Government announcing a Visitor Economy Strategy shortly, it is vitally important that we encourage tourists to visit the UK and shop in private and family run businesses up and down the country.

With non-UK citizens unable to claim VAT relief when they shop in the UK, it indirectly affects family businesses across the regions in the form of a reduction in international spend.

New evidence from the Association of International Retail shows that reintroducing VAT free shopping could lead to the creation of 73,000 new jobs and a potential £5.65 billion annual economic boost to high streets across the UK.

We call on the Government to rethink this policy and reintroduce VAT free shopping.

Employment and Skills

Family Business UK welcomed the Chancellor's recent ambitious target announced of two-thirds of young people taking up either an Apprenticeship or a place at university – removing the previous 50% target for people attending university.

Apprenticeships offer great opportunities for young people and FBUK are keen to work with the Government in making it easier to create Apprenticeship placements. We will also work alongside the Government as policy develops on a Youth Employment Guarantee scheme and a potential Youth Mobility Scheme with the EU.

The costs associated with employing staff on the National Minimum Wage (NMW) and National Living Wage (NLW) have risen significantly in recent years, placing increasing pressure on family businesses.

A full-time worker on the NMW now receives an annualised salary of £25,000. This is compared to a graduate median salary of £26,500. Given that the purpose of the NMW is to protect low-paid workers, this narrowed differential seems to blur the lines when we consider definitions of low pay.

Family businesses lead by example when it comes to treating employees with respect, fairness, and care. However, many members of FBUK are concerned about the impacts of the changes to Employment Rights – and the impact these changes will have on further increasing the cost of employment.

With businesses navigating upcoming changes to employment rights, the National Insurance Contribution changes and potential changes to Inheritance tax, the Treasury must take the macroeconomic family business situation into account when assessing the Low Pay Commission's advice on the NLW and NMW rates to come into effect in April 2026.

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