# Finance Bill Second Reading:
# Inheritance Tax Changes – Family Business UK Briefing

## Introduction

**Family Business UK (FBUK)** is the largest independent trade body representing the UK's five million private & family-owned businesses. Our members make up the bedrock of British enterprise, spanning every sector of the economy, from manufacturing and retail to agriculture and professional services.

Collectively, family businesses **employ millions of people and contribute billions in tax revenues each year** – making them a vital engine of national prosperity and regional resilience. They are driven by long-term thinking and a responsibility to communities across generations.

## Inheritance Tax Reforms – Disproportionate impact for Family Businesses

For decades, Inheritance Tax reliefs such as Business Property Relief (BPR) have played a **central role in the continuity of the UK's family business community**. By removing the risk of large tax liabilities at the point of succession, these reliefs have enabled families to **retain, reinvest in and grow trading family businesses across generations**, supporting stable employment, patient capital and long-term decision-making.

This framework has been highly successful. Family businesses are among the **UK's most resilient engines of economic growth**, anchoring local economies, investing through economic cycles and prioritising longevity over short-term returns. Weakening these reliefs therefore does not simply change the tax system - it **undermines a proven model of sustainable growth**.

While much of the focus since the government announced its changes to Inheritance Tax in 2024 have been on the impact on the farming community, **family businesses will be disproportionately affected:**

- Family businesses are **asset-rich but cash-poor**: value is tied up in trading companies, premises and long-term investments, not liquid wealth.
- New or increased IHT liabilities at succession **cannot be met without harming the business** - requiring asset sales, additional borrowing, dividend extraction or loss of family control.
- Business Property Relief was created to **prevent forced sales and break-ups of viable businesses on the death of an owner**; capping full relief reintroduces that risk.
- Succession becomes a **tax trigger rather than a continuity event**, discouraging long-term stewardship and generational ownership.
- The reforms **penalise productive enterprise**, not passive wealth - taxing businesses that employ people, invest locally and contribute to regional economies.

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## FBUK's *Taxing Futures Report* – clear evidence of reduced growth, investment and economic activity

FBUK's *Taxing Futures* report, published in June 2025, surveyed over 4,100 family businesses and farms, producing quantifiable evidence that the changes will disrupt core family business behaviours:

**Investment:**

- **55% of BPR-affected and 49% of APR-affected firms** have already **paused or cancelled planned investments** in the face of the reforms.
- Businesses expect an **average reduction in investment of ~16%** - a direct threat to capital growth and innovation.

**Turnover:**

- Anticipated turnover is expected to fall by **around 9%** as owners reprioritise spending toward future tax liabilities rather than scaling operations.

**Employment:**

- Nearly **half of respondents foresee a reduction in headcount or a freeze on recruitment**.

In aggregate, *Taxing Futures* estimates a **£14.8 billion reduction in Gross Value Added (GVA)** to the UK economy between 2024 and 2030 and **208,500 full-time equivalent jobs put at risk** over the course of this Parliament.

In every parliamentary constituency across the UK, changes to Inheritance Tax reliefs will have a negative impact on growth, investment and jobs. **Find out the impact in your constituency here.**

## Counter-Productive for Public Finances

While the Government expects to raise around **£1.4bn** from IHT changes through increased liabilities, *Taxing Futures* analysis suggests that **behavioural responses could instead lead to a net fiscal loss of £1.9bn** by 2030, once lower investment, turnover and broader tax receipts are factored in.

By not accounting for how family business owners will respond to higher future liabilities, the reforms may *shrink the tax base* they aim to broaden, resulting in a knock-on effect for future investment in public services.

## Practical Challenges in Implementation

Aside from the economic effects, there are **administrative and practical difficulties** for family firms:

- The statutory six-month window for reporting and paying IHT becomes increasingly unrealistic, especially where complex valuations of private business assets are required – creating disputes with HMRC and additional cost burdens.

These procedural tensions risk compounding the economic drag caused by the policy change.

## Indexation

At Budget 2025, the government announced that it is delaying the indexing of the £1 million allowance to the Consumer Price Index (CPI) from 2030 to 2031.

This means that the real value of reduced allowances for BPR and APR is eroded over time, further adding strain on family businesses struggling with higher costs and higher inflation.

## Speak up for Family Businesses at second reading

At **second reading and beyond**, it is vital that MPs:

- **Raise FBUK's *Taxing Futures* report** and highlight the clear impact changes to IHT are having on growth, investment and jobs in your constituency.
- **Press for a pause and review** of the BPR/APR reforms.
- **Support amendments** that protect long-term investment incentives and succession planning.
- **Demand robust Government economic impact assessments** that account for behavioural responses from family firms.

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