Surviving inheritance: Tax and governance for family businesses after BPR reforms

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Inheritance tax changes are an opportunity for many family business owners to finally address succession and secure their legacy.

In summary

- Changes to business property relief mean business owners can no longer ignore succession planning
- There's an opportunity to look beyond transfers and trusts to structures, such as partnerships and family investment companies, that clarify ownership and control
- The most successful family businesses are those where good governance and tax-efficient structures are aligned to help them achieve their goals

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The trouble with kicking the can down the road is that eventually you run out of road. For family business owners who have been putting off succession planning, the road ends in April 2026.

The draft tax clauses for the next Finance Bill published last week confirmed the government's plans to push ahead with reforms of business property relief (BPR) announced in last October's budget. This will significantly reduce a relief that has allowed family businesses to pass down without paying inheritance tax (IHT) for generations.

Owners now face a fast-approaching deadline to avoid leaving a hefty IHT bill that could jeopardise the future of their family and their business. For those ready to grasp it, though, there's also a chance to secure their legacy.

The inheritance tax trap

Until now, BPR has allowed families to pass on business property, usually the shares, without an IHT charge. From 6 April 2026, however, that 100% BPR relief will be limited to the first £1 million of value. Shares and other business assets above that will benefit from only a 50% relief, so face an inheritance tax charge of 20% (half the usual rate). For many, paying this charge could cause significant cash flow problems, potentially putting the business's future at risk.

After April, as before, business owners can still transfer ownership of the business before they die, but there are two caveats:

- They will need to live at least seven years for the transfer to be completely free of inheritance tax (although the rates applied begin to reduce after three years)
- The transfer must be free from reservation of benefits

The second point is vital. To avoid IHT liabilities, the old owners can't retain the benefits of ownership, nor the control of business associated with it. That's a stumbling block for those who want to remain in charge or need the funds. In larger families, transfers to different family members may also dilute and disperse the business's ownership, complicating decision-making.

Families can tackle some of these problems using a trust, but to qualify for the full business property relief, the transfer must be made before the April 2026 deadline. Transfers after that date will only receive the more limited relief for property over £1 million – even if the previous owners survive the seven years.

The result is that family business owners putting off succession planning, knowing that there would be little financial impact on those they left behind, no longer have that luxury. Succession planning is finally on the agenda. And, while few will welcome the changes in BPR, that does present an opportunity.

Family business governance: The missing piece

Tax planning has always been only a part of succession planning. Just as important is governance:

- Defining roles and responsibilities to provide clarity over leadership, ensure accountability and prevent conflicts
- Determining the processes and the formal mechanisms for decision-making and addressing disputes
- Ensuring decisions are made with the long-term success of the business in mind

In this context, the BPR changes give families a chance to address an often overlooked aspect of succession. Moreover, good governance creates a robust foundation for effective tax planning. Knowing who will inherit shares and how profits will be distributed, for example, can enable owners to implement better tax structures to support them.

Crucially, it provides an opportunity to think beyond simple ownership transfers or trusts and consider structures and governance. In a complex family business with varied operations, it may mean establishing separate legal entities that allow for different ownership and control for different parts of the business. It can also include looking at partnerships or family investment companies (FICs).

Structuring for success: Family investment companies

Partnerships (and limited liability partnerships) can provide a flexible structure for allocating profits from family businesses. They can be used to distribute income to members in lower tax brackets, for example, while those in high brackets retain profits. They also define each partner's role and ownership stake, providing clarity for governance.

FICs, meanwhile, can facilitate even more efficient tax structures and sophisticated distributions of assets and income. Profits are taxed at corporation tax rates, lower than income tax, and shareholdings can be structured to facilitate intergenerational wealth transfers without triggering IHT and clarify control, through voting rights, dividends and share types.

For example, a FIC might grant parents who are the current owners voting shares with dividend rights, securing an income and control of the business while they remain alive. Their children, meanwhile, could be given non-voting shares with capital rights. Similarly, parents could hold freezer shares to retain ownership of the current business value, while children gain growth shares to benefit from increases in value from the date of the transfer onwards.

Such structures can make a substantial difference to the IHT liability. As important, they define ownership, control, rights and responsibilities – issues that can provoke family disputes and hamper decision making.

To be truly effective, however, families should align form and function. Consequently, the most successful family businesses integrate their tax planning and their governance, using family councils and constitutions.

Family councils, constitutions and communication

Family councils and constitutions are powerful tools for preventing conflict and fostering strong governance. The council provides a venue to discuss governance and tax decisions collaboratively. A family constitution defines the shared values, roles and long-term financial strategies that underpin these discussions.

Good governance is also the product of regular communication to promote understanding and transparency around the tax strategies. This can reduce the scope for disputes and grievances regarding the fairness of asset distributions or decision-making. It may not always bring consensus, but it can bring clarity.

The inheritance tax changes make such conversations unavoidable and urgent, but it's an opportunity, too: To clarify ownership and roles, reduce the scope for disputes, and align your structure and governance with your goals. In short, it's a chance to cement your legacy and secure your family's and business's futures.

Top tips

- Get a tax and governance audit

Assess your current structures, identify gaps and prioritise changes. Work with legal, tax and governance professionals to align your strategies and goals.

- Develop an integrated plan

Create a roadmap to align tax efficiency with your governance goals. Include regular reviews so these can adapt to changing laws and family dynamics.

- Encourage open communication

Hold regular family meetings to make sure everyone understands the strategy and their respective roles.

Plan your succession

To discuss how tax structures, family charters and constitutions could help secure your succession, family and business, talk to our experts today.

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