



After April: A future for trusts in family businesses?

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After the changes to business property relief, transfers of business assets into trusts could trigger an immediate tax charge. Can they still work as a tool for passing on wealth for business owners and entrepreneurs?

The window is closing. When the current government announced plans to limit full business property relief (BPR) in its [2024 Budget](#), it set a deadline. Those seeking to pass on their firm free of inheritance tax (IHT) had until this April to put it in a trust.

The rethinks since, most recently in December, when the government [doubled the threshold](#) for full BPR to £2.5 million, didn't change the timeline. Business owners now have just a few weeks to go. After that, they face a potentially significant tax charge on any assets above the BPR threshold for full relief.

But trusts are quite famously versatile – “an institute of great elasticity and generality” as law students learn. When it comes to family businesses, that means they'll continue to have a role.

Reduced reliefs and taxing trusts

Part of that role may still be reducing potential IHT bills.

On the one hand, putting business assets in trust after April 2026 could get significantly more expensive. From that date, business assets or shares settled into trust worth more than £2.5m (or £5m for a couple) will have BPR reduced to 50%, meaning there will be an effective 10% lifetime charge: an immediate IHT bill paid on the transfer into trust, rather than on death (on the basis that the assets will eventually be subject to IHT even if the existing owner survives seven years).

For those transferring a business worth more than the threshold for full BPR, it is a significant dry tax charge: The beneficiaries incur a tax liability on the value above the threshold without receiving any liquid funds, like cash, to cover it. The government has softened the impact by allowing the tax to be paid in ten equal, interest-free annual instalments. This makes the immediate cost more manageable, but it will still be a significant annual charge.

Moreover, whether it's put in trust before April or after, the trust will face a ten-year charge: All trusts face a charge of up to 6% levied every ten-year anniversary on the value of assets held. In the case of business assets, which would have been exempt before the Budget change, assets with a value above the full BPR threshold will now face 3% charge (the 6%, reduced by the 50% BPR that still applies).

Compared with the previous position, this means trusts are considerably less appealing.

Still good for some

On the other hand, next to some of the remaining alternatives, trusts may still be tempting.

For a start, the standard lifetime charge on trusts of 20% is half the usual IHT rate, and then the 50% BPR discount still applies.

As a result, beneficiaries of a business put into a trust face a 10% immediate charge rather than 20% on death. They'll then have to add the 3% charge every ten years, of course, but they'll still be better off even if the existing owner lives for decades. And they'll pay more gradually, and potentially on lower values, than they would if the business only passed on death.

Added to this, the BPR allowance is renewed after seven years, in line with the IHT rules. That means that married business owners could put shares up to the £5m couple's limit into a trust after April and, assuming the rules don't change, do the same again in seven years.

Those who start early enough may still be able to transfer businesses worth £10m or even more with no IHT, and no lifetime charge.

Keeping control, controlling the legacy

Even allowing for that, a trust will always struggle to match the simplicity of lifetime gifts. Lump sums (assuming the donor survives seven years), the £3,000 annual exemption and regular gifts from surplus income remain options to seriously consider for anyone looking to pass wealth down the generations.

The last of these can be a particularly handy tool, since the gifts can be unlimited and completely free of IHT, provided all the conditions are met: broadly, that the gift comes from income, not savings or capital; it's a regular part of the donor's expenditure; and it doesn't affect their standard of living, in that their remaining income covers all their usual living expenses.

Crucially, though, trusts offer one benefit these other mechanisms lack – ongoing control. Again, trusts' flexibility is fundamental to their appeal:

- They can keep businesses from being split up by family breakups and divorce, since ownership of the shares rests in the trust, not with the beneficiaries
- They can prevent the dilution of ownership and control that occurs over generations when shares are inherited by siblings, then cousins and beyond, resulting in disputes and disarray
- They determine who makes decisions over the business's future, through the choice of trustees
- They can lock in BPR for businesses that may be sold or cease trading to become an investment property before the owner's death, making them no longer eligible for the relief

For many clients it's this control rather than tax planning that drives the decision to use trusts. It lets business owners pass on and protect not only their wealth but also their legacy.

As long as they continue to fulfil that role, a future for trusts in family businesses looks assured.

Secure your family's future

Discover more about our succession planning services and advice, and how we can secure the future you want for your family and business. Talk to our experts today.



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