

# Why inheritance tax is becoming a boardroom issue for private companies

For many finance directors and CFOs of privately owned and family-run businesses, inheritance tax (IHT) has historically been viewed as a personal matter for shareholders and their families. However, the forthcoming changes to Business Property Relief (BPR), coming into effect from 5th April 2026, mean that this is no longer a safe assumption.

These changes have the potential to create immediate financial and operational implications for businesses themselves.

If you are responsible for the financial stewardship of a company with individual shareholders, particularly within a family-owned structure, this is an issue that warrants urgent attention.

## A shift in the IHT landscape

Under the IHT regime pre-6 April 2026, shares in qualifying trading businesses can attract up to 100% relief from IHT under BPR.

This has long been a cornerstone of succession planning for private businesses, enabling ownership to pass on death without triggering IHT liabilities.

However, the changes introduced in the Autumn 2024 Budget significantly alter this position.

In broad terms, this means that where a shareholder dies after 6 April 2026, holding shares that would previously have qualified for full BPR, there may now be an IHT exposure on some or all of that value when the shares pass to a non-spouse.

The rules are complex, but in very basic terms, after 6 April 2026, when a shareholder dies, 100% BPR will only be on the first £2.5m of share value. Any share value in excess of that £2.5m threshold, which previously qualified for 100% BPR, will be liable to a new 20% IHT charge.

For many businesses, particularly those with substantial share value, this could result in a material new IHT liability arising on death when those shares pass to a non-spouse.

## What happens when a shareholder dies?

It is important to understand that IHT remains, fundamentally, a liability of the estate.

The executors under the Will (or the administrators if there is no Will) are personally responsible for reporting and paying the tax, typically before a Grant of Probate is issued.

However, the practical reality is often more complex. Where the deceased shareholder's estate consists largely of illiquid assets (most commonly shares in a private company), there may be insufficient cash within the estate to settle the IHT liability.

This is precisely the scenario that BPR was designed to address, as the benefit of 100% BPR was that it avoided a situation where illiquid assets had to be sold to fund the IHT.

With that protection now diluted post April 2026, an IHT funding gap for families may arise.

The government has indicated that IHT due because of this new change to the BPR rules, may be payable by annual instalments over 10 years, and importantly, on an interest-free basis.

On paper, this offers some relief. In practice, however, it may not be a complete solution.

## The instalment option: helpful, but not always desirable

This is where the issue moves firmly into the remit of the FD or CFO. If the estate does not have sufficient liquidity, the executors and family are likely to look towards the company as a potential source of funds.

This could take a number of forms:

- Requests for the declaration of dividends
- Pressure to facilitate a share buyback
- Consideration of external financing at the company level
- In extreme cases, the sale of business assets

Each of these options carries commercial, legal and tax implications, and none are likely to be straightforward, particularly if they arise unexpectedly. The key point is that whilst the IHT liability is technically an estate liability, the financial burden may, in reality, fall on the business.

## Is this on your risk register?

Given the potential impact, FDs and CFOs should be asking whether this risk has been properly identified and documented.

Key questions to consider include:

- Do we have a clear understanding of our shareholder base and the potential IHT exposure on death?
- Have we modelled the possible tax liabilities under the new regime?
- What would happen if a key shareholder died tomorrow?

For many businesses, the honest answer will be that this has not yet been fully considered. That is understandable, given the recency of the changes—but it is not sustainable.

## Planning for the “what if”

Forward planning is essential to avoid reactive and potentially damaging decisions.

One of the first areas to consider is liquidity. Does the family have sufficient liquidity to cover the IHT? If not, and the company will be asked to assist, does the company have sufficient distributable reserves and cash to support a dividend if needed? If not, what would be required to create that flexibility?

It is also important to consider the wider shareholder agreement and constitutional documents. Do they allow for share buybacks? Are there provisions dealing with death and succession? Are there any restrictions that could inadvertently exacerbate the situation?

From a governance perspective, boards should be thinking about how they would respond to a request for financial support from an estate, because balancing the needs of the business, its creditors, and its shareholders will not always be straightforward.

## The role of insurance

Life insurance is likely to play an increasingly important role in managing this risk. Policies can be structured to provide funds on the death of a shareholder, which can then be used to cover IHT liabilities or facilitate share purchase arrangements. However, the design of such arrangements is critical to ensure that they are both tax-efficient and aligned with the company's wider objectives, and legal advice should always be sought alongside obtaining such policies.

For FDs and CFOs, this is not simply a matter of asking whether insurance exists, but whether it is sufficient in value, appropriate, and properly integrated into the overall planning framework.

## A mindset shift for finance leaders

Ultimately, these changes require a shift in mindset.

In many privately owned businesses, inheritance tax is moving from being solely a personal issue to being a corporate risk with potentially significant financial and strategic implications.

## Taking action now

Here are our top takeaways for FDs and CFOs:

- Engage with shareholders to understand their personal planning position
- Assess the company's financial capacity to respond to potential requests
- Review governance documents and funding options
- Consider whether insurance or other structures should be implemented and take legal advice when obtaining it.

By taking these steps, finance leaders can help protect the interests of shareholders and their families, as well as the long-term stability and success of the business itself. Because when inheritance tax comes knocking, it may not stop at the door of the family home. It may well be knocking at yours.

If you want to find out more about how being proactive with your reviews and shareholder engagement can help you navigate the impending reforms, [please don't hesitate to get in touch with us.](#)



### Stephanie Parish

Partner, Private Wealth

[stephanie.parish@clarionsolicitors.com](mailto:stephanie.parish@clarionsolicitors.com)

Mobile: +44 (0) 7825 635 212