geldards

# The Autumn Budget's Changes to Inheritance Tax

## A Trust Solution

In last autumn's budget, the Chancellor proposed that the owners of businesses or farms which currently qualify for 100% business property relief or 100% agricultural property relief from inheritance tax will, from 6th April 2026, instead, have a £1million cap on the 100% relief, above which relief will only be given at 50%.

100% relief means that there is no tax to pay. Since the rate of inheritance tax at death is 40%, 50% relief means an effective rate of half of that, i.e. 20%. The simplest possible example is that of a solely-owned farm or business worth exactly £11million, which would currently qualify for 100% relief and therefore under the current rules would pay no inheritance tax at all. Under the new rules there will be £1million of 100% relief, with the remaining £10million being taxed in effect at 20%, a total bill of £2million.

This blog explains one possible course of action to mitigate this change, by the use of a trust. It is part of a series of blogs following-up these changes. The previous blogs can be seen here and here.

The advantage of a trust, in principle, is this:

1. Without any trust, an asset is typically taxed at 40% upon its owner's death. And that tax is paid in each generation as the asset passes down the family
2. An asset in the type of trust classified as a "relevant property trust" for inheritance tax purposes does not suffer any tax upon any person's death. Instead, it is taxed at 6% on each tenth anniversary of the trust's creation (and in a similar way whenever assets leave the trust). This has two significant advantages:

- The tax liability overall is much lower than it is without a trust
- The tax liability arises at predictable intervals, for which the money can be budgeted-for and set aside

The situation is better again where the asset in question qualifies for business or agricultural property relief, since inside the trust, under the new rules:

- The first £1million of its value will get 100% relief and will therefore not be taxed at the ten-year anniversaries
- The rest of its value will get 50% relief and therefore instead of being taxed at 6% will be taxed at 3%

It follows that where it is possible to put assets into a trust tax free, there are significant long-term inheritance tax savings. The biggest problem is the so-called "entry charge" which is an inheritance tax charge at half of the death rate (therefore 20%) of the value of assets put into a trust. Prior to the budget, that was not a problem regarding assets which qualified for 100% business property relief or agricultural property relief, since the 100% relief prevented the entry charge from biting.

On budget day, the Chancellor announced an anti-forestalling rule, which is that where someone makes a gift or settles a trust at any time from budget day onwards, but then dies within seven years of doing so, they will be taxed under the new rules rather than the old rules. However this does give an opportunity for farmers and business owners to settle a trust between now and the introduction of the new rules on 6th April 2026 - and so long as they do survive the seven years, the settlement will be free from the entry charge.

Also, there is a capital gains tax relief called "hold-over" relief, applicable before and after the budget changes, which enables a transfer into a relevant property trust to be made without the payment of any capital gains tax. A hold-over is not a tax saving overall, merely a deferral, since the trustees - when they later dispose of the asset - must pay capital gains tax on the gain made by the transferor as well as their own gain. But the ability to create the trust without incurring a "dry" capital gains tax charge is one of its main advantages.

This planning works whether the assets in question are held through a limited company or not.

As you would expect from a blog, the explanation above is a simplification of the principles involved, and this planning is not suitable for everyone. However in the right circumstances the long term tax savings can be very significant. The main point is that this is a planning opportunity which becomes much less attractive from April 2026, so advice upon it needs to be taken now.

geldards

# Like to talk to us?


**Andrew Evans**
Partner, Corporate
andrew.evans@geldards.com
+44 29 2039 1761
+44 7968 193 331



**Andrew Morris**
Partner, Corporate
andrew.morris@geldards.com
+44 29 2039 1744
+44 7775 835 712



**Debra Martin**
Partner, Corporate
debra.martin@geldards.com
+44 1332 378 355
+44 7867 502 379



**Andrew Jones**
Senior Associate, Private Client
andrew.jones@geldards.com
+44 29 2039 1706
+44 7702 873 725


# Cardiff
# Derby
# London
# Nottingham

**www.geldards.com**
**info@geldards.com**