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Big changes coming to Inheritance Tax

What business owners and pension savers need to know

If you're a business owner or have a sizeable pension pot, two major changes announced in the 2024 Autumn Budget could have a big impact on your estate planning and tax position.

Here is what's changing — and what you can do about it.

1. Business Relief and Agricultural Relief are being capped

Business Relief (BR) and Agricultural Relief (AR) have long been among the most generous tax breaks available. For decades, they've allowed owners of qualifying business and agricultural assets to pass them on without paying Inheritance Tax (IHT) — in many cases, with 100% relief.

But from **6 April 2026**, that's changing.

Worth noting:

Unquoted and AIM-listed shares, which currently get 100% relief, will only benefit from **50% relief on the full amount from April 2026** — but they won't count towards the £1 million limit.

What's new?

- You'll only get 100% relief on the first £1 million of qualifying assets (business + agricultural combined).
- Anything above £1 million will only get 50% relief, meaning an effective IHT rate of 20%.
- The £1 million limit is per individual, so couples can still pass on up to £2 million tax-free.
- However, the allowance isn't transferable between spouses or civil partners if it's not used when the first person dies.
- The limit will also apply to trusts holding qualifying assets and will likely refresh every 7 years.
- The allowance is in addition to the available Nil Rate Band and Residence Nil Rate Band.

2. Pensions will soon be included in your estate

From **6 April 2027**, most unused pension funds and death benefits will be pulled into your estate for IHT purposes — a dramatic shift from the current rules where pensions can usually be passed on free from Inheritance Tax.

What does this mean?

- Any IHT due on pensions will typically be split proportionally between pension and non-pension assets.
- Your **executors** (or other personal representatives) will be responsible for calculating and paying the tax.
- **Pensions passed to a spouse or civil partner** will remain exempt.
- In some cases, this could lead to **double taxation** — with IHT and income tax potentially hitting the same pot. In extreme scenarios, this could push the effective tax rate to **80%+**.

How much difference could this make?

Here's a simplified example based on a married couple with:

- £800,000 in residential property
- £200,000 investment portfolio
- £3 million qualifying business assets
- £500,000 pension pot

Scenario	IHT Liability	Effective IHT Rate
Current rules	£140,000	3%
From April 2026	£340,000	8%
From April 2027	£540,000	12%

That's a **286% increase in Inheritance Tax** over the next two years. For many families, that means more of your estate going to HMRC — and less to your loved ones.

What can you do?

While some people may not need to act straight away, those looking to preserve their wealth for the next generation should review their plans now.

Here are some options:

Lifetime gifting and trusts

- You can still gift business or agricultural assets — they fall out of your estate after 7 years.
- Consider gifting tax-free lump sums from pensions (if not needed for retirement).
- Trusts can give you control over gifted assets while still reducing your estate's IHT exposure.

Review your will and pension nominations

- Spouses often have mirrored wills — but remember, unused BR or AR allowances **don't transfer**.
- Review your **Expression of Wish** for pensions to ensure it's still tax efficient.

Consider life insurance

- Life insurance won't reduce your IHT bill, but it can give your beneficiaries the cash to pay it.
- You can take out cover on a **whole of life** or **fixed-term** basis.

Do nothing (for now)

- If you plan to use your pension in full for retirement, you may not need to act right away.
- Similarly, it may not be practical to gift business assets if you need to retain control or rely on them for income.

Or... leave the country

- Becoming **non-resident** could take your estate out of the UK IHT net — but it's complex and not for everyone. Speak to a professional before considering this route.

Need help navigating the changes?

With these rules coming in over the next two years, it's important to review your estate plans sooner rather than later. We're here to help you understand the options and build a plan that works for your family, your business and your future.

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The value of your investments can fall as well as rise and is not guaranteed.
The Financial Conduct Authority does not regulate Estate Planning.

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