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## Summary

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A thriving family business sector is vital to the creation of jobs, growth and prosperity across the country.

Britain's 4.8 million family-owned businesses employ 13.9 million people, contribute £575 billion in GVA and more than £200 billion in tax receipts every year. For decades, they have been supported by a stable, fiscal policy environment with Business Property Relief (BPR) underpinning their unique business model.

With strained public finances, the removal of BPR may appear an attractive option. Such a move would represent an existential threat to family businesses.

Ahead of the Budget, Family Business UK calls on the Government to:

- 1. Commit to retain Business Property Relief in full**
- 2. Bring Gift Holdover Relief (GHR) eligibility into alignment with BPR to enable a smooth transition in ownership between generations**

These reliefs are not just financial measures. They are policies that sustain the values of hard work, responsibility and opportunity - values that underpin our economy and way of life. Removing or capping them would be catastrophic to family businesses, lead to the loss of good jobs, weaken the economy and leave Britain a poorer place.

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## Supporting long-term growth through multi-generation businesses

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**Recommendation 1:** *Commit to maintaining Business Property Relief in full.*

BPR is a lifeline for family businesses. It allows them to thrive across multiple generations by innovating, adapting, diversifying and evolving. It allows them to plan for the long term, growing their business for the benefit of the economy, their employees and the communities they are committed to serve.

BPR provides certainty to family business leaders that, when the owner dies and the next generation steps in, the business will continue to trade, without bearing punitive costs. Without BPR, family businesses would instead be managed to cover the inevitable cost of taxes levied during the transition of ownership to the next generation.

Non family-owned businesses incur no such penalty during a succession event.

Since the General Election, there has been considerable speculation that BPR could be removed, capped or otherwise amended. Several organisations have characterised BPR as a loophole which could be removed to raise revenue. This characterisation is simply wrong, and estimates of the revenue raised by removing BPR must be set against the considerable economic and social damage that would be caused.

Family Business UK is clear that retaining BPR is not about preserving loopholes that protect the wealthy. It is about fairness and common sense. To impose an additional burden on family businesses at the very moment when they are most vulnerable, during a generational transition, is counterproductive. It discourages investment, stifles entrepreneurship, and sends the wrong message: that hard work and success will be punished, not rewarded.

**Recommendation 2:** *Bring Gift Holdover Relief eligibility into alignment with BPR to enable a smooth transition in ownership between generations.*

Not all transfers of family businesses occur at death. Some business owners will phase their departure from the company often passing part of the business to the next generation upon retirement. This is a sensible and efficient part of the planning process and succession of the business.

For transfers made before death, business owners may be eligible for **Gift Holdover Relief** (GHR) from Capital Gains Tax (CGT).

Both GHR and BPR protect family firms from having to sell a business, or its assets, to pay a personal tax bill when no cash disposal is intended or planned. They ensure family businesses do not have to hold cash aside to fund future tax bills and can instead confidently invest in the future of the business.

To qualify for these reliefs, firms must pass different trading tests between GHR and BPR, creating unnecessary confusion and challenges for family businesses. These act as a barrier to delivering an efficient transfer during an owner's lifetime.

To support smoother succession planning, the government could look to bring GHR qualifying criteria into alignment with the existing BPR rules.

Ultimately, a smooth transition between generations promotes stability. It is best for the family, the business, and its employees. It allows family businesses to focus on what matters most: creating and keeping good jobs locally, investing in local communities and driving planning and investment for the long-term.

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## About Business Property Relief

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BPR is a positive story of how tax reliefs support growth. Since its introduction in 1976, BPR has given business owners the confidence to focus their efforts on building their business and competing globally. It is one of the fundamental reasons that successive Governments have sought to retain the policy.

Given its longevity, BPR is well understood by family business owners enabling them to seamlessly plan the handover of the business from one generation to the next.

Without BPR, each time a family business is passed from one generation to another, family members would be hit with significant Inheritance Tax bills. By their nature, family businesses have few shareholders meaning shares and assets held by family members are illiquid and selling them (to raise the money to pay the IHT charge) or even valuing them, is extremely difficult.

Shares held by family members often form the bulk of assets within their estate. Consequently, without BPR, shares passed upon the death of a family member would mean the cost of the Inheritance Tax liability would likely be borne by the business itself. These costs can be punitive. A fully costed example can be found in the annex below.

BPR is more than just a tax policy, it is a commitment to fairness, opportunity, and the future of British enterprise. We would urge the Government to be mindful of the unintended consequences of removing BPR, a policy that underpins Britain's millions of family businesses, the economy and the country's long-term growth prospects.

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## About Family Business UK

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Family Business UK is the largest organisation in the UK dedicated to supporting, representing and championing family businesses. Our supporters range from some of the largest, oldest and best-known British brands to small, first-generation family businesses. Our members come from every sector of industry and commerce, and all corners of the UK.

**A worked example demonstrating the vital role of BPR to family firms across the UK:**

- A medium sized 2nd generation family business employing 100 people, working in logistics has a turnover of £25m p.a. with EBITDA of £4.5m p.a. The founder is working in the business alongside son and daughter, all in board roles being paid modest salaries, low leverage max 20% of turnover on rolling credit facility.
- Shares held by founder and his wife will be left to the son and daughter equally on their deaths with some lifetime gifting anticipated planning ahead for succession by the son and daughter. The succession plan will enable business stability, and the bank requires forward planning on who will own and control the business in the event of the founder's death or incapacity.
- The founder dies unexpectedly and the shares pass to the son and daughter directly, their mother has a pension and / or retains some shares to provide her with an income and retains the family home.
- With BPR the business can continue as normal albeit the death of the founder is disruptive, but the son and daughter can build their profile as the new joint leaders of the business without an immediate concern over financing a large tax bill or with their relationship with their bank.
- Without BPR, the business may have instalment option available to them so the tax can be paid off over 10 years. Interest is charged at the HMRC rate of 7.75% which is more than their bank would charge. The tax bill is assessed at 40% of the market value of the whole business which at 5 x EBITDA will be £22,500,000 – therefore the tax bill is £9m in total.
- The beneficiaries must pay that tax bill whether from their own funds or the estate. The latter is far more likely to be the source of funds – very few family business owners have substantial liquid assets - they tend to keep their businesses well capitalised rather than taking out profit to fund their personal wealth or lifestyles.

To fund the tax bill, the business would have to:

- Declare a dividend grossed up for the income tax due on the income at 39% so a dividend of c £15,000,000 would have to be paid. That business and the family is highly unlikely to have that money available so borrowing or using the instalment option will be the most obvious way to pay the tax.
- In terms of interest on borrowing they will pay currently 6% plus in bank interest per year (with HMRC rate at 7.75%),
- An annual dividend would have to be declared to pay that interest grossed up from £900,000 to £1.16m.
- The instalments will be c.£900,000 pa plus the interest on borrowing of £900,000 to £1.16m per annum for 10 years.
- The overall cost to the family will be £18m to £20.6m against an IHT bill of £9,000,000.

At this point it is likely the business would have to either be sold or bring in outside investment which would remove the benefits of being family run as to longevity, stability, long term employee retention rates and so on. They are unlikely to regard the cost of the tax bill as being one the business could simply absorb and carry on as usual.