

# Taxing Family Business Futures

The economic and fiscal implications of reforms to Business Property Relief for UK family businesses

January 2025





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## Foreword – Family Business UK

Family Businesses make up a significant part of the economy. Their value and importance should not be underestimated. Providing employment for almost 14 million people, Britain's 4.8 million family businesses contribute more than £200 billion in taxes each year.

For decades, family businesses have been supported by policies that give them confidence to commit to long-term investment in the future of their business and their employees. Business Property Relief (BPR), which was introduced 50 years ago, underpins the entire model of family ownership ensuring that, when the owner dies, businesses do not need to be broken up or sold off to pay a large Inheritance Tax bill.

Since its introduction, BPR has quietly and without controversy done exactly that.

Changes to BPR, announced in the Autumn Budget 2024, place a material uncertainty over the future of family-owned enterprises and, as a result, the growth ambitions of the Government.

For some businesses, the change may mark the point at which multi-generational family ownership, ceases to be achievable or desirable. Others may be forced into premature sales of assets or entire businesses to offset the cost of Inheritance Tax.

The purpose of this research from CBI Economics is to understand and quantify the likely impacts of the change to BPR: to identify how many family businesses are likely to be in scope of the new rules, how they will adapt their behaviour to mitigate an additional future tax liability and the subsequent impact those changes may have on the wider UK economy.

The analysis in this report seeks to provide context for the debate about the changes to BPR and the future of family businesses.

I very much hope that this report will be used by family businesses, policymakers, government, academics and the media to better understand the contribution made by family businesses and how they, and the economy, will be affected by an apparently simple policy change.

*“ Changes to BPR, announced in the Autumn Budget 2024, place a material uncertainty over the future of family-owned enterprises and, as a result, the growth ambitions of the Government. ”*

A handwritten signature in black ink that reads 'Neil Davy'.

**Neil Davy,**  
CEO, Family Business UK



# Executive Summary

The Government's Autumn Budget introduced changes to how Business Property Relief (BPR), available under the Inheritance Tax (IHT) regime, will be applied to family-owned enterprises.

BPR reduces IHT liability when shares in a business or its assets change ownership due to death or being gifted during lifetime, whether outright or into trust. Currently, a business or interest in a trading business qualifies for BPR at 100%. However, from April 2026, only the first £1 million of qualifying assets will receive 100% relief; above this threshold, qualifying assets will only receive 50% relief from IHT.

This will have an enormous impact on family-owned businesses. This report, commissioned by FBUK, and conducted independently by CBI Economics, finds that there will be a downturn in economic activity through disruptive effects on turnover, employment and investment. Key findings from CBI analysis, which stem from a survey of family-owned businesses, suggest that between April 2026 and April 2030 the UK can expect:

- **A reduction in investment:** family businesses are projected to decrease their investment by an average of 17%, with more than half of these businesses expecting to reduce their investment by more than 20%, indicating a substantial pullback in business investment.
- **Reduction in turnover:** the anticipated changes are expected to lead to an average reduction in turnover of 7% amongst family businesses, with 14% of these businesses predicting a decrease of more than 20%.
- **Fewer jobs:** more than half of family businesses foresee a reduction in headcount, resulting in an average employment decrease of 10%.

This downturn is expected to result in a **Gross Value Added (GVA) loss of £9.4 billion** between April 2026 and April 2030, reflecting the extensive economic repercussions of reduced family business activity.

This will nullify the tax revenue forecast to be raised by the change to BPR. While the Exchequer projects it will raise £1.4 billion in tax revenue, the overall reduction in economic activity could lead to **a net fiscal loss of £1.26 billion** during the forecast period.

The changes to BPR add to an already-challenging economic and business environment for family owned businesses by reducing their competitiveness relative to other models of ownership, and internationally owned competitors. Such is the size of the family business sector that the impact of this change will be felt right across the economy.

The Government must therefore carefully consider these potential impacts, to avoid inadvertently compromising its mission of sustained economic growth, which is an absolute necessity to deliver prosperity and improve living standards for working people.

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# 1 Introduction

*CBI Economics was commissioned by Family Business UK (FBUK) to independently estimate the economic and fiscal impacts of family business activity, in light of the changes to Business Property Relief (BPR) for Inheritance Tax, as announced in the Autumn Budget. These changes are anticipated to affect the economy as a whole.*

*To build a robust evidence base, CBI Economics firstly surveyed family-owned businesses and held roundtable discussions with key stakeholders. Information garnered through this process informed the inputs to economic and fiscal modelling.*

## **Assessing the economic and fiscal impact of Autumn 2024 Budget changes to BPR**

### **Overview of the sector**

Family businesses constitute a large proportion of the UK economy. Research by the IFB Research Foundation and Oxford Economics estimate that the family business sector makes up 90% of all UK private sector firms and employs almost 14 million people; equivalent to 51% of all private sector employment in the UK. In 2020, family businesses contributed an estimated £575 billion in GVA to the economy. Additionally, it is estimated that they contribute £225 billion to the UK Exchequer on an annual basis through tax receipts, which is more than a quarter (27%) of the Government's total tax take<sup>1</sup>.

In addition to their raw economic value, the nature of family businesses brings unique economic and societal benefits. These firms are often micro, small and medium-sized and the bedrock of their communities. The IFB Research Foundation and Oxford Economics have suggested that family firms account for 93% and 95% of firms in the primary and construction sectors, respectively.<sup>2, 3</sup> This underlines their significant strategic importance too. Family businesses pride themselves on taking a long-term view and can build an enduring stewardship of their employees and resources.

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<sup>1</sup>IFB Research Foundation and Oxford Economics (2022) State of the Nation: UK Family Business Sector 2021-22; available at: State of the Nation: UK Family Business Sector 2021-22 — Family Business Research Foundation

<sup>2</sup> Ibid.

<sup>3</sup> The primary sector comprises: agriculture, forestry and fishing; mining and quarrying; electricity, gas, steam and air conditioning supply; and water supply, sewerage, waste management and remediation activities

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## Purpose and need for the research

In the run-up to the Autumn Budget held in October 2024, the Government signalled that tough decisions would need to be made to plug the gap in public finances. Ahead of the Budget, HM Treasury published an analysis estimating that it faced £22bn of extra spending pressures, and a series of monthly borrowing figures had come in higher than the Office for Budget Responsibility had forecast.<sup>4</sup>

During the 2024 General Election campaign, the Labour Party promised to “not increase taxes on working people” which they defined as increases to National Insurance, Income Tax and Value Added Tax.<sup>5</sup> This meant that taxes relating to businesses were likely to rise to fund spending.

The Government’s election manifesto, however, emphasised the importance of sustained economic growth, saying it’s “the only route to improving the prosperity of our country and the living standards of working people”.

FBUK anticipated that fiscal policies vital to family businesses (Business Property Relief and Gift Holdover Relief) could be at risk and commissioned research to demonstrate the disproportionate impact that their removal could have not just on affected businesses, but also on the wider economy.

At the Autumn Budget, the Chancellor announced changes to how Agricultural Property Relief and Business Property Relief will work for Inheritance Tax.<sup>6</sup> Full (100%) relief will continue to apply up to a £1 million limit for the value of qualifying assets claimed under the reliefs. Above this, there will be a new, reduced 50% relief. Previously, a business or interest in a trading business qualified for 100% relief without limit and shares controlling more than 50% of the voting rights in a listed company and land, buildings or machinery used in the business qualified for 50% relief. HM Treasury estimates that between 2026-27 and 2029-30, reforming both the reliefs will raise around £1.75 billion in tax receipts. This was amongst a wider package of tax rises that will increase the annual tax take by more than £41 billion by 2029-30.<sup>7</sup>

FBUK is clear that viewing Inheritance Tax reliefs (including BPR, APR and GHR) as ‘loopholes’ or ‘tax breaks’ is wrong. Rather, the reliefs are crucial for enabling family businesses to confidently plan for succession, with long-term strategies that retain value within the business to drive investment and growth. They are an incentive to family business owners to innovate, take risks and future-proof their companies. On the other hand, changing or capping these reliefs means that cash is extracted from the business to cover a future IHT liability, therefore becoming a direct cost to the business.

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<sup>4</sup> BBC (2024) Row over ‘black hole’ in public finances continues. [Available at: <https://www.bbc.co.uk/news/articles/c9qljw7915yo> (Accessed on: 05/11/2024)]

<sup>5</sup> The Labour Party (2024) Labour Party Manifesto 2024: Change

<sup>6</sup> Agricultural property relief applies to agricultural land and business property relief (BPR) to business assets and unlisted shares. No changes to Gift Holdover Relief were announced at the Budget.

<sup>7</sup> HM Treasury (2024) Autumn Budget 2024: Fixing the Foundations to Deliver Change

## Methodology

CBI Economics surveyed 234 family businesses on how they will respond to the changes announced at the Autumn Budget. Questions were pointed towards understanding the economic and fiscal impacts of the announcement and the wider consequences on the UK's family business landscape. This provided an indication of how turnover, investment and employment are anticipated to vary because of the announced changes to BPR, as well as how businesses intend to respond to mitigate these impacts in other ways. Turnover, specifically, was used as a proxy for output.

Respondents were also asked to provide an estimated time frame of when they expected to undergo a change in ownership. If they responded as being after April 2026, when the change comes into force, and before April 2030, approximately the end of the Parliamentary term, they were deemed to be within the scope of this exercise.

Survey responses were cleansed, categorised and extrapolated to the scale of the entire family business sector. From this we were able to ascertain what proportion of turnover would be lost from the economy, by sector, because of the changes. This served as the input to CBI Economics' bespoke in-house input-output model, which aligns with the HM Treasury Green Book.

Within this Input-Output framework we can derive economic and fiscal multipliers that allow us to determine how reduced business activity could lead to a decrease in Gross Value Added (GVA), Full-Time Equivalent (FTE) jobs, as well as tax revenues – through a reduction in taxes on production and products, Income Tax, National Insurance contributions and reduced employee spending. CBI Economics also used HMT's own analysis on the tax revenue gains from the policy change to understand the net fiscal impact over the parliamentary period that could be expected as a result of the changes to BPR.





## 2 Understanding the effects of BPR reform on UK family-owned businesses

### **Inheritance Tax changes are a significant cause for concern and are likely to lead to major upheaval in the UK economy**

*In the aftermath of the Autumn Budget, CBI Economics surveyed 234 family businesses on how they will respond to the changes announced.<sup>8</sup> Questions were pointed towards understanding the economic and fiscal impacts of the announcement and the wider consequences on the UK's family business landscape.*

As a first step, CBI Economics isolated the impacts on businesses that will be affected between April 2026 and April 2030. Of our survey respondents, 27% expected to change ownership between April 2026 and April 2030. This amounts to almost 2,000 claims during the period though up to 5,000 family businesses are expected to adjust their activity to mitigate the changes to BPR. The figures per year are provided in the table below.

**Table 1: Family businesses adjusting activity and the estimated number of claims during forecast period**

	2026/27	2027/28	2028/29	2029/30	Total during forecast period
<b>Family businesses adjusting activity</b>	1647	1647	824	824	4942
<b>Estimated number of claims</b>	259	556	584	584	1982

### **Changes to Business Property Relief will reduce economic activity**

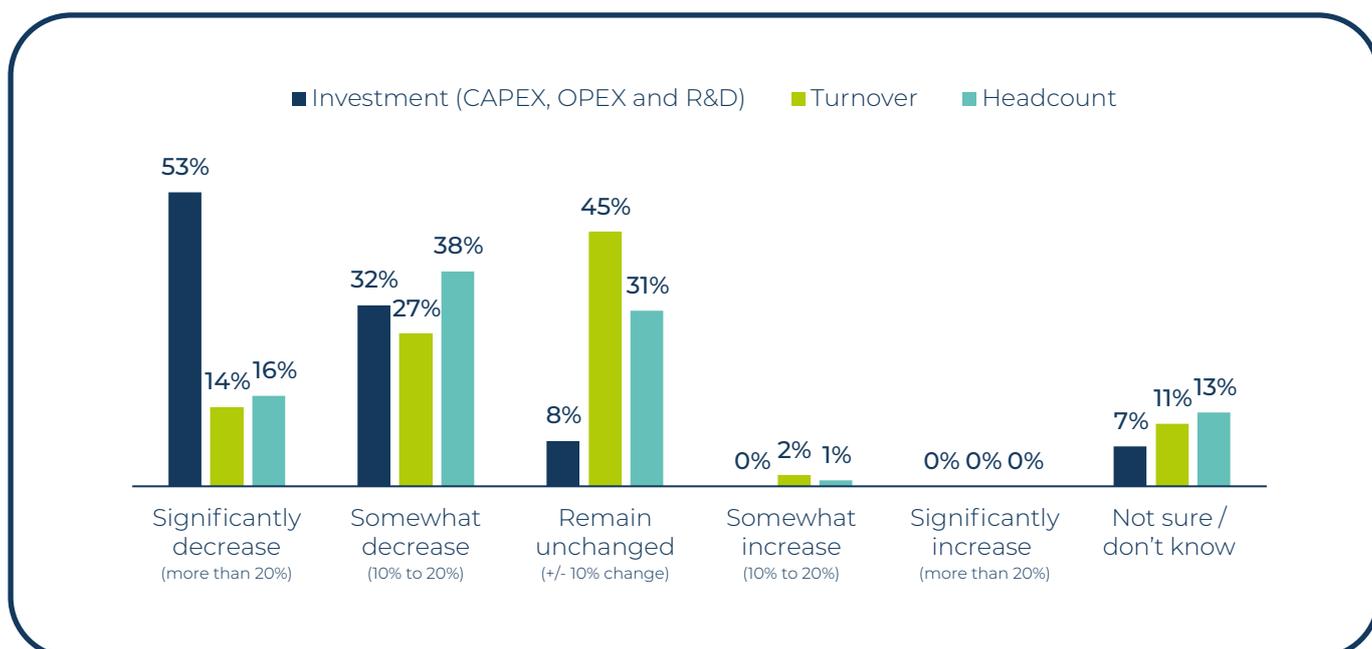
The changes to Business Property Relief will be disruptive. Businesses will have to adjust their activity to offset a future tax liability and prepare a different succession plan. This may mean selling some assets, diverting investment or cutting hiring. Our survey respondents were clear that changing BPR will negatively impact economic activity.

<sup>8</sup> This builds on a previous survey undertaken by CBI Economics prior to the budget. The previous survey tested the potential responses to BPR being scrapped in its entirety. This survey garnered 603 responses from family-owned businesses.

There are three main impact channels:

- **Investment will decrease by an average of 17%.** More than half (53%) of family businesses expect to reduce investment by over 20%, with a further 32% reducing investment by between 10 and 20%.
- Four in 10 family businesses are anticipating reductions in **turnover**, leading to an **average reduction of 7%.** Broken down, 14% of family businesses say their turnover will reduce by more 20% and a further quarter (27%) are anticipating a reduction of between 10% and 20%.
- More than half (54%) of family businesses expect there to be a reduction in headcount, resulting in an **average employment decrease of 10%** in these firms. This proportion comprises 16% who are anticipating a reduction of more than 20% and 38% who are anticipating a reduction of between 10% and 20%.

**Figure 1: The perceived impact of the changes to BPR on family businesses (% of respondents, main business indicators, N=99)**



Source: CBI Economics survey, 2024

## Almost all family businesses expected to change ownership are anticipating detrimental impacts

Only 2% of businesses in scope said that nothing would change that affected the business. There is a range of potential detrimental impacts that businesses are expecting as a result of the changes announced. These range from downsizing the business, deferring or reducing investment or reducing headcount (this option was the most popular and selected by around a third of businesses), all the way to closing the entire business and liquidating or relocating the business overseas, which were selected by 2% of respondents.

Another popular answer was selling off the business entirely, which can create uncertainty, especially for employees over the future of their jobs. Overall, the message is clear that changes to BPR will be significantly disruptive.

**Figure 2** shows the different ways in which family business respondents indicated they would expect to respond to these changes.

**Figure 2: Family business responses to changes to BPR at Autumn Budget 2024**  
(% of business respondents, N=99)



Source: CBI Economics survey, 2024

We asked the same question of family businesses not expected to change in ownership between April 2026 and April 2030 to ascertain the extent to which the changes will damage the overall family business environment.

Family businesses not expected to change ownership between April 2026 and April 2030 have indicated they will also reduce economic activity, which implies that the BPR changes have created an overall worse business environment across the board.

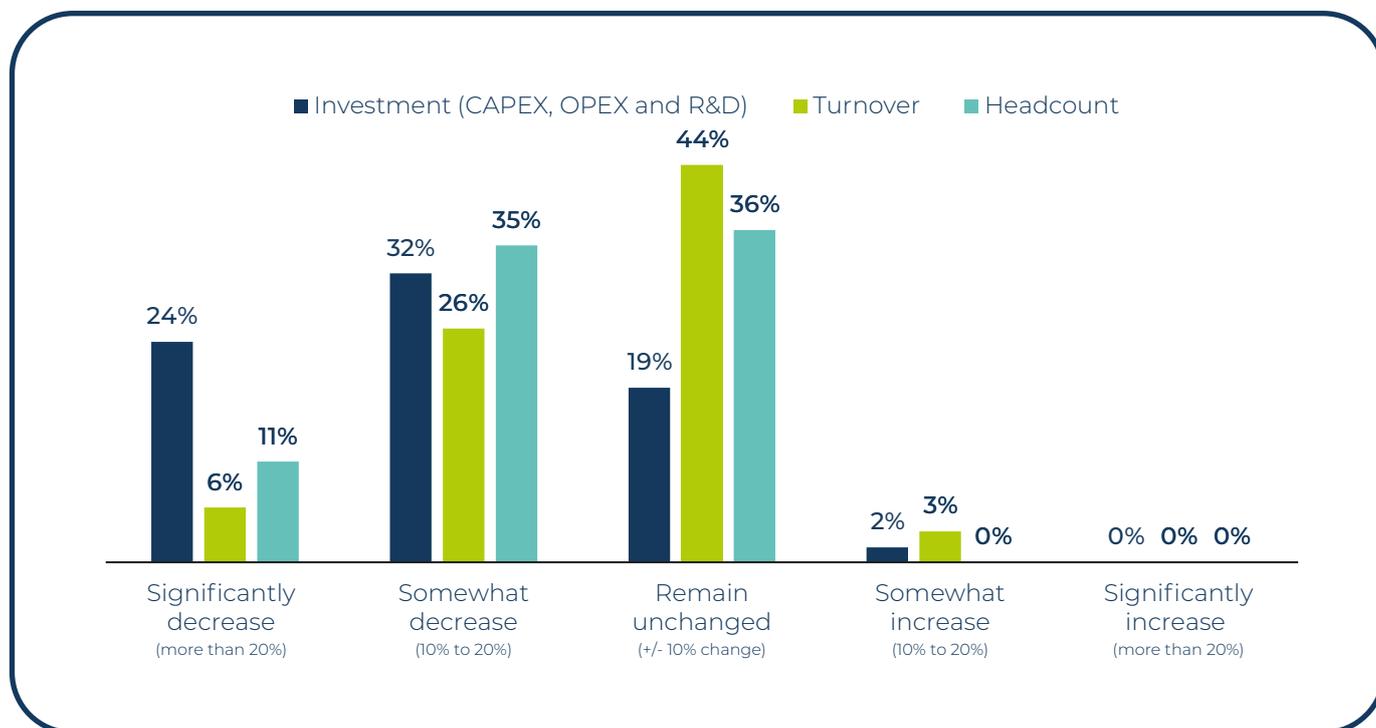
More than half (56%) of respondents said they would reduce **investment** by at least 10%, with almost a quarter of these saying they would significantly decrease investment by at least 20%. By contrast, only 2% of respondents said they would increase investment by between 10% and 20% while none are expected to significantly increase investment by at least 20%.

Almost a third (33%) are anticipating a reduction in **turnover** by at least 10%, which means the detrimental impacts will be felt throughout the economy. This was more weighted towards those (26%) who thought their turnover would somewhat decrease, by between 10% and 20%, and those (6%) who thought it would significantly decrease, by more than 20%.

Almost half (46%) of businesses are expecting a reduction in **headcount** as a result of the changes. Around one in 10 (11%) expects significant reductions of more than 20%, while around 35% are expecting a slightly smaller reduction of between 10% and 20%.

**Figure 3** shows the breakdown of potential impacts to investment, turnover and headcount by scale.

**Figure 3: The perceived impact of the changes to BPR on family businesses (% of respondents, main business indicators, N=120)**



Source: CBI Economics survey, 2024



Prior to the Autumn Budget, CBI Economics held roundtables with family-owned businesses in order to develop an in-depth understanding of how business owners would make decisions in the event that BPR is scrapped or capped. Responses are incongruous with the Chancellor's statements around making economic growth the 'national mission'.<sup>9</sup> We present some anecdotes from these discussions below.

*"If one of the major shareholders were to die and BPR were not available, it would likely lead to the sale of the over-250-year-old business by break-up to enable the IHT to be paid. The acquirer would shut one part of the business and redevelop a large part of the site for residential dwellings. The loss of the store (the anchor store in the town) would likely lead to the closure of other local retail businesses due to the loss of footfall in the town."*

**Retail, East of England**

*"We are closing our company due to the harsh conditions in the UK after 36 years in business. The UK is no longer a country for small business."*

**Electrical manufacturing company, South West**

*"If business relief was taken away and I died, my heirs would not be able to afford the IHT and therefore that would lead to a fire-sale of the business – bad news for the employees, the business and my children. I am now seriously considering a sale of the business entirely which is a real shame as we are a thriving business. This is the most destructive blow to growth and the entrepreneurial economy. My father founded the business over 65 years ago and I've built it up over the last 30 years, at times making immense sacrifices such as not taking salary when times were hard. We employ highly skilled people on high wages and I deeply resent the threat this poses to the business I cherish."*

**Arts, entertainment and recreation, South East**

*"The removal of reliefs would seriously disincentivise current owners of the company and as a result the prospects of the company would suffer. It would be a petty, short-sighted and extremely mean-spirited move that would crush entrepreneurial spirit throughout the country."*

**Food manufacturing, South West**

<sup>9</sup> @RachelReevesMP on x.com (2024) "Restoring economic growth is now our national mission. It's a new start - and I'm ready to get to work". Available at: <https://x.com/RachelReevesMP/status/1809517438200906122>

## 3 The impacts on the UK economy and public finances

*Having collected comprehensive data around family businesses and their responses to the change to BPR, via the survey, we modelled the potential economic and fiscal impacts of changing Business Property Relief (BPR). Primary survey data was integrated with additional secondary data collected from official and third-party sources. CBI Economics' in-house economic and fiscal models were then applied to this data, deriving the total economic impacts in Gross Value Added and Full-Time Equivalent jobs, along with net fiscal impacts to the Exchequer.<sup>10</sup>*

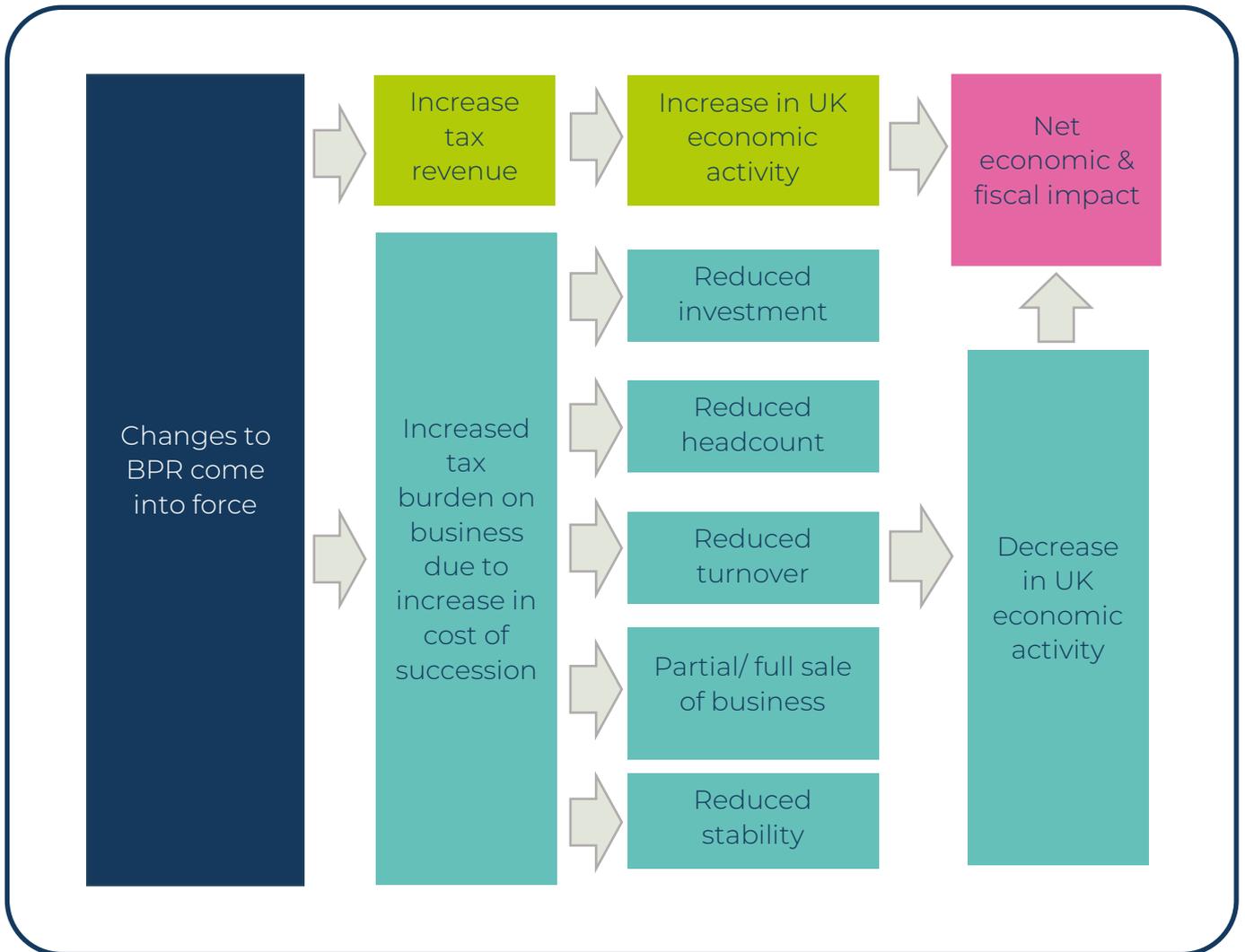
The impact will be felt primarily in terms of gross output, employment and the returns to the exchequer:

- Reduced family business activity will lead to a **loss in Gross Value Added of £9.4 billion** over the **next five years**. Of this, £4.1 billion is associated with the initial activity of family businesses, with the remainder in the supply chain across the economy.
- The UK could potentially **lose 125,900 FTE jobs by April 2030** because of reduced family business activity brought by the changes to BPR. This comprises 63,000 FTE job losses amongst family businesses and an additional 62,900 FTE jobs lost throughout the supply chain.
- While the Exchequer expects to raise to raise £1.4 billion in tax revenue from its proposed BPR changes by April 2030, our estimates indicate the dampening of activity will lead to a **net fiscal loss of £1.26 billion in this period**.

The proposed changes to BPR in the Autumn Budget raise important questions about their potential impact on family-owned businesses in the UK. This analysis seeks to explore how the policy adjustments will influence economic activity and growth through various impact channels including investment, headcount and turnover. Our analysis also considered other responses such as changes to ownership composition. The previous chapter presented the expected behavioural response from business owners and the following analysis will project the broader economic effects of this anticipated response. The theory of change underpinning this chapter is presented in **Figure 4** overleaf.

<sup>10</sup> Whilst reduced investment will undoubtedly feed into reduced output, the research did not analyse investment individually here. The Input-Output model will pick up this effect to some extent, however will not fully encompass the further impacts of deferred and reduced business investment on growth more broadly, which are likely to be significant.

Figure 4: Theory of change



Source: CBI Economics, 2024

As an input into economic impact modelling, our subsequent analysis of GVA, jobs and fiscal impacts focuses only on the reduced output of family-owned businesses. It does not analyse the impact of reduced investment by family-owned business.

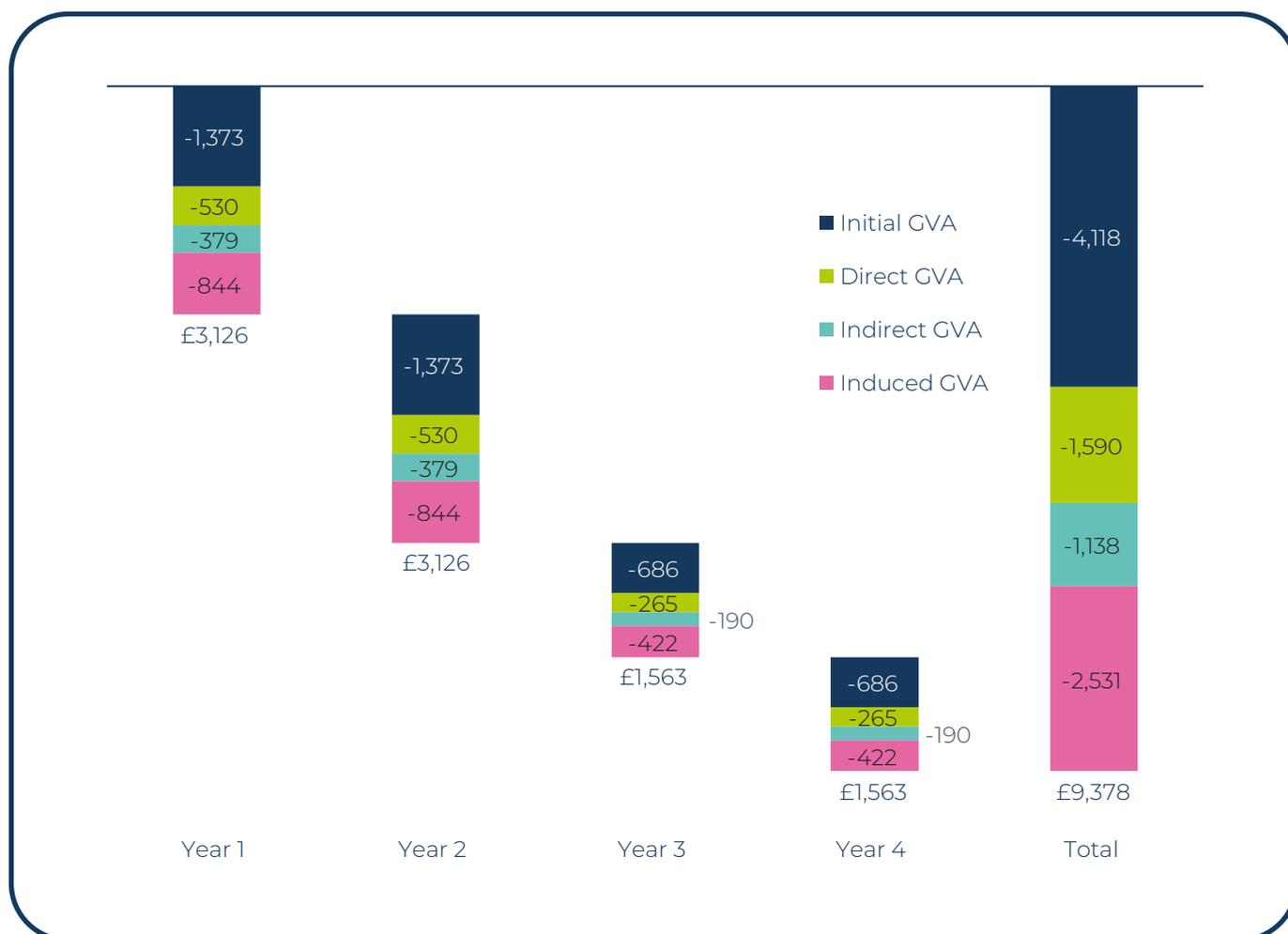
### Reduced family business activity will lead to a GVA loss of £9.4 billion over the next five years

Changes in the turnover of family-owned businesses over the next five years served as a vital input into the economic modelling of this research. If the Autumn Budget changes are implemented as announced then family-owned businesses that anticipate a change of ownership between April 2026 and April 2030 expected turnover to decrease by 7% on average due to adjustments needed to accommodate the changes.

Overall, we estimate that the changes will result in:

- A **GVA loss of £9.4bn** over the next five years, which is equivalent in value to halving the output of the UK's car manufacturing industry or losing a quarter of food manufacturing activity.
- Of this, £4.1bn in GVA loss is directly associated with the initial activity of family businesses and the overall GVA loss has a multiplier effect of 1.28. This means that for every £1 in GVA lost from family business activity, £1.28 of economic activity is lost across the rest of the economy.
- GVA impacts are spread evenly throughout the five year period but slightly front-loaded, as 33% of the impacts occur in the first year of the forecast.

**Figure 5: GVA losses associated with reduced family business activity resulting from changes to BPR (£m, 2024 prices, year by year)**



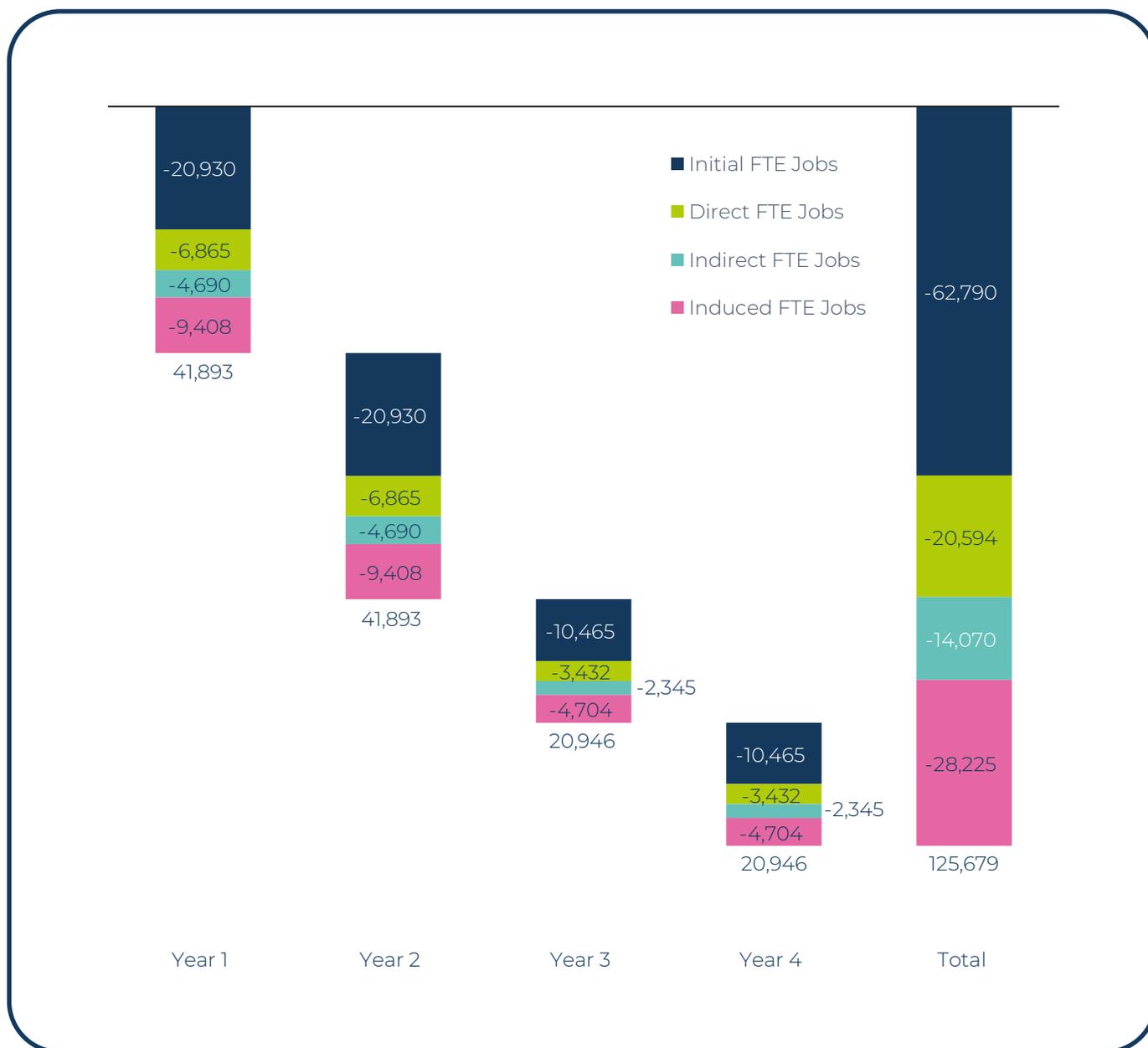
Source: CBI Economics analysis, 2024

## The UK could potentially lose 125,900 FTE jobs over the next five years from reduced family business activity with the BPR changes

In addition to GVA, the employment effects of scrapping reliefs were also modelled in terms of FTE jobs. Diminished family business activity, because of BPR changes, will lead to the potential loss of **125,900 FTE jobs** over the next five years. Within this, almost 63,000 FTE job losses arise directly from reduced activities of family-owned businesses, whilst a further 62,900 are lost due to negative impacts within their supply chain and reduced employee spending.



**Figure 6: Employment losses associated with reduced family business activity due to BPR changes**  
(FTE jobs, year by year)



Source: CBI Economics analysis, 2024

This generates a slightly weaker negative multiplier effect for employment than GVA. For every FTE job lost directly within family-owned businesses, a further 1.01 jobs are lost throughout the wider economy. But similarly to GVA, employment effects are distributed evenly throughout the five year time horizon with a slight front-loaded aspect, as 28% of FTE job losses materialise in the first year of the forecast. Again, employment modelling purely reflects the negative impacts associated with inhibited activity amongst family-owned business as a result of the changes to BPR.

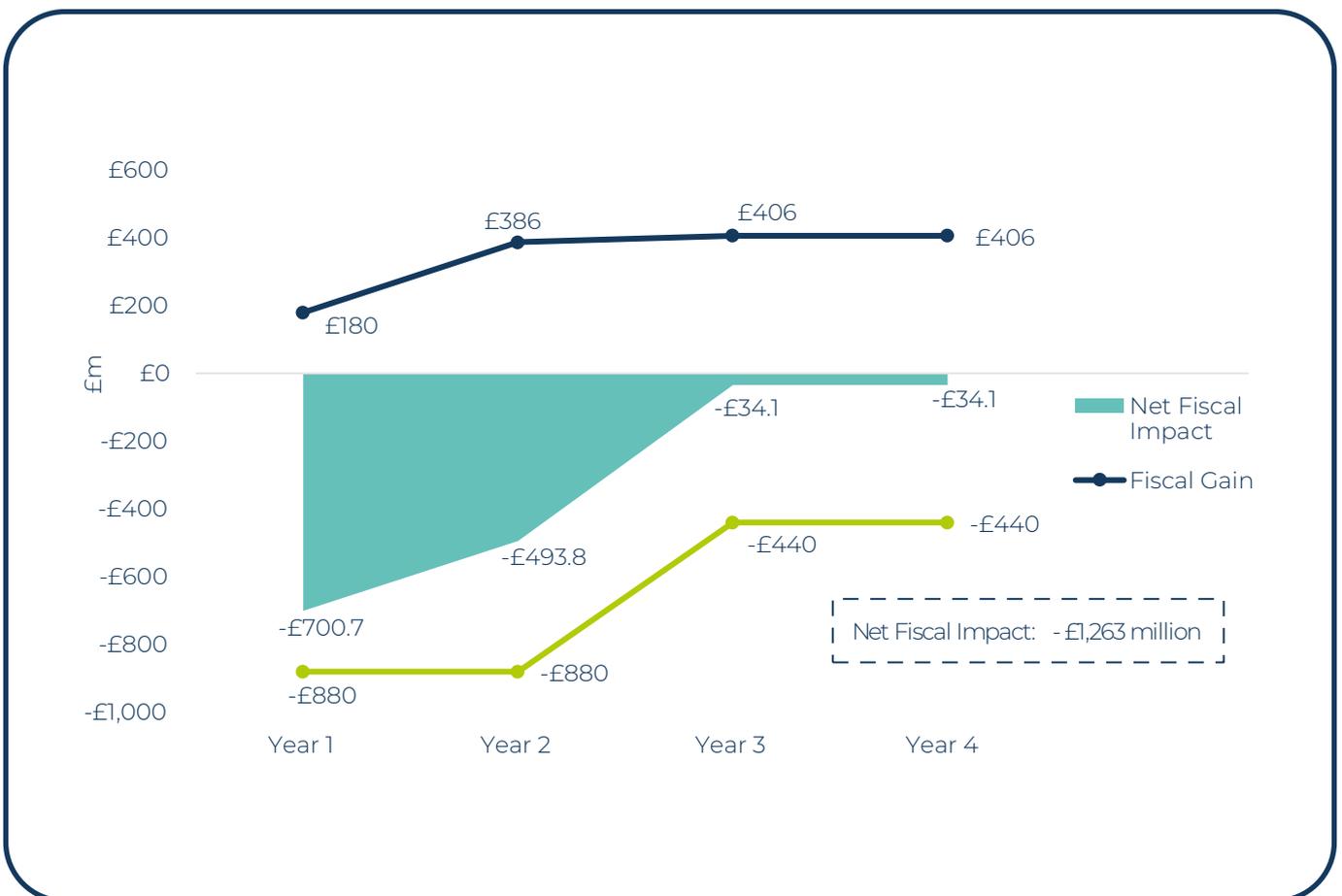
## Changes to BPR could result in a net fiscal loss for the Exchequer

The Exchequer expects to raise £1.4 billion in tax revenue from family-owned businesses over a five year period from changing BPR, starting at £180 million in 2026/27, rising to £386 million in 2027/28 and reaching £406 million in 2028/29 and 2029/30<sup>11</sup>

However, this report has demonstrated that changes to BPR can be expected to **reduce economic activity** from family-owned businesses. This will reduce the Exchequer's tax take via lower production, spending and income-related taxes. The changes are expected to result in a **fiscal loss of £2.6 billion** across our modelling period.

In a scenario where the changes to BPR are enacted, the Exchequer is expected to make a net fiscal loss of £1,263 million (or, £1.26 billion) over the next five years. This is presented in Figure 7, below. Given that this change was brought by the Chancellor's desire cover the costs of spending elsewhere, this analysis suggests that the opposite will happen and there is a risk that the gap in the Government finances widens further.

**Figure 7: Fiscal losses for the Exchequer due to BPR changes**



Source: CBI Economics analysis, 2024

<sup>11</sup> This estimate has been generated from costs provided in the Office for Budget Responsibility's costings contained within Table 3.8 of the Economic and fiscal outlook published in October 2024. A proportion (78%) of this value has been applied to isolate out the impact of Agricultural Property Relief which is not modelled here. This proportion aligns with the ratio of these reliefs in 2023/24.

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## 5 Conclusion

### **The proposed changes to Business Property Relief (BPR) are poised to significantly disrupt family-owned businesses, leading to substantial economic repercussions**

The anticipated reductions in investment, turnover, and headcount all point towards a widespread negative impact on UK economic activity. This survey data confirms that family businesses are already actively considering reducing their own activities. These changes are likely to result in a Gross Value Added (GVA) loss of £9.4 billion and the potential loss of 125,900 Full-Time Equivalent (FTE) jobs during the forecast period of April 2026 – April 2030.

The overall deterioration of the business environment for companies that are family owned will have negative repercussions for the wider economy as reduced activity seeps into the supply chain and the workforce has less money to spend.

Additionally, survey respondents suggested that even more serious impacts could result from the BPR changes, with 2% of respondents suggesting they will close their business altogether. Given the large section of the economy that family businesses account for, this could have serious implications. Likewise, the number of businesses saying they will sell up creates further disruption and uncertainty for the workforce.

The fiscal implications are equally concerning, as the Exchequer's anticipated tax revenue gains from the BPR changes are likely to be offset by the overall decline in economic activity, leading to a net fiscal loss of £1.26 billion over five years.

### **These impacts will make it harder for the Government to deliver growth and prosperity**

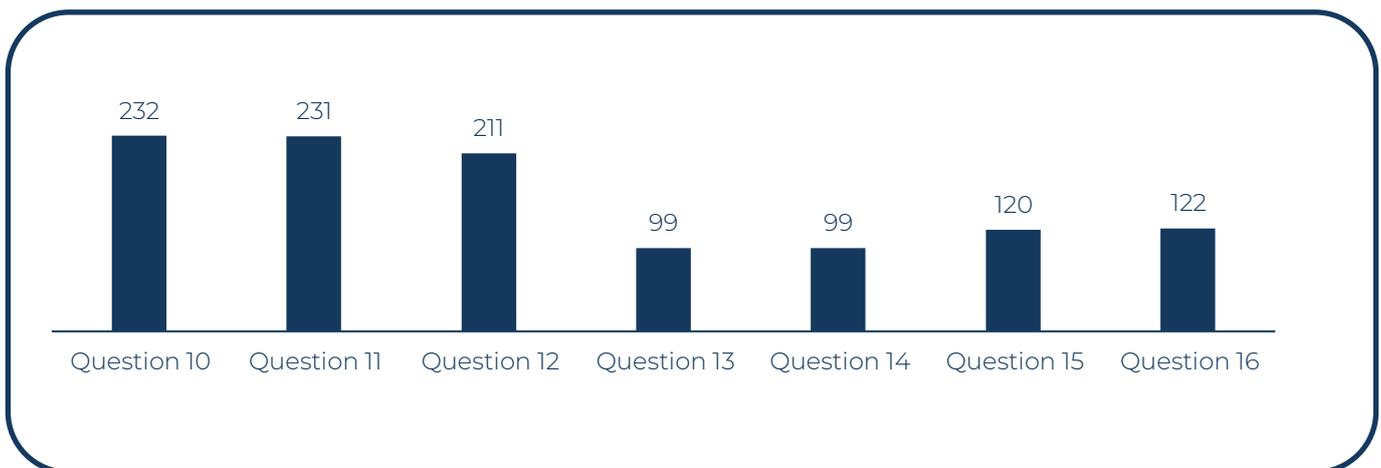
Ultimately, the changes to BPR could undermine the stability and growth of family-owned businesses, which comprise a substantial portion of the economy. The Government must carefully consider the potential impacts of changing BPR to avoid inadvertently compromising its mission of sustained economic growth, which is an absolute necessity if it is to deliver prosperity and improved living standards for working people.

## Appendix 1: Methodology

To gather robust primary data, CBI Economics surveyed family business owners as part of its wider post-Autumn Budget survey of all business owners. A total of 248 businesses responded to the survey, of which 234 were family businesses, who therefore formed the sample of this analysis. Within this, 71% of respondents were small and medium-sized enterprises (SMEs) with the remainder being large businesses employing more than 250 workers. Oxford Economics estimated that in 2020, approximately 99.9% of family businesses were SMEs. There was broad geographical coverage across all UK regions.

Respondents were from a variety of sectors but accommodation and food services (28%), manufacturing (15%) and construction (15%) were the most popular. The sample size for each question is presented in **Figure 8**, below. It is important to note that Q13 and Q14 were only asked of businesses expecting a share transfer or change of ownership between April 2026 and April 2030 with a value greater than £1m (hereafter referred to as 'in-scope'), while Q15 and Q16 were asked of those not in this cohort.

**Figure 8: Number of respondents, by survey question**



From this primary data, we were able to ascertain an average reduction in turnover for firms within the family business sector that was based on the revealed estimates of family business owners. Using turnover as a proxy for output, this served as the input to the Input-Output model. Further information on the Input-Output model is provided in Appendix 2.

Various outputs from the Input-Output model can be used to determine impacts on tax revenues. These impacts are borne through production and product taxes, Income Tax, National Insurance contributions and reduced employee spending. Impacts are modelled by applying data from the ONS Input-Output analytical tables, the National accounts on household expenditure and Income Tax ratios to the changes in output to estimate the revenue foregone as a result of a downturn in economic activity. We also used HMT's own analysis on the tax revenue gains from the policy change to understand the net fiscal impact over the parliamentary period that could be expected as a result of the changes to BPR.

<sup>12</sup> Oxford Economics (2022) The State of the Nation: The UK Family Business Sector 2021 - 22

## Appendix 2: The Input-Output framework

The Input-Output framework forms the core basis of the CBI Economics in-house models for the UK and regional economies. This draws on the Input-Output Analytical Tables, derived from the UK and Scottish National Accounts, and does the following:

- Traces out the transaction flows between different industries, as well as between industries and other sectors of the economy which capture all the potential sources of demand for an industry's economic output (such as households, government, export demand, capital investment). This shows both the inter-dependencies between industries, or supply chain relationships, which enable us to estimate supply chain contributions, and the relationship between consumers and producers within the economy.
- Outlines the sets of inputs required in the production of one unit of output in addition to inputs purchased from other industries. These are the primary inputs, which include GVA (made up of compensation of employees, gross operating surplus, and taxes, less subsidies, on production), imports, and taxes on products.
- Estimates the total economic contribution of a sector by quantifying the interactions between the sector on its supply chain and household income.

Following from the Input-Output Tables, Type I and Type II multipliers are calculated for variables such as output, GVA and employment. Type I includes the direct (first tier of supply chain) and indirect effects (rest of the supply chain), and Type II includes direct, indirect, and induced effects (the effects attributable to further spending generated with industries by the wages and salaries of the jobs supported). These multipliers essentially add up the effects across all industries, therefore capturing the extent of the economic contribution throughout the wider economy. For this modelling, the Type II multiplier will be applied.



## About Family Business UK (FBUK)

Family Business UK is the largest organisation dedicated to advocating for, promoting, and championing family businesses. It is a movement of some of the most innovative and best-known family businesses across the country, ranging from small first-generation, founder businesses to global multinationals.

Family Business UK is a not-for-profit organisation.

For media and trade enquiries or information about becoming a Member, contact [info@familybusinessuk.org](mailto:info@familybusinessuk.org)

## About CBI Economics

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