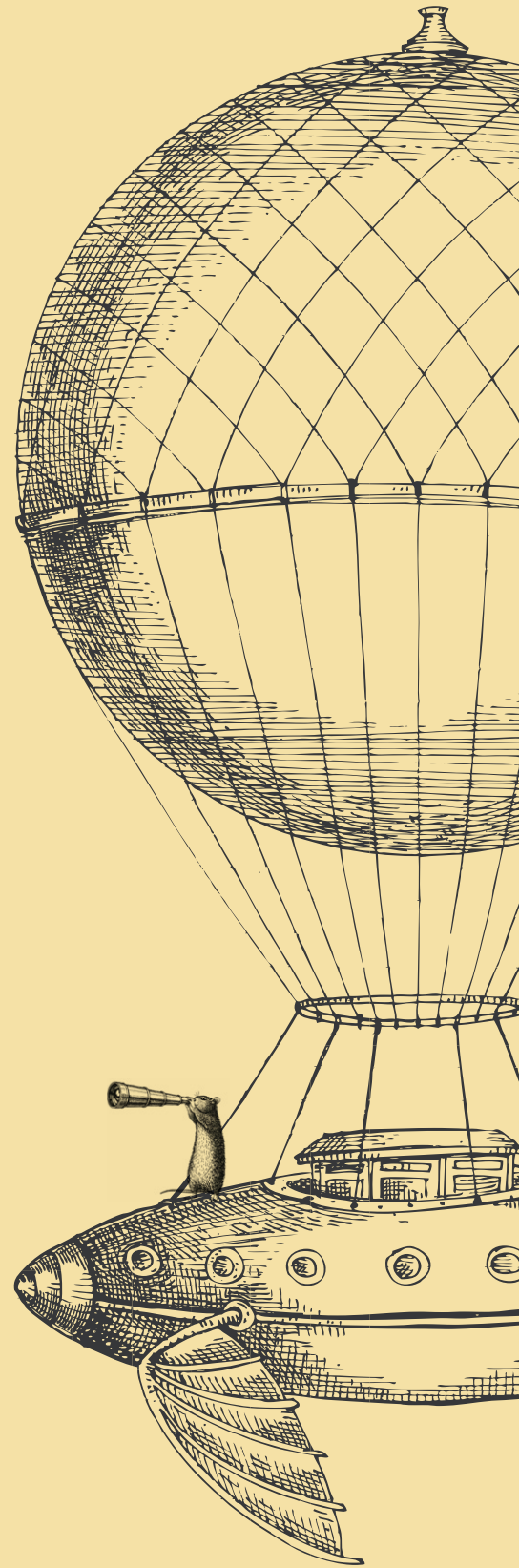


TECHNICAL
PAPER

FOR INVESTMENT PROFESSIONALS

NAVIGATING THE NEW BUSINESS RELIEF ALLOWANCE

This technical paper is designed to assist you in planning for your clients by providing a high level, informative summary of the relevant provisions and rules. It should not be read as advice. Professional tax advice should be sought that can take account of your clients individual circumstances.



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Navigating the new Business Relief Allowance planning rules

Since October 2024, the government has introduced significant changes to the IHT planning landscape. While the headlines have been widely reported, practical guidance on how some of these rules work is limited. Yet, the detail is crucial for helping clients plan effectively.

£2.5 million Business and Agricultural Relief Allowance

As of 6 April 2026, everyone benefits from a new Business and Agricultural Relief Allowance (BR Allowance). This allowance enables clients to benefit from 100% relief on inheritance tax (IHT) on up to £2.5 million of qualifying investments. Any qualifying investments above this limit will receive 50% relief, resulting in an effective IHT rate of 20%, with no maximum or cap.

This allowance is set until 6 April 2031, after which the government has made provision for it to rise in line with the Consumer Price Index.

Shares listed on AIM

Shares in qualifying trading companies listed on the Alternative Investment Market (AIM) can qualify for Business Relief. As of 6 April 2026:

- These shares attract 50% Business Relief, rather than 100%.
- For estates otherwise subject to inheritance tax at 40%, this results in an effective tax rate of 20% on qualifying AIM holdings.
- AIM-listed shares do not use the Business Relief allowance and are instead taxed at the reduced rate where applicable.

Assets that can benefit from 100% relief

- Shares in unquoted qualifying companies
- Qualifying assets such as a sole trade or interest in a trading partnership
- Agricultural property

Married Couples Allowance

Each individual in a couple is entitled to a £2.5 million BR Allowance. Any amount that is not utilised by the first spouse to die will automatically transfer to their surviving spouse or civil partner in a similar way to the Nil Rate Band.

Spousal transfers are exempt from IHT, therefore if the first spouse to die leaves Business Relief-qualifying investments to their surviving spouse, their BR Allowance will not have been utilised on this transfer. If no other gifts of qualifying investments have been made, the surviving spouse will benefit from a £5 million BR Allowance.

There is no requirement that any qualifying investments were owned by the first spouse during their lifetime or on their death in order for the allowance to transfer. If none were

owned, the surviving spouse must benefit from 100% incremental BR Allowance as none could have been utilised on the first death.

A practical example

This is clear from the HMRC guidance "A farm owned by one or both members of a couple, either married or in a civil partnership, can be passed on tax-free up to £5.65 million. This is regardless of whether the farm is owned jointly or solely by one member of the couple. The £2.5 million allowance can be transferred to their spouse on death if unused, leaving the surviving spouse with £5 million allowance to use against any agricultural assets in their estate."¹



What is the estate planning opportunity?

This creates the opportunity for more flexible planning to be considered than would have been possible under the original 2024 Budget proposals:

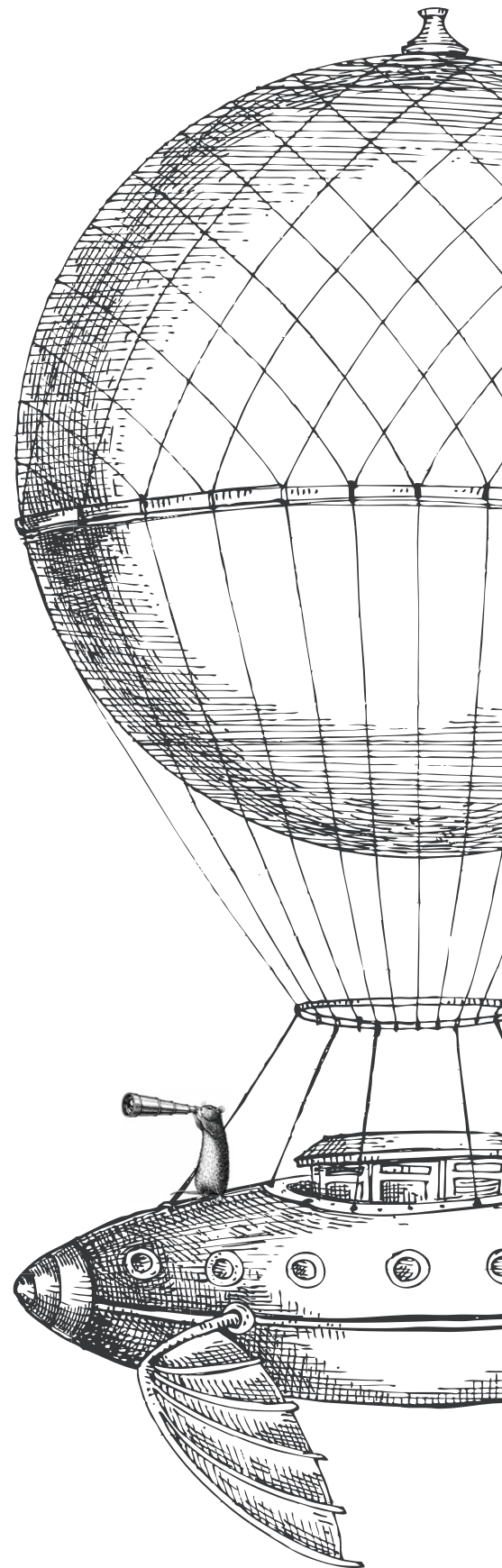
- A married couple can continue to benefit from the combined holding period of two years under section 108(b) Inheritance Tax Act (IHTA), meaning that only one spouse must survive for two years in order for BR planning to be effective.
- Where estate planning is being considered following the death of one spouse, the survivor can plan to utilise the combined BR Allowance (up to £5 million).
- Qualifying investments can be passed to the next generation on either the first or second death without penalty.

Death prior to 6 April 2026: impact on Business Relief Allowance

If a spouse died prior to 6 April 2026, the surviving spouse will always be entitled to a full additional BR Allowance.

This entitlement applies regardless of whether the first spouse owned any BR-qualifying assets, or if (where qualifying assets were owned), those assets were left to someone other than the surviving spouse. This means that anyone with a spouse who dies prior to 6 April 2026 will be entitled to a BR Allowance of £5 million available to set against qualifying investments in their estates.

HMRC guidance explains that “A new Chapter 2A will be inserted to provide for a £2.5 million allowance for individuals and a £1 million trust allowance. This will allow for the transfer of an individual’s unused £2.5 million allowance to their surviving spouse or civil partner, including transfer of a full £2.5 million allowance if the first death was before 6 April 2026.”²



¹ As detailed on gov.uk – What are the changes to agricultural property relief?, last updated 23 December 2025

² As detailed on gov.uk – Agricultural property relief and business property relief changes, last updated 9 January 2026

Making lifetime gifts of Business Relief-qualifying investments

The £2.5 million BR Allowance is a 'lifetime allowance'. Similar to the Nil Rate Band, it will be used up by any of the following ways:

- “Failed” lifetime gifts of BR-qualifying assets made within the seven years prior to death.
- Transfers into trust of BR-qualifying assets within the seven years prior to death.
- Before the balance is available for qualifying assets left on death.

Your clients can make lifetime gifts of BR-qualifying assets without triggering an immediate inheritance tax charge, as no IHT is payable when gifts are made.

If the donor dies within seven years of making the gift, the BR Allowance will be applied to the gift. This will either reduce or eliminate the amount available to apply to any qualifying investments left on death. If the gift exceeds the BR Allowance and the Nil Rate Band, the inheritance tax rate

applicable to the excess may be reduced by taper relief (depending on the length of time since the gift was made) and then by the 50% Business Relief rate.

If the donor survives for more than seven years, the gifted assets no longer form part of their estate. The BR Allowance becomes available to set against any further lifetime gifts of Business Relief-qualifying assets that become chargeable (due to death within seven years of making the gift), or against the death estate.

Ongoing requirement for the recipient (Section 113A IHTA)

The pre-existing rules relating to lifetime gifts of Business Relief-qualifying shares in section 113A IHTA continue to apply – the recipient must continue to hold the gifted shares for the shorter of seven years or until the donor dies in order for the donor’s estate to benefit from Business Relief.

Gifts made before 6 April 2026

Whether a lifetime gift or settlement uses up the Business Relief Allowance depends on both when the gift was made and the date of death. Under transitional rules, lifetime gifts made on or after 30 October 2024 are only brought into account for Business Relief Allowance purposes where the donor dies on or after 6 April 2026, and does so within seven years of making the gift.

DATE THE GIFT WAS MADE	LIFETIME GIFTS TO INDIVIDUALS	LIFETIME GIFTS TO A DISCRETIONARY TRUST
Prior to 30 October 2024	Allowance not utilised	Allowance not utilised
After 30 October 2024 but before 6 April 2026	Allowance is utilised , unless donor dies before 6 April 2026	Allowance not relevant to the initial settlement. If settlor dies after 6 April 2026 and within 7 years , allowance is relevant to the IHT charge
After 6 April 2026	Allowance will be utilised if the donor dies within seven years	Allowance will be utilised if the settlor dies within seven years

Business Relief Allowance and Discretionary Trusts

Initial charge when assets are placed into trust

When assets are settled into discretionary trust during someone's lifetime, an immediate charge to inheritance tax arises. This is called a "Chargeable Lifetime Transfer" (CLT) and is typically charged at 20% of the value settled in excess of the Nil Rate Band.

Until 6 April 2026, unlimited values of Business Relief-qualifying assets could be settled into discretionary trust without an initial CLT being payable.

From 6 April 2026 onwards, settlements of Business Relief qualifying investments into trust will utilise the personal Business Relief Allowance. This means up to £2.5 million of qualifying assets can be settled into trust without a CLT being payable. Any excess amounts will incur 50% of the usual charge.

There is also a second point of charge for inheritance tax if the settlor dies within seven years of moving assets into trust. If this happens, amount settled will reduce or eliminate the amount of the Business Relief Allowance available to set against any Business Relief-qualifying investments that may form part of the death estate.

If the settlor survives more than seven years from settling Business Relief-qualifying investments into the trust, the trust will have no impact on the availability of the Business Relief Allowance against qualifying assets in the death estate.

Ongoing trusts charges

Inheritance tax is also charged in respect of assets in discretionary trust periodically, both on the ten-year anniversary of the trust's creation and when assets are exited from the trust.

This rate is typically 6% on value exceeding the Nil Rate Band. Trusts holding Business Relief-qualifying assets benefit from a reduction in this charge, potentially to zero subject to the proportion of qualifying assets.

Under the new rules, trusts will have their own Business Relief Allowance of £2.5 million in addition to the £325,000 nil rate band. Business Relief-qualifying assets held in trust up to this allowance will benefit from 100% relief, with the excess benefiting from a 50% reduction in the standard IHT charge.

Anti-fragmentation rules will apply such that all trusts created by the same settlor will share this allowance. This allowance is a "lifetime trust allowance" – it does not refresh and will be considered to have been utilised even if the trust is wound up or no longer holds BR-qualifying assets.

There is one important exception

Trusts created before 30 October 2024 will each receive their own £2.5million BR Allowance provided they already held Business or Agricultural Relief-qualifying property that qualifies for 100% relief under the new rules.

Planning point: Clients can transfer larger amounts of qualifying assets into trust with careful planning, utilising the BR Allowance every seven years.

AIM shares and replacement relief

Replacement relief

When an investor sells a qualifying investment and reinvests some or all of the proceeds into another qualifying investment, they will benefit from replacement relief under section 107 IHTA.

This is typically relevant to investors who have not held their investment for the minimum two-year period usually required for Business Relief at death.

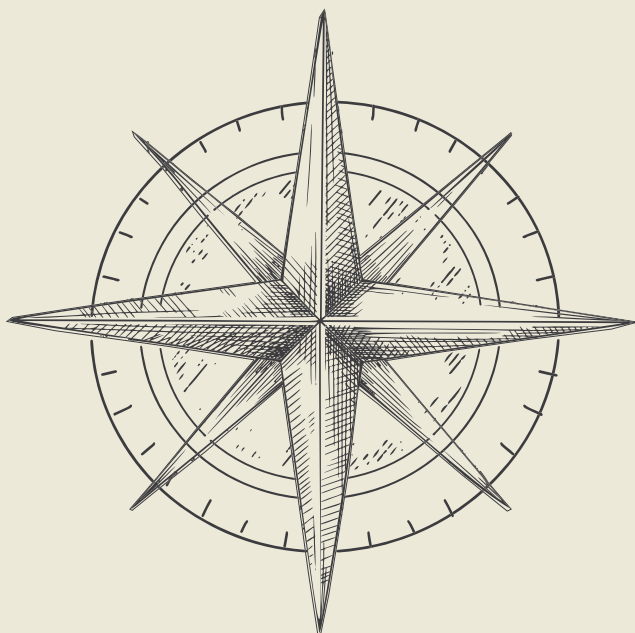
Section 107(1)(a) allows an investor to meet the holding period requirement by combining their ownership of both the original and replacement investments, provided that together they have held qualifying assets for at least two out of the five years immediately before the transfer value.

For those who have already satisfied the minimum holding period with their original investment, any new qualifying shares purchased with the proceeds will benefit from relief immediately.

Applying the new rules

There are different rules when the original investment consists of shares listed on the Alternative Investment Market (AIM). If an individual disposes of AIM-listed shares and invests the proceeds in qualifying unquoted shares, relief on the replacement shares is restricted to the 50% rate applicable to AIM shares. This restriction remains in place until the new shares have been owned for two years and meet the minimum ownership period in their own right.

This limitation arises because section 107(2) restricts relief for replacement assets to the rate applicable to and value of the original asset.



Planning point: Clients moving from AIM holdings to unquoted will continue to benefit from 50% relief until the holding period for the new investment has been met.

If you would like more information on how the rules work, visit the [HMRC website](#).

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Get in touch

We're here to help

Our expert national Business Development team is here to help, and would be happy to discuss our Service and offers in more detail with you either by phone or by visiting your offices.

Please contact us on **020 7408 4070** or email us at **businessdevelopment@pumainvestments.co.uk**

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