

NEW INHERITANCE TAX REGULATIONS FOR BUSINESSES AND FARMLAND



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NEW INHERITANCE TAX REGULATIONS FOR BUSINESSES AND FARMLAND

What families with substantial assets in Norfolk, Suffolk, and Essex need to know

The financial landscape for business and farmer owners is set to undergo a significant shift, with new Inheritance Tax (IHT) rules proposed to take effect in April 2026.

These changes, announced in the October 2024 Budget, aim to limit reliefs on trading businesses and farmland. While the updates provide certain benefits, they may also significantly affect estate planning strategies, particularly for families with substantial assets in Norfolk, Suffolk, and Essex.

If your business or farmland is valued at over £1 million, it is essential to understand how these new rules may impact your finances and legacy. Below, DG Financial outlines the key changes, examines their potential implications, and provides actionable steps to help you safeguard your assets and secure your family's future.

KEY CHANGES TO THE INHERITANCE TAX (IHT) FRAMEWORK

Commencing in April 2026, the proposed changes will introduce the following

critical changes to Inheritance Tax reliefs for business and agricultural assets:

Relief cap - The new rules cap full (100%) IHT relief at the first £1 million of qualifying assets.

Reduced relief beyond the cap - For assets exceeding £1 million, IHT relief drops to 50%.

Standard IHT rate - Assets that don't qualify for relief continue to face the standard IHT rate of 40%.

TAXATION, SUCCESSION, AND WEALTH DISTRIBUTION

While any relief is better than none, the implications of this reduced rate above the threshold are significant. For example, the taxable liability on farmland worth £2 million could be as high as £200,000 under the revised system. Families operating valuable enterprises may need

reconsidering their taxation, succession, and wealth distribution strategies.

HOW COULD THESE CHANGES AFFECT YOUR ASSETS?

Whether you own a family-run farm, a trading business, or other qualifying assets, these new rules could intensify the tax burden on your estate. Assets above the £1 million cap will likely face higher tax liabilities, which risks compromising your plans to transfer wealth to future generations.

To mitigate the impact of the April 2026 proposed changes, now is the time to rethink your estate planning with a sharper focus on efficiency, flexibility, and protecting what matters most. Below are some practical approaches to minimise IHT exposure.

1. LIFETIME GIFTING

Lifetime gifting stands out as one of the most straightforward and effective strategies if you aim to reduce the size of your taxable estate and mitigate future



inheritance tax liabilities. By transferring assets to your children or other beneficiaries during your lifetime, you can significantly lower the taxable value of your estate.

The key benefit of this approach is that if you survive for at least seven years after making the gift, the assets will no longer be considered part of your estate for IHT purposes. This can lead to considerable tax savings, especially for those with high-value estates. However, if you pass away within seven years of making a significant gift, it may still be subject to inheritance tax.

While taper relief during this period can reduce the tax rate on gifted assets over time, there's a risk that some beneficiaries may still face tax liabilities if the donor's health unexpectedly declines shortly after the gift is made. To mitigate this, many individuals consider taking out life insurance policies written in an appropriate trust that can cover any potential tax liabilities linked to their lifetime gifts during this period.

Additionally, specific tax provisions like holdover relief can be particularly advantageous. With holdover relief, you can

defer any potential Capital Gains Tax (CGT) liabilities at the time of the transfer. Instead of paying CGT immediately, the recipient inherits the asset at its original base value, and the CGT is deferred until they decide to sell the asset. This is especially useful for business owners or farmers holding assets that have appreciated significantly in value over the years.

Despite its many advantages, lifetime gifting necessitates meticulous planning to avoid unintended financial consequences. A key consideration is ensuring the transfer does not render you financially vulnerable. For instance, gifting away a substantial share of your assets could have long-term implications for your income, particularly during retirement or in the event of unforeseen expenses.

Undertaking a thorough cash flow analysis is crucial. This step helps you understand the gift's implications for your overall financial health and ensures you retain enough resources to sustain your lifestyle comfortably.

It is also important to remember that the rules regarding gifting can be complex, particularly concerning appreciating

assets like farmland or family businesses. For instance, some assets might trigger immediate tax obligations, or their value may need adjustment based on tax allowances or exemptions. With our professional advice, we can assist you in understanding how to structure your gifting to reduce tax exposure while remaining optimally compliant with tax laws.

Additionally, it's essential to consider family dynamics and long-term intentions when making gifts. For instance, do you wish to impose conditions on using gifted assets? Would establishing a trust be more suitable if you intend to retain some control after the transfer? These questions can only be addressed through a personalised approach to estate planning.

Ultimately, gifting should consistently align with your broader estate planning goals. DG Financial can clarify and ensure that your decisions are strategic and financially sustainable. A well-structured gifting plan offers the dual benefit of minimising tax liabilities while allowing you to leave a meaningful legacy for the next generation.

2. EXPLORING TRUST STRUCTURES

Trust structures provide practical and flexible alternatives for families unable or unwilling to part with key assets during their lifetime. A trust acts as a legal arrangement in which you, as the settlor, transfer assets to trustees who manage them on behalf of beneficiaries. This structure can help safeguard wealth and ensure that your intentions for its use are upheld while you are alive and after your passing.

Setting up a trust is especially beneficial for families who wish to maintain control over the distribution and use of their assets. For instance, transferring farmland, business interests, or investment funds into a trust can remove these assets from your personal estate. This action can help reduce IHT exposure and establish clear conditions for how these assets should be managed and distributed in the future.

Example: Imagine a family with a generational farm. Placing the farmland into a trust allows the settlor to mandate that the land be preserved for agricultural use and passed down to specific heirs,

regardless of external circumstances. Meanwhile, trustees manage the property to ensure this condition is fulfilled. Similarly, business owners can use trusts to secure a seamless leadership transition by specifying terms for how shares or operations are managed posthumously.

Trusts play a significant role in shielding wealth from IHT liabilities, particularly regarding substantial assets. For instance, families considering the sale of larger assets, such as a second property or a portion of investment portfolios, can benefit from transferring the proceeds into a trust structure before the proposed April 2026 deadline. By doing so, they may reduce or even eliminate IHT on these transactions, depending on the type of trust and timing.

Important note: Not all trusts offer the same tax advantages. While discretionary trusts, for instance, give trustees greater flexibility in distributing income and capital, they are subject to specific tax rules that might include an upfront charge on contributions above certain thresholds.

It's worth noting that establishing a trust isn't without challenges. Setting up and maintaining trusts involves legal and administrative costs, potentially making them less appealing to families with modest estates. Depending on the trust type, you might also face periodic compliance requirements such as reporting and tax filings, which can add complexity.

Considerations for the future:

Government policies surrounding trusts and IHT may change, potentially increasing costs or altering tax benefits. Families should be aware of these factors when deciding whether a trust is the right approach. For example, if regulations introduce higher taxes on trust-held assets or stricter rules for distributions, this could affect the overall savings and flexibility initially anticipated.

Deciding to incorporate a trust structure into your asset management strategy is not a one-size-fits-all solution. Factors such as the types of assets, family dynamics, and long-term financial goals must all be carefully considered. Professional advice from DG Financial

will help you understand the immediate benefits of establishing a trust, potential pitfalls to avoid, and how to customise the arrangement to meet your needs.

By proactively planning and staying informed, families can utilise trusts to secure their legacies, manage wealth effectively, and ensure their wishes for future generations are honoured.

3. LIFE INSURANCE POLICIES

Life insurance can serve as an essential financial tool, providing families with a reliable safety net to manage an IHT bill. When structured properly, life insurance policies ensure that loved ones are not left struggling to cover tax liabilities or forced to sell valuable assets to meet their financial obligations. For families concerned with securing their legacy, this can be a straightforward and effective addition to broader estate planning strategies.

One significant advantage of life insurance is the option to write the policy in trust. When you do this, the payout from the policy is excluded from your taxable estate, ensuring it is not subject to IHT. More importantly, the proceeds can be made available quickly, providing immediate funds for heirs to cover tax liabilities without waiting for probate.

Example: Imagine owning a family home or business with significant value. If IHT liabilities arise, your heirs could face the difficult decision of selling these assets merely to pay the tax bill. With a life insurance policy written in an appropriate trust, they can access the funds needed

to protect these assets, preserving both wealth and cherished memories.

This strategy is particularly beneficial for situations involving gifts that fall within the “seven-year rule.” If you gift substantial assets to family members but pass away before the seven-year period has elapsed, those gifts may still attract IHT. A life insurance policy specifically designed to cover this liability can bridge the gap, ensuring that your heirs are not financially overwhelmed.

Premium costs for life insurance are not one-size-fits-all; they depend heavily on factors such as age, health condition, lifestyle choices, and the required amount of coverage. While younger individuals or those in good health may benefit from lower premiums, older individuals or those with pre-existing conditions might face higher costs. This makes obtaining personalised advice from DG Financial essential so that we can tailor a policy to your unique circumstances.

Life insurance should never be considered in isolation. Instead, it needs to complement your broader estate planning goals. For instance, if you’ve already established trusts, made lifetime gifts, or planned to direct assets in specific ways, your life insurance policy must align with these strategies. Overlooking this step could lead to overlapping coverage or unintended tax consequences that undermine your overall plan.

Example: If you’ve set aside assets in a discretionary trust to support your

heirs, a life insurance policy could serve as an additional layer of protection. The trust might cover longer-term costs or provide income for beneficiaries, while the insurance payout could be used immediately for IHT bills or other urgent financial needs.

IHT planning is complex and multi-faceted. While life insurance offers a solution, it works best as part of a broader, carefully considered strategy. By regularly reviewing your situation with DG Financial, we can adjust as laws, personal circumstances, or financial goals evolve.

Ultimately, life insurance can play a crucial role in safeguarding your family’s financial future. With the proper structure, advice, and integration into your overall estate plan, this tool can provide peace of mind that your loved ones are well-equipped to meet their financial responsibilities while preserving the legacy you’ve built.

4. TAX-EFFICIENT INVESTMENTS

For individuals who need to sell assets, the resulting liquidity presents an opportunity to reshape their financial strategy in tax-efficient ways. Instead of allowing the proceeds to remain exposed to unnecessary taxes, reinvesting the funds into suitable vehicles can provide both financial security and estate planning advantages. A well-thought-out approach can help manage IHT liabilities while preserving wealth for future generations.

Post-sale liquidity can be allocated to several tax-efficient options that not only

reduce exposure to IHT but also offer potential growth and income.

SOME COMMONLY USED INVESTMENT VEHICLES INCLUDE:

Qualifying Corporate Bonds

(QCBs): These bonds, issued by companies, are designed to be exempt from Capital Gains Tax (CGT) when sold. They represent an option for investors seeking to preserve wealth while generating a reliable income stream through interest payments. The consistent returns, together with tax benefits, make QCBs a practical choice for individuals looking to minimise exposure to long-term taxes.

Example: If you sell a commercial property and reinvest the proceeds into QCBs, the interest earned will provide a reliable cash inflow, while the initial investment remains protected from capital gains tax upon redemption. This can be a particularly effective tactic for maintaining financial stability in retirement.

Government Gilts: These are low-risk bonds issued by the government to fund public spending. Gilts are a preferred option for those seeking stability and consistent income. Although they may offer lower yields compared to other investment options, their near-zero

risk of default makes them ideal for preserving wealth.

Example: Families that have liquidated high-value assets, such as farmland or second properties, can consider gilts to ensure steady returns and peace of mind. By reinvesting in gilts, the funds remain safe while gradually reducing the taxable estate over time through capital depletion.

Enterprise Investment Scheme (EIS)

Investments: If you're willing to take on more risk in exchange for significant tax incentives, EIS investments enable you to support smaller UK companies. Investments in qualifying EIS schemes are exempt from IHT if held for at least two years and until death. They also provide income tax relief and the option to defer capital gains tax on the initial investment amount.

Example: Suppose you sold a business and want to foster innovation while minimising tax exposure. By reinvesting a portion of this liquidity into an EIS-approved business, you not only support early-stage companies but also protect that portion from IHT.

One of the primary benefits of post-sale investments lies in achieving a balance between reducing IHT exposure and enhancing financial stability. Diversifying

your portfolio across various tax-efficient options ensures that your wealth continues to work for you. This approach enables access to steady income streams through interest payments or dividends while keeping your estate manageable for tax purposes.

For example, families downsizing their primary residence after their children have flown the nest might reinvest the proceeds into a combination of government gilts for stability and higher-risk vehicles, such as EIS investments, for long-term growth and tax relief.

With IHT relief thresholds tightening, these strategies are even more critical for families aiming to preserve their estates. Investing post-sale liquidity into tax-efficient vehicles helps mitigate the strain of reduced IHT relief by decreasing the size of your taxable estate over time. While high-value assets like properties or businesses anchor your financial foundation, reinvesting liquidity in these products offers the flexibility and security needed to adapt to changing tax laws and family needs.

Navigating the complexities of reinvesting post-sale liquidity requires expertise. Evaluating your risk tolerance, income needs, and long-term goals should be the first step before committing to any investment plan. Additionally, staying informed about regulatory changes or tax reforms that

might affect certain options is vital for making informed decisions.

By collaborating closely with DG Financial, we will develop a personalised strategy that aligns with your current lifestyle and future aspirations, ensuring that your wealth continues to serve you and your family most effectively. Through careful planning, investing your post-sale liquidity can become a tool for maintaining financial stability, reducing tax burdens, and securing your legacy.

WHY EARLY PLANNING MAKES ALL THE DIFFERENCE

The sooner you take action, the greater your flexibility in responding to regulatory changes. Early planning enables you to evaluate multiple strategies—from gifting and trust creation to insurance solutions and asset diversification.

Proactive estate management protects the legacy of your hard-earned farmland or business, ensuring that it transitions smoothly to the next generation without excessive financial burden. Furthermore, creating a strategy now will allow your family to make informed decisions when the proposed April 2026 regulations come into effect.

IS IT TIME FOR YOU TO SECURE YOUR FINANCIAL LEGACY TODAY, MAKING SURE IT ENDURES FOR GENERATIONS TO COME?

The Inheritance Tax rules announced for farmland and businesses present challenges and opportunities for business owners and farmers in Norfolk, Suffolk, and Essex. Taking action now to reassess your estate plans will help you stay ahead of these changes, minimise tax liabilities, and safeguard your family's financial future. ■

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If you reside in Norfolk, Suffolk, or Essex, DG Financial is here to assist you in navigating these changes and protecting your legacy for future generations. Contact us today to schedule a consultation and explore customised strategies for managing your estate under the new IHT rules. Together, we can help you establish a plan that ensures your family's financial wellbeing for years to come.



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