



HOUSE OF LORDS

Economic Affairs Committee

Finance Bill Sub-Committee

Corrected oral evidence: Draft Finance Bill 2025-26

Monday 27 October 2025

3.35 pm

Watch the meeting

Members present: Lord Liddle (The Chair); Lord Altrincham; Baroness Bowles of Berkhamsted; Baroness Fairhead; Lord Leigh of Hurley; Lord Pitkeathley of Camden Town.

Evidence Session No. 5

Heard in Public

Questions 45 - 56

Witnesses

[I](#): Natalie Butt, Director, Private Clients, Crowe UK LLP; Steve Rigby, Chair, Family Business UK; James Brougham, Senior Economist, Make UK.

Examination of witnesses

Natalie Butt, Steve Rigby and James Brougham.

Q45 **The Chair:** Good afternoon and welcome to this meeting of the Finance Bill Sub-Committee, at which we are discussing the proposed changes in business property relief and agricultural property relief. We have an expert panel that we are going to ask questions of and I am going to ask them to introduce themselves.

James Brougham: Good afternoon. I am from Make UK, a manufacturers' organisation representing manufacturers across the country in all sectors.

Steve Rigby: I am the chair of Family Business UK.

Natalie Butt: I am a director at Crowe LLP accountancy firm.

The Chair: My first question is a simple one. What level of awareness do you think there is among private business owners of the changes that the Government are about to make, and do you think it is adequate?

James Brougham: For the manufacturing sector, awareness is very broad. However, awareness of the machinations and the details of the changes is extremely poor, so it is a tale of two sides. Most manufacturers will look and say, "I know that changes to BPR and APR are coming". However, specifically, even on the £1 million limit and those sorts of things, we think awareness will be very low, particularly within the SME space, where that is going to be most impactful.

The Chair: Do the rest of you agree?

Steve Rigby: The reality is that, in a large or medium-sized family business, which are the most affected by these potential changes, business property relief is probably one of the most important taxes discussed around a board table. Because the ability to transition the company whole through a series of generations is the essence of a family business, the awareness prior to this was very high.

I referenced that back into the Members of Parliament, and I think the awareness was very low of this taxation, for reasons that are reasonably obvious. It was not that relevant. It had been in place for over 30 years. Around families, the understanding is very high. With the implications that have transpired since, people are unfortunately still somewhat in a position of a shock. They are still working through those changes, despite the fact that we are now a year on.

Natalie Butt: Yes, I agree.

The Chair: What do you think HMRC could do to raise awareness?

James Brougham: When we were looking at the papers—and this ties in a little bit to the focus having been on the agricultural sector, at least in the media and these initial public discussions—it is how it applies to the

manufacturing sector, so thinking of things particularly for SME business owners who do not have specialist tax advice. They need to be looking at one-page flow diagrams, decision diagrams and things that they can identify with and see, "My business falls into this category. This is how I need to get prepared". In terms of outreach, working with organisations such as us, roadshows and those webinars, in fast order, actually, with the changes coming up, is quite necessary in order to bridge that gap between the surface understanding that I mentioned and the percentage and cost implications to the business coming in in the next year.

Steve Rigby: In reality, it is less than clear where we are in terms of how this is implemented, so valuation thesis, how minorities are treated and rules around hardship for allowing for 10-year payment. There is a high level of ambiguity that remains. In that regard, I do not think that HMRC has clarified, certainly to the adviser network and organisations such as Family Business UK, a clear path forward, partly because this is a complex area.

We are talking about, on the Government's estimation, 550 organisations per year, but those organisations are often owned in complex structures. It may well be a minority individual who has passed. Valuing that minority position and working out the liquidity of the organisation to deal with that outcome is quite hard. We are supposed to do this in six months, which is highly unrealistic in an environment where businesses have never been valued before and never had a need to be valued before for business property relief. The whole process and the way in which the Government are going to deal with that valuation process is yet to be tested and, from our side, is not desperately clear.

Natalie Butt: We deal with the individuals or the business owners, and with big family trusts. What is going to be difficult here is that the business owners may be aware, when they are talking around that board table, about what changes are coming, but trustees, year upon year, every time there has been a 10-year anniversary, have been quite happy or content with the fact that they have no tax to pay, and that is going to change. Trustees need to be made aware as well, especially if their only asset within the trust is company shares or business assets and they have no liquidity to pay that tax. The Revenue should have details of trustees and should be able to write to them specifically to say that, "When it comes to your next 10-year anniversary, you need to be careful about what the tax position is". It has the availability to be able to do that now to warn them.

Q46 **Lord Pitkeathley of Camden Town:** My question is about the timetable, but Mr Rigby has already touched on how suitable you think that is, so I will go on and ask a bit more. From what you are seeing in practice, what planning actions are business owners taking to prepare for the reduced relief? Where businesses have succession plans in place, how practical will it be to make changes ahead of next April?

Natalie Butt: From a planning point of view, we are seeing that our younger business owners are taking the opportunity to be able to insure

the tax liability. They have that availability to do that and to give themselves some time. On the succession of their business, if they are in their 50s, it may not be practical to pass it on to anybody who is ready to steer it.

Our older business owners are finding it very difficult to make a decision in relation to this. They have options, but it is difficult. It is not that they are unlikely to be able to survive the seven years; they are just concerned that, if they started to give things away and were not going to survive, they may not be able to put in place what they wanted to. From our point of view, we are seeing people who are really worried about what they need to do and that fear is stopping them from making decisions. Even if they have a succession plan in place, I do not think that they will be able to get past that to be able to implement it in time.

Steve Rigby: The reality of what has been implemented, because we had anti-forestalling measures also announced at the same time, is that it really impacts generations that are perhaps in their 70s and 80s. If you are lucky enough to be in your 50s or 60s, you can start to plan. You can insure. You can decide to deal with this 10 years down the road.

I am lucky to also have a very large family business, which is a top-10 family business here in the UK. I know my own succession journey. We are a trust, so this does not directly impact in terms of when my father passes, but that journey took about 10 years. It is a really long, carefully curated process that needs real consideration around the needs of the business, most important of all, the appetite of the next generation and the ability of the next generation. That whole journey takes, in my experience, a long time.

Talking to many family businesses, people are in somewhat of a panicked mode. As we all know in life, when you take rash decisions, often they are the wrong decision. We are seeing some businesses reacting quickly because they feel they have to. Having talked to both my colleagues here earlier, having not met previously, we are also seeing people who are just worried. They are panicking and not doing anything. In that situation, inertia sets in and the businesses stop investing and employing people.

We are in the worst of all worlds at this moment. I suspect that, post the Budget and the legislation coming in in April, if it goes that far, unfortunately we will be in a period where you are disincentivised to grow your business if your owners are in the latter stage of their life. It will be a valuation of the business on a multiple for the industry, maybe applied with a discount if there are minorities involved. Where is the incentive to grow your business when, in essence, that growth might be multiplied by six, seven or eight times in a tax liability? We are in a very difficult spot, especially for those elder generation businesses.

James Brougham: To amplify that point, that is our concern about the impact on business decisions in terms of investment. In terms of the timeline of the speed at which it comes in, in that short term now there is a combination of uncertainty, so those businesses that are aware of the

headline but not actually what is changing, and perhaps that slim minority that know what is coming. The disincentivisation of investment in the next 12 months, or whatever it might be, will be significant. Especially, it is that inertia and making those rash decisions in the short term that may be not for the benefit of that business in the long term or the jobs it supports.

Lord Pitkeathley of Camden Town: Can I ask a quick follow-up? Do you have any evidence of people delaying their business investment decisions? I understand anecdotally, but do you have any tangible evidence that you could let us see?

Steve Rigby: It is an interesting point that you raise. The challenge you have as a family company is that you are generally very close to your people. The loyalty you generate in a family business is different from in a public or multinational company. The worst thing you can do is put your head above the parapet and say, "This is terrible. We are going to reduce the headcount in the business", or "We are going to stop investment". Although we have lots of evidence of people who talk to us privately, getting families to put their head above the parapet is, frankly, challenging, because it is a difficult message to deliver to your customers and employees.

James Brougham: We do. We have a little evidence from July from non-public data. We did not publish this, but we gathered it for our own mandate and information. Around those announcements in the Budget, 47% of manufacturers said that the changes announced in the Budget would increase the likelihood of them selling their business to a third party with concern to the changes to BPR. Some 31% said that they would stop growing the company to reduce their tax bill. This was at the time in July. However, 23%, so effectively one in four, said that it would have no impact on their business either way.

Steve Rigby: In terms of evidence that has been generated through survey, we have done a very comprehensive survey. In fact, it is the largest ever survey conducted by the CBI Economics team, which undertook the work for us. There were 4,200 responses, so a very large survey. In terms of the scale of the universe we are talking around, it was really quite material.

From that, CBI Economics independently estimated about a £15 billion GVA reduction and a loss of 208,000 roles, so very material. Unfortunately, the same analysis, rather than raising £1.5 billion, over the period of the remainder of Parliament, estimated that it would lose £1.9 billion. It is evidence sought through a survey, rather than necessarily a family saying, "I have taken this immediate action that we can publicise".

Q47 **Lord Altrincham:** Thank you, by the way, for your written submissions. They were very helpful. Have the Government accurately assessed the impact of the proposed changes to BPR, particularly on family businesses and SMEs? If not, please explain why you disagree with their assessment.

Steve Rigby: We have been lucky that Treasury has been talking to us, and we are grateful for its meetings. Unfortunately, there was no impact assessment undertaken by the Government. The OBR actually republished its own data shortly thereafter, but again had no impact assessment undertaken. We undertook an impact assessment prior to the Budget and post the Budget. We are the only organisation that did that in as much detail.

Despite the fact that we have what we think is reasonably strong empirical data pointing to meaningful impacts that will be a net negative on tax receipts, the Government have chosen not to listen to that. The Government have decided to dismiss that, despite the fact that there is no other impact assessment. As I say, despite the fact Treasury has been accommodating with meetings for us, in terms of listening to information that has been produced, unfortunately the evidence appears to be quite clear but it has been dismissed so far.

Lord Altrincham: Can you comment on why you think your impact assessment is accurate?

Steve Rigby: As ever, whenever one does a survey and applies a set of assumptions, it is never entirely accurate. It is a direction of travel. There were 4,200 responses talking about the impact on their business. Will they continue investment? Will they continue to employ people? Would they grow that base? Will they potentially sell their business? Will they liquidate it? Will it have no impact? A whole series of questions across that base of companies gives a reasonably good direction of travel. It is no more precise than any survey, but we think that it is quite a large body of work to get a sense as to where things are going.

James Brougham: We think that the capital-intensive nature of manufacturing in our sector has been underestimated in those costings. Potentially, the behavioural effects of this change—the sentimental and emotional actions that business owners might take as a result, particularly with regards to that rush—might have been underrepresented, particularly around delayed investments, as I mentioned earlier. Potentially there is some gift acceleration and questions around that.

With regard to the capital-intensive nature, I want to highlight that it is around the very high value of property, plant and machinery in these businesses, but with potentially very low liquid. It is specialised plant and machinery that has a high value at purchase. What that translates to at the time when that bill comes in may not be representative of the value that initial quantity of plant and machinery proposed to the business at the outset.

Lord Altrincham: Going back to the accuracy question, how can you attribute that deferred expenditure to this particular change over all the other economic pressures that businesses are under? How can you be comfortable in making that assessment?

James Brougham: In those costings, we feel that it does not account for those older business owners who are now put into, potentially, a state of fast inertia towards succession planning. They are not accounting for the potential for disposals, exit and the subsequent impacts that are not necessarily fully explored for the UK manufacturing supply chain when certain businesses exit.

Steve Rigby: Our estimates are that 90% of family wealth in family businesses is typically set on the balance sheet. It is not set on the personal balance sheet. We are all certain that we are going to die and that we do not know when we are going to die. Against that fact pattern, all one can do is be cautious. If you do not want to put gearing into the business for future generations, you have to save cash resources. If those cash resources can only be used once, they cannot be used to buy a new warehouse or manufacturing facility or plant and machinery, or to expand into a new geography. At this latter stage, especially for those businesses with elder owners, all they can do at this point is be cautious to find a way to fulfil that personal liability by way of the company declaring some form of share buyback or dividend.

Natalie Butt: We are seeing that. We are seeing that our business owners are saying to us, "Shall I try to hold some cash back in the company? How can we pay it? How could my family pay for the tax on the shares?", if they perhaps have a house and a business and there is not going to be lots of money available. They have always thought that the company would be safe and would continue on tax-free. They have not really had the need to have a plan.

I know we spoke about the actual impact on business. From talking to the business owners, this is causing a lot of mental hardship to them as well. They are responsible. What they are saying around the board table is probably very different to what they are saying to us. They feel an obligation to their staff, team and suppliers, whatever they are using. They feel that that is on them and that, if they make that decision wrong, the business may suffer because of something from their actions. They are finding it very difficult, and that is part of the whole trying to play the balance of making a decision when you have so many different factors on trying to decide what is best. There is definitely a need to try to squirrel money away as quickly as they can, because they fear that their family will not be able to pay the tax bill if something happens to them.

Q48 **Lord Leigh of Hurley:** Can I ask supplementaries on that? To the extent that tax has to be paid on the asset value of the company by the executors, is there a double charge to tax here? You have to get the money out of the company, so the actual loss to the business is substantial.

Natalie Butt: Yes. I think that there was a summary that we did in the response that basically said that you would never be able to pay it in the 10 years. It is not possible to extract that level of profit. If you were able to do that by dividend, it is just not possible. With the way that the individual will have to pay the income tax or whatever additional rates of

tax, you cannot physically do it, so other assets will need to be sold. Why would you want to do a share buyback if it is your family business? You want to maintain your family holdings. Why are you going to get the company to buy them back? That is not what you want.

Steve Rigby: You are right. If it is by way of a dividend in that situation, the taxation, for all intents and purposes, eradicates any inheritance tax relief. You are up into the mid-30 per cents by way of a dividend. If it is a share buyback, you have to demonstrate hardship in the first place—also for the 10 year rule, which is hard to do. It is unclear today because that legislation has never been tested from a BPR perspective, because it has been in place now for 30-plus years.

You have these two issues. On top of that, the added complication is that, beyond the third generation, the shareholding is quite diluted. Often, you might have shareholdings of perhaps 10%. In that situation, if a member of the family dies and somebody has a 10% holding, let us say of a business that is reasonably substantial and worth £50 million, in that situation of £5 million of value taxed at 20% they have a £1 million liability. If that person does not have £1 million, how do they extract the £1 million from the company when 90% of the family do not want to?

You are left in that situation where that person probably is forced to sell the shareholding of the company and, in that situation, probably to other family members or to the business by way of a share buyback. It wipes out that element of the family, which feels very unjust as a route. As I say, it directly impacts our oldest businesses in the UK. We have businesses in this country that are many generations old. In some of those situations we could see the end of our oldest businesses in this country, which would be a travesty.

Lord Leigh of Hurley: As an extension of that, I wanted to ask how you think any estimates of the number of companies likely to be caught could have been made? HMRC has no statistics on the value. It never asks for the value of businesses. How on earth has it assessed how many companies are caught in the net? How many companies do you think are caught in the net?

Steve Rigby: We look at the size of the medium-sized sector and the large sector. The large sector under current rules is above £54 million of revenue. There are only about 700 family businesses of that size, so it is quite small. The rest fall within the medium-sized companies. Let us assume the micro and the small—

Q49 **The Chair:** What is your definition of a large company?

Steve Rigby: The DBT definition is above £54 million and above 250 employees—just using the government definition for ease of measuring.

The Chair: There are 700 of them.

Steve Rigby: Yes, about 700. If we then look at the 50 to 250 employee, about £10 million to £54 million, which is the new legislation that is

coming in, there are about 8,000 or 9,000 of those organisations. Assuming that captures most of the businesses that will be caught by this regime—not all of them but the majority of them—550 companies a year is a big number. It is a big percentage of those businesses that may be caught in some kind of event over a decade. We think in generations, frankly, as family businesses, but let us use a couple of Parliament terms: a decade. We are talking about quite a large number of our businesses.

Let us also not forget that the baby boomer era is where a lot of these businesses were created. We are globally coming to a transition of wealth. We are going to go through this period now, where people born in the 1940s and 1950s, who are some of the most entrepreneurial people we had in our country, are the very people now who are coming to the end of that journey. They are in their late 70s, 80s or 90s and are captured by this legislation.

I genuinely believe that the very essence of our economy, especially our regional economy, is under threat at this point. Do we want private equity or multinationals to own all these businesses when these people have built their reputations, charities and employee base in the towns and cities that the country has today? We will lose much of that, unfortunately.

The Chair: Could I interject on that? Of this generation you are talking about, what proportion of their children actually want to be involved in running the family business? Do you know that?

Steve Rigby: I can only give you personal experience from people I talk to and my own experience. For my generation, so someone in their 50s, you often were very similar. You wanted to work very hard. For the generation that is coming through now, I suspect that there might be less appetite, but I do not think that that is our immediate problem, because it is actually those businesses where founders are in their latter stage of life where there are challenges.

They also are very proud and have relied on this legislation as a route to exercise control, if you like, on the business, which has been a big factor. They are worried about whether, if they let go, the generation beneath will continue the same cause and direction of the organisation. Even though the next generation are often involved in their 40s and 50s, the transition of power, of control, of running the organisation and certainly of wealth has often not occurred. In our experience that is in the majority of cases.

Q50 Lord Leigh of Hurley: Thank you for that. To be clear, your definitions of size are employees and revenues. It is not value, so there could well be many businesses below the employee size and revenue that are in fact very valuable and caught within the BPR net.

Steve Rigby: You are right to say that. The average revenue per employee in the UK is about £170,000. We can take some assessments as to where things are and generally say, let us say, that there is an

operating profit rate of 10% or so. We can take a number of assessments, but ultimately there is not really a firm set of data that anyone has published that captures the exact universe that we are talking about.

Natalie Butt: Business property relief is complex. They may not be trading. To be a business is one thing. To be a trading business that qualifies for this relief is very specific as well, so that will not be captured anywhere.

Q51 **Baroness Fairhead:** In your submissions, which I found extremely helpful, there is talk about the issues regarding valuations of businesses and the business assets. It would be helpful to hear from you about the specific challenges when you are obtaining and then agreeing the valuations, either for specific shareholdings or for the underlying businesses.

Natalie Butt: How do I say this nicely? There are not enough staff at the Revenue to deal with share valuations already. We are already finding that estates are held open for far too long—years sometimes—trying to get a valuation of an investment company. Any uncertainty or length of time is causing damage to business, but also the people who are usually dealing with the estate have lost a family member or friend, so they are grieving and want to deal with this and it takes such a long time.

The Revenue does not have enough people. It does not have enough people in the team. I am not quite sure, from anything that I have heard, that it has a plan to employ enough people to deal with all of the valuations that are going to come its way following these rules.

Historically, if you had an asset that was going to qualify for business property, you did not really need to give a value because there was no need to. It would not have been ascertained in terms of the base cost of capital gains tax, so there was no need. You would put whatever you felt like and, as long as it met the tests, everybody was happy. I do not think that it has an idea of what is going to be coming down the track.

Valuations, as we know, are very subjective. There are different types of ways to value. You often find that, when you are going to head to head with the share valuation team in the Revenue, it will take many months to reach a conclusion. Sometimes you are poles apart on how you are going to value something.

James Brougham: We foresee quite a lot, particularly when it comes in at quite a heightened level, of disputes around that, particularly around plant and machinery. In our sector, at the outset, for a bespoke and potentially solo supply chain business that is exclusively providing up the chain with no other customers, that robotics unit might cost £2 million or £3 million, but the residual value of that on the market would be much lower. It is that argument that we reckon, in terms of the capacity for the assessment and disputes around that, will be drawn out, because it will be a huge amount of value within many members of our sector. It could

be assessed to be what the market value is or to be exactly the production value of that machinery. As I mentioned, so often that production value is tied to that business within itself and cannot be moved on, so we foresee much deliberation there when that comes in.

Steve Rigby: I have a couple of things to add. One is that often in articles of association family members are only permitted to offer the shares first to the family, so you have a closed market to start with in that situation. How does one value that? How does one value a minority in a business when you have no control? You perhaps have no dividend policy that is set in advance.

If you are in an environment where you can value the business, because perhaps it is an outright valuation, 100% owned or above 50%, in that situation how does one value against public market comparables that are governed and managed in a different way or against private equity comparables? I think that we would all agree that private equity pays at the higher end of valuations, because it exercises immediate control and gearing and all the aspects that it brings to an organisation.

How one actually values a business here is very difficult. There are not lots of data points to even do that. Then you add in this complexity around minorities. I fear that we are going to have a horrendous litigation environment where family businesses are incentivised to litigate against their value. In that process, clearly the fees are going to be astronomical for UK Government.

Baroness Fairhead: Can I follow up on a couple of points? You touched on it a little, but is this any different to some of the valuation work that applies now for IHT? More specifically, I would like to know whether there is there anything more HMRC could do to make it easier.

James Brougham: To answer your question directly, they are the exact same pain points, yet the stakes are a lot higher. That is why there will be higher interest and why we foresee greater levels of dispute around that. In terms of the pain points, they are, frankly, identical.

In terms of what can be done to soften the blow, to speak frankly, particularly when it came to the sector-specific guidance at the outset, a lot of manufacturers in the UK do not quite identify with the case studies that have been published thus far. Sector-specific guidance, particularly with regards to multi-trust splitting—which is a minority, but a vocal one within that, which would be strongly impacted—would be something to consider. As well, a pre-submission valuation surgery, for lack of a better word, would make sure that we can minimise, on both sides of the fence, disputes before they arise at the outcome and that things are as square as they can be.

Steve Rigby: One thing that the Government can do is consider some of the alternatives that have been put forward. The last alternative that we put forward is a zero-sum game alternative, which allows for the company to bear the liability on behalf of the individuals, if the company

elects to do so, and to spread that cost over a 10-year period. It is a zero-sum game change and we do not yet know the outcome from Treasury of those discussions. They are relatively recent. I suspect, unfortunately, that they are set on the legislation as it is set.

We also outlined the legislative changes that could be made in time for that adjustment to occur. We believe that that allows the company time to plan for itself and, in that situation, for that type of liability over a 10-year period. Certainly for the minority environments, we think that that is quite manageable to do, much more so than for an individual who does not have control as to how that cash flow may come from their fellow shareholders.

Baroness Fairhead: Do you have any sense as to why they have not been receptive?

Steve Rigby: Understandably, HMRC and Treasury are sceptical of trade associations wanting change. I understand that. We have tried, prior to Budget and post Budget, to come up with very fair, sensible changes about this that try to explain the implications. It was clear that we were not going to get the legislation reversed, so therefore we took four or five suggestions to Treasury and alighted on this as our preferred route.

We said that we would be able to talk to our membership, if they were interested and thought that was a relevant measure, rather than put something else in that perhaps businesses did not appreciate. We had the ability to go and talk to members to get a sense of that. I am sharing that now in a public environment because I am worried that we have not been listened to. I believe that it is a very viable change and a change that allows Treasury to reverse some of the challenges that this legislation has created. We will see. I guess that we will know in a short number of weeks.

The Chair: Baroness Bowles, would you like to ask the question about the link to the agricultural property relief?

Q52 **Baroness Bowles of Berkhamsted:** A lot of attention has been on the challenges that farming estates face in funding IHT. Businesses could face a similar problem. If an estate is largely made up of qualifying business assets and has few liquid assets, can you say more about the practical problems that can arise in paying inheritance tax?

Natalie Butt: We have touched on the shareholders and how it is difficult to get the money out without having to pay additional tax. We still have traditional partnerships, and there is a lot of family business that stays in partnerships. That could be anything from law firms to dentists or GPs. The thing that we find as well is that, when somebody dies within a partnership, you are reliant on the other partners to buy that person out of the partnership so the family has the funds to then pay the tax. That is another thing that is going to be really difficult for people.

We have to be mindful that the first payment is due within six months. I know that it is not going to matter for this, because I understand and we

have been told that there is going to be no interest that is going to be due on the payments for business property relief. If that is not the case, interest rates are really high. It is going to be really difficult for the executors and the family members to force business to give them the funds to be able to pay their tax, unless they are in a position where they own the majority of the business. They have no right to ask for that either, so apart from trying to physically get it out in a tax-efficient way, or any sort of way, they are going to struggle to get the money into their hands to begin with to pay it.

James Brougham: I mentioned those who are and are not aware. I am speaking for those who are not acutely aware of the changes and I think that there is a gargantuan liquidity risk. Even with that 10-year interest-free period, it is that first moment, I think. Bridging liquidity will be necessary.

The practical conversation we are having with our members is, “When that comes in, and let us estimate what your bill might be, how will your business, or yourself through a business, achieve liquid to pay that?” We are quite concerned that borrowing to pay for tax or borrowing might breach any pre-existing lending covenants in place, so we think it might leave quite a large proportion, particularly of those who potentially have not had the foresight to see it coming down the road, in a very difficult position in that moment, even with that 10-year period, just making those first initial payments or sourcing suitable finance to make those payments. The average cash flow position of SME manufacturers within the sector is typically overestimated. It is that classic dichotomy of potentially very asset-rich but extremely liquid-poor.

Steve Rigby: The reason the legislation exists is that those assets that are eligible for business property relief are there for trade. If you own a building that you trade from, that allows you to pass that building through historically. If you owned an investment property, it was taxed at 40%. Any business that has investments within it that are not in the ordinary course of business have never been exempt. It is only those assets that trade for the company, so working capital, fixed assets and plant and machinery, that are eligible in this situation.

The reality is that most businesses are not running with huge amounts of excess cash. Some are. If we look across the private business sector, there is about £60 billion of cash sat within the private sector, but no analysis to say how much of that cash is, if you like, excess cash. It is just the net balance between debt and cash. In our experience, most family businesses are run and are trying to grow. Most businesses, when they are growing, have a working capital cycle that requires them to continue to put in more cash and leave their profits on the balance sheet.

Very few businesses are asset-light. Certainly if you look at the manufacturing sector that James represents, it is clearly asset-heavy. Even if you are an asset-light business, very rarely is your working capital cycle—stock, debtors and payables—positive. As your business grows,

you need more cash. In this situation, there is rarely lots of liquid cash from the organisations.

Baroness Bowles of Berkhamsted: It is going to be quite horrendous. I am thinking about when I ran a business. I do not know how I would have coped. Do you think it likely that it will make some businesses decide to give up and go for a trade sale because it is too difficult?

James Brougham: Yes. It is likely to be in the minority, and in the strong minority. Even before this, there is that challenge of PE, selling to PE and exiting the business, particularly, as discussed earlier, around family members potentially not wanting to take up the crown of running that business into the future. That incentivisation, particularly with this inertia that we have talked about, becomes ever more attractive.

The point I would like to put forward on that is that, independent of what that business does, there is a wider implication—and we touched on this earlier around it potentially not being assessed as part of that impact assessment—of what that means for UK supply chains. That is particularly in terms of exclusive relationships and that supply chain beneath major primes. Lots of those might be family businesses. If they decide to exit and potentially whoever their purchaser is decides not to continue in that supply chain, or liquidate the business, or whatever might happen, the subsequent secondary effects for our manufacturing supply chains in the UK are likely to have been underestimated significantly.

Baroness Bowles of Berkhamsted: Are there going to be vulture funds or something hanging around looking for those that are going to be at risk?

Steve Rigby: There are strategic buyers, not just private equity, and private equity is relatively small in UK company ownership. It is about 9,000 companies that are owned by private equity across all spheres, so it is in that situation. There rarely are strategics that are UK domiciled. If a strategic comes in in a specific sector that is doing what we would call a buy and build or a roll-up of organisations, the power base often shifts from this country to overseas. The tax base and leadership often shifts with it, so the growth potential for the UK unfortunately changes at that point. It does not mean that the business goes out of business or stops being an employer, but the centre of gravity shifts from our country to another country.

Baroness Bowles of Berkhamsted: Has there been any modelling on that?

Steve Rigby: I do not know of any modelling. We can see that happening in the public markets in spades, and the private markets are no different. If you look at the private markets that are non-private equity, you are generally finding international strategics acquiring our UK assets. Also, we have businesses acquiring assets in other countries, so there is the same happening elsewhere. In my experience, in most

sectors strategics are generally multinationals from overseas rather than multinationals headquartered in this country.

Q53 Lord Leigh of Hurley: We are interested to know of your ideas for any transitional measures or specific changes you would recommend to address your concerns, bearing in mind that, one assumes, we do not want to make the rules any more complex than they are at the moment. Bearing that in mind, do you have any specific ideas as to what should be done?

Natalie Butt: It is unlikely to happen, but we wondered whether there could be some support for our older generations of business owners who may be 80, 85 or 90 when the rules have come in. There could be some concessions for those who do not have the time, or maybe the capacity, to be able to make any changes or do any planning. There may be, as a transitional period, some concession, but I think it highly unlikely. We may look towards a taper of the rules coming in, so maybe not just a hard change on 6 April, but maybe a taper over time, over maybe two or three tax years, for people to start to get things together and in order and make sure that the business has the money there and the ability to pay what is going to come its way.

James Brougham: We have two major points and one softer point that I think will be shared by my colleagues as well. Particularly, our concern is around those businesses that may ultimately be valued at around £5 million or below that—that SME category—because those are the ones we fear are going to be most caught out and potentially unprepared come that point. We think that, in that 2026-27 tax year, that allowance should be a one-off £2 million. That is to soften the blow while maintaining the Government's stated policy objectives for those much larger businesses, just for those that have potentially not kept up to speed.

The Chair: Explain to me what you would do for small businesses. Say it again.

James Brougham: At the moment, the proposed change is that £1 million is not exposed, should we say, to the changes. We would suggest that in 2026-27, in the first year of its imposition, that allowance is increased to £2 million, just in that first year for allowance for 2026-27 deaths. We think that that is a fairly robust argument to make. You can assume generally that most individuals would not be tactically expiring to take advantage of such a change, yet it gives more space to those smaller-valued companies towards the bottom of the bands that we are talking about.

Lord Leigh of Hurley: There have been reports of some farmers committing suicide.

James Brougham: That is why I say that, in the main, we do not think it will be a large concern. The second major point is around the regressiveness of the CPI indexation that is suggested to come in in half a decade, so 2030, effectively. We think that that should come in on day

one, so that £1 million value should be indexed to CPI straightaway. Although the overall values are going to be relatively minor over time, I think it shows willing from the outset that it will not be immediately regressive for the first couple of years in terms of the real value of that allowance decreasing over the five years, depending on whatever the base rate of inflation is over the coming half decade.

Steve Rigby: I would probably echo both the sentiments. The indexation is an important point. At 4% inflation today, go through the math in terms of the compound growth of where this is. We agree on that. Like you, Natalie, we also lobbied for those over 74—there is an average age of 81 for passing away today in the UK—to have a different set of rules in place for a period of time to allow them to get their affairs in order. Unfortunately, that was not accepted.

Unfortunately, we are five minutes to midnight here. I doubt that we are going to have any material adjustments to the legislation. I do not know whether there can be a rethink still, based on the fact patterns that have been produced by Family Business UK and others. We will wait and see whether there is. We are unlikely, I think, to see minor adjustments at this point.

Lord Leigh of Hurley: On that, have you seen avoidance measures being taken by your members and clients? Specifically, I am thinking of taking advantage of holdover relief for capital gains and making the gifts now so that they qualify for BPR before it comes in. Given that our report will not come out for a while, what impact do you think there would be on that behaviour if the seven-year rule was taken away?

Steve Rigby: That is a good question. Yes, we have seen some members transitioning either to trust or gifting. If I am honest, I am surprised that it is not a higher number, but I think that that is because it is emotionally a very big decision to give away your life's work, perhaps to a child or children who you do not feel are yet ready to be the custodian of those assets. In our experience, it is a very emotional decision. Sometimes financial decisions are overtaken by emotional decisions in terms of the ability for one to make that decision quickly.

As you will be aware, the transference to trust will incur a dry charge moving forward, so that window is very narrow now for that to happen, even though, for centuries, trust has been a very valuable vehicle in this country. We are closing that window, which I think is a shame, with the benefit of professional trustees and the other protections around marital and those types of things that come in a trust structure.

If the seven-year rule was removed, we really are in a situation where we are forcing the hand of sale. If there is no other way out and you are facing a very large liability, the prudent thing to do at that point is to consider selling your business. It is a real shame to put our family businesses in that type of peril.

Q54 **Baroness Bowles of Berkhamsted:** Would it work if, instead of selling

the business in a trade sale, they were able to go down the route of converting to employee ownership? That might be less bad than selling it overseas.

Steve Rigby: EOTs have a place. They are a valuable part of our ecosystem. Clearly, then you are transitioning the wealth to full inheritance tax at that point and doing so without triggering capital gains tax on the asset. If you are in the latter stages of life, you are moving into a 40% inheritance tax liability zone rather than 20%, even though in family businesses EOTs play an important part in the optionality.

Q55 **The Chair:** You said that you had had lots of conversations with the HMRC and the Treasury. Does that mean that you are happy with the way the Government have consulted on these proposals?

Steve Rigby: I cannot complain about the access we have had. They have been responsive and I am grateful for the time we have been given. The question I have is whether taking a meeting is listening or going through the motions of listening.

We believe that we put forward very well thought-through, two-sided arguments. We have tried not to think about this as just family businesses. We have tried to think about this as a country. We think that we have put forward some very well thought-through measures. The question is, when it comes down to the final Budget in four weeks' time, whether any of those aspects will have been listened to.

As we all know, this is a very small tax raise. It is £500 million a year, in the context of our total tax take of £1.3 trillion to £1.4 trillion, so it is a relatively small sum of money, but £500 million is a lot when we have the pressures that we have as a country. There are options to move into a different route. As I say, we have put forward, we think, a meaningful option that is a zero-sum gain. I hope they have listened. As I say, they have certainly been respectful in having dialogue with us. The big question is whether that discussion has led to any change.

I think that this was an honest mistake. I do not think that it was an ideological change. It was one, as we know, of 50 Budget changes that I think has been represented by Treasury to many Conservative Governments prior to a Labour Government. I do not think that this was ideological. I think that it was a genuine mistake. We are all experienced people around this table and we have all made lots of mistakes. The important thing with mistakes is owning up to it and adjusting. The big question today that we face, coming up to this Budget, is whether there will be recognition of the size of the problem that exists and whether there will be any amendments to it.

Q56 **Baroness Bowles of Berkhamsted:** Given that the Government are not going to be raising that much, it seems an awful lot of pain and risk per pound raised. It is going to be difficult. With sales and so forth, there is a risk of, on the other side, losing more than you gain.

Steve Rigby: Yes, £1.9 billion according to CBI Economics.

The Chair: Thank you very much. I am now going to terminate this part of the evidence session.