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Budget 2024: Business Property Relief

At the October Budget, the changes to Inheritance tax, pensions and Business Property Relief (BPR) undermined stability and succession plans for thousands of family run businesses, right across the country. Established almost 50 years ago and upheld by successive governments of both main parties, the conventions around BPR have helped family businesses navigate a challenging economic environment over the years, safe in the knowledge that if the owner should pass away, they will not be at a disadvantage. At a stroke, the Budget removed this safety net and completely undermines the future viability of these firms.

The current system works in bolstering confidence and provides stability

Family businesses take on a range of risks when they first go into business. Often mortgaging assets like their own homes, their entrepreneurial instincts and ambitions are tempered by the reality of what could go wrong and what is at stake. Some of the UK's most successful companies, many of whom have become internationally renowned, have family origins. They grow companies, provide jobs, invest in their businesses, and pay taxes. Family Business UK estimate the total tax income to the Exchequer to be upwards of £200bn a year.

When the current system of BPR was established in the 1970s, the economic outlook was uncertain. Over the following decades, despite the highs and lows of the economy, governments and policymakers have understood the need for inheritance tax and BPR, to reward these risk takers and national wealth creators therefore provide a degree of stability and confidence when growing the business and passing it on to the next generation.

Now, following the upheaval of the pandemic, high levels of inflation, rising interest rates, poor growth prospects, plant-hire companies, like most family businesses, are desperate for a degree of stability – often in order just to continue to survive, let alone continue to grow their business.

The October Budget has completely rewritten this long-established policy, with no warning or forethought on its impact, and no consultation with the very companies who it is targeted at. This is manifestly unfair and does nothing to enhance the new government's so-called focus on growth

The problem – why changes to BPR will have a devastating impact

Example
If a business is valued at £10m (which the government would classify as a small business), under the new rules, the family inheriting the business on the passing of the owner, will be paying 20% on that value – minus the first £1m. Most of the value of the business is in its assets, not cash. For plant-hire companies, this is the value of the equipment and premises. Not many, if any, family run plant-hire companies in this bracket, will have ready access to £1.8m. Therefore, to pay the new tax, they will have to take a dividend from the company and will be subject to an additional tax rate of 39.5%. Companies will be effectively, double taxed on assets they have already paid tax on.

At a period of uncertainty within the business, when new senior leaders might be taking over, this will have an adverse and unfair impact family run plant-hire companies. It will prevent business investment. Plans for new equipment, innovations, and investment in new jobs and people will stop. Many companies may well just sell up or dissolve the business, costing jobs and the taxes that they bring in.

Anecdotes from Construction Plant-hire Association members when asked about the impact, have ranged from those owners who are already worried about such a potential tax bill, to questioning why they should continue to try and grow their businesses given what will happen in the future. The unintended consequences will be devasting to both their businesses and the UKs communities and economy.

Family business want a level playing field
Construction as a sector, and construction plant plant-hire in particular, is one where the risks are immense, profit margins low, where confidence and stability in the economy matter as much as anything. Businesses recognise the need to pay their fair share of tax – that is not in question. Inheritance tax may be intended to be a tax on individuals but, in reality, it is a tax ultimately, on the business.

The existing rules on BPR provided a more level playing field for family companies, it helped offset some of the risks and helped incentivise entrepreneurship and ambition. In their current guise, the new changes to BPR do none of this. It will deter future business leaders and entrepreneurs, it acts as a barrier to job creation and investment, it will put a halt to those hard-working families who have dreams of starting their own plant-hire company and other businesses throughout the UK.

A call for growth and recognition
We call on the new government to recognise the need for further consultation and consideration towards the devastating impact these changes will have on family businesses in the plant-hire sector. It is not too late to reconsider and evaluate further, the adverse impact and limited increase in taxes raised, these changes will bring.

According to the government's own figures, by 2029/30, the changes to BPR will be bringing in on average £520m. Family Business UK estimates this to be approximately 0.02% of UK GDP in 2023. The cost in reputation for the UK as a place to do business, the impact on our future growth prospects, business investment and jobs created, is worth far more than £500m in extra tax revenue a year. As things stand the £200bn currently being collected in tax shall fall sharply as businesses close or downsize in a effort to cope with these increased costs.

Failure to understand this will undermine the Government and Chancellor's own commitment to securing lasting and sustainable economic growth.

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About the Construction Plant-hire Association

The CPA represents over 1,900 companies who are responsible for 85% of the construction plant used in the UK. The CPA is the leading trade association for the plant-hire sector in the UK, acting as the principal point of contact for all issues relating to the use of construction plant.

The UK's construction plant-hire sector is the backbone of the construction industry. Worth some £14bn to the UK economy[1], the sector employs over 190,000 people and adds £218 to the UK economy for every £100 directly generated by the plant-hire sector.

Simply, without construction plant, our transport and utility infrastructure, schools, hospitals, homes and infrastructure for renewable energies cannot be built. From clearing ground, digging for foundations and essential utilities, lifting structures, construction plant-hire companies are key to the ongoing success and future of UK construction.

The vast majority of companies in the sector, over 3000, are family run businesses. Almost 95% of our members are SMEs. From small operators to the largest ones in the country, family businesses have long been associated with construction plant. The November Budget and the changes to business property relief and inheritance tax and pensions are manifestly unfair, poorly thought out, will completely undermine the family business model, ripping the heart out of one of the UK's most successful sectors - private, independently owned and operated family businesses.

This policy briefing outlines the concerns of our members on the impact of this misguided policy and the fundamental issues it will have on construction.

As a sector, the plant-hire sector is:

Worth £14bn to the UK economy

Every £100 spent by plant-hire companies adds an additional £218 to the UK economy

Responsible for 191,500 jobs

Construction plant-hire workers are 25% more productive than the UK average in 2022

For every 100 people directly employed in the plant-hire sector, 216 additional jobs were supported.

November 2024

For further information, visit https://www.cpa.uk.net/

[1] Oxford Economics / CPA – The Economic Impact of the UK Construction Plant-hire Sector - CPA/Oxford Economics Report Available to Download | Construction Plant-hire Association