



POLICY BRIEFING

BUSINESS PROPERTY RELIEF

The UK's construction plant-hire sector is the backbone of the construction industry. Worth some £14bn to the UK economy, the sector employs over 191,500 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 3,000, 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 October 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.

Introduction

At the October 2024 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.

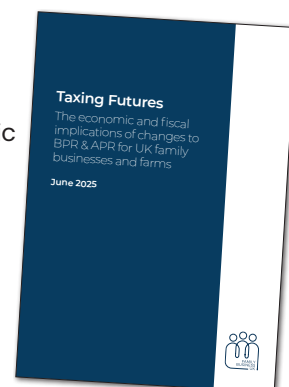
At a period of uncertainty within the business, when new senior leaders might be taking over, this will have an adverse and unfair impact on family run plant-hire companies. It will prevent business investment. Plans for new equipment, innovations, and investment in new jobs and people will stop. Many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

Anecdotes from our 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 devastating to both their businesses and the UK's communities and economy.

Family Business UK Report – Taxing Futures²

Family Business UK's most recent report into the economic impact the changes to BPR show some stark findings. Working in conjunction with the CBI's economic analysis team, the report finds:

- 55% of businesses affected by BPR changes have paused or cancelled investments – **with an average decrease in investment of 16%**
- BPR changes mean fewer jobs – **with an average reduction per firm of 9%**
- **Two thirds of firms** have sought legal advice, adding an extra cost at a point when business costs continue to rise
- The changes will lead to anticipated **average reduction of turnover of 9%**
- **15% of businesses** have cut charitable or community donations.



The report outlines how the changes to BPR will lead to a **Gross Value Added (GVA) reduction of £14.8bn** between October 2024 and April 2030. **Approximately 208,000 full time equivalent jobs** are at risk. Most damningly, the CBI's economic analysis suggests the government will see a **net fiscal loss of £1.9 billion**. This is despite the government believing it will raise £1.4 billion.

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.

We need to see greater transparency in the government's own figures and how it believes it will

raise revenue without damaging family businesses. To date, we have not seen any suggestion that the government has undertaken a thorough analysis of the policy implications these changes will have.

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.



Construction Plant-hire Association (CPA)

The CPA represents over 1,900 businesses 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.

As a sector, the plant-hire industry¹ is:



For more information, please visit the CPA website at www.cpa.uk.net

¹Oxford Economics/CPA Report

The Economic Impact of the UK Construction Plant-hire Sector is available to download at www.cpa.uk.net/news/cpa-oxford-economics-report-available-to-download

² Family Business UK Report – Taxing Futures – The Economic and Fiscal Implications of Changes to BPR and APR for UK Family Businesses and Farms, June 2024.

See <https://familybusinessuk.org/new-research-shows-full-impact-of-ihc-changes/> for further details.



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