Labour is unmasked with inheritance tax raid on family firms

Farmers have dominated post-budget headlines but the levy on small businesses shows even greater stupidity

By Juliet Samuel, The Times

Thursday 28th November 2024

Small businesses: even Denis “pips squeak” Healey liked them. He liked them so much, in fact, that in April 1976, despite an escalating sterling crisis, he saw fit to create a special inheritance tax carve-out for businesses. It was right, he declared, to “lighten the burden” on business to avoid “damage [to] productive activities which are of value to the national economy”. Reducing inheritance tax on their assets, he hoped, “will be particularly helpful to the small businessman transferring his business over a period to his successors”. Expanded in 1992, this tax relief made it for half a century without being tightened — until the arrival of Rachel “I love the Treasury” Reeves.

In the slow digestion of Reeves’s mega-budget, with its 53 tax rises, farmers had their moment in the limelight last week. But it is high time we moved family-owned businesses to centre stage. They, like farmers, were aghast when the chancellor unveiled a surprise rise in their inheritance tax from zero to 20 per cent on all assets worth over £1 million. At a stroke, viable businesses were turned into terrifying liabilities and lifelong career plans thrown into chaos.

This is even stupider than the farming tax, which catches family farms while merely annoying the super-rich. Once again, the Treasury doesn’t appear to have spent more than a few minutes working out how many firms across the economy will be hit, so we have to guess. Steve Rigby, who helps run his own family’s business and represents other family firms though Family Business UK, has tried his best to work it out. Data for those who claimed the relief in 2021-2022 suggests that over 25 years, which is roughly the generational turnover period for a family business, around 13,000 businesses will be whacked. The real figure will be higher given the inflation we have seen since 2022, which will have dragged more firms above the £1 million threshold, plus the fact that Britain is ageing and family businesses are disproportionately run by men aged over 60, so the numbers using the relief today will rise in future years.

To put that in perspective, there are 35,000 privately held businesses in the UK with more than 50 staff (the point at which a “micro” business becomes merely “small”). And according to the best estimates there are 90,000 with assets worth over £1 million. So, the 13,000 affected are around a quarter of all decent-sized privately held firms. We are talking about a significant slice of the economy. A £1 million threshold, once you include stock, property and equipment, really isn’t very high for a business, especially given that it isn’t even indexed to inflation and will catch more and more firms over the years.

And how exactly is a regular small business owner meant to pay the huge tax bill coming her way? If she doesn’t have large amounts of liquid savings floating around, she’ll have to take out a dividend to get hold of the cash, even spread over ten years. Dividends themselves are taxed at 34-40 per cent for higher-rate payers, so that’s another chunk gone. And what if the business doesn’t have a big pile of cash sitting around either? Well, it’ll be time to sell off warehouses, kit or whole business lines. It will be rich pickings for private equity and corporate buyers.

The tax bites hardest outside the wealthy southeast with its plentiful multinationals and listed firms. In the Midlands or Scotland, apparently remote from Treasury thinking, a disproportionately larger share of thriving local businesses are products of families handing them down; vets, chemists, car repair shops and the like. Scotland’s largest private company, the whisky distillery William Grant & Sons, has passed from father to son in an unbroken chain since 1887. Nova Laboratories, an internationally competitive father-and-son pharma company based in Leicester, is on the younger side, founded in 1994, but it employs more than 250 people on good salaries in an area where such things cannot be taken for granted.

Then there are whole sectors where the tax hit could shake down all the biggest players. Seven in ten coach companies in the UK expect to be affected, according to a survey by the Confederation of Passenger Transport, with nearly half saying they may not be able to keep operating. With electric car policy coming apart before our eyes, now may be a good time to invest in horse-drawn carts. I know a few farmers with assets to offload.

What do ministers have to say to any of this? We don’t really know, because in the long list of anxieties to grow out of the Halloween budget, this particular one has barely got a look in. After all, most business owners try not to go around frightening their staff by speculating loudly that they may not have a future.

Perhaps, as the Defra secretary, Steve Reed, bizarrely advised farmers, the government wants family firms to reconfigure themselves to avoid its own tax measures through clever planning. In other words, the government is explicitly incentivising a huge portion of Britain’s productive businesses to switch from growth and investment, both of which will only increase their heirs’ tax bill, to focus on restructuring themselves. It’s a cheering thought for accounting firms.

Labour, we were told before the election, “knows the value of small businesses” and believes they are both “the beating heart of our economy” and also, somehow, “the lifeblood of our communities … essential to our economic success”. In its love-hate relationship with enterprise and globalisation, the left usually admits that family-owned businesses are more likely to stay rooted in the place where they are founded and to reinvest their profits rather than take them abroad.

But the budget revealed the government’s true prejudices. Handing a viable business from one generation to the next isn’t, in the Labour worldview, an act of stewardship and love but an unfair leg-up for the undeserving children of capitalists.

Ministers will carp about problems of underinvestment, subject us to their musings on short-termism and even advocate for regulations that we’re told will propagate healthy business culture. They’ll pass measures they say are pro-growth and helpful to small business. But the truth is that Reeves and the Treasury’s apparatchiks struggle to see family firms as anything but an under-taxed asset and a troubling Rawlsian quandary. They are hamstrung by a narrow, sterile ideology, and slowly but surely, they are remaking Britain in its image.