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CapitalQuarter

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Welcome to the February issue of CapitalQuarter...

In this edition, we explore several developments shaping the financial reporting, governance and tax landscape - and what they mean for listed businesses and their advisors when preparing for the year ahead.

Sale and leaseback transactions are increasingly being used by asset heavy organisations to unlock liquidity while retaining operational use of critical assets. But getting the accounting right under IFRS 15 and IFRS 16 is essential. We outline the key considerations, challenges and technical requirements companies need to navigate when entering into these arrangements.

The UK governance landscape is also shifting rapidly. Updates to both the QCA Code and the UK Corporate Governance Code introduce strengthened expectations around culture, ESG, board independence and internal controls. Meanwhile, advances in AI - from generative tools to agentic automation and the ISO 42001 standard - offer boards powerful new capabilities, but also heightened responsibilities. We examine why organisations should reassess their governance frameworks and AI readiness to keep pace with rising expectations.

High quality reporting remains a priority for regulators. The FRC's latest Annual Review identifies continued weaknesses across impairment, cash flow statements, financial instruments, revenue and climate related disclosures, alongside a resurgence of consolidation challenges. With scrutiny set to intensify in 2025/26, companies must focus on clearer judgements, stronger pre issuance checks and more concise, entity specific narrative reporting.

Finally, major reforms to Business Property Relief taking effect from April 2026 will halve Inheritance Tax relief for AIM listed and other non recognised market shares, while capping full relief on business and agricultural assets. Our tax specialists explain how these changes could reshape investment and succession planning, and why early portfolio and liquidity review is crucial.

We hope you find this edition both insightful and practical. As ever, we welcome your feedback and suggestions for future topics - please do get in touch.



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Sale-and-leaseback as a financing tool: our guide

Looking for an alternative capital source if conventional financing is limited? Find out why companies with substantial fixed assets are choosing sale-and-leaseback arrangements. What are the key considerations, accounting treatment and practical challenges?

A sale-and-leaseback occurs when an entity (the seller-lessee) sells an asset to another party (the buyer-lessor) and simultaneously leases the asset back for a specified period. The transaction involves two linked contracts: a sale and purchase agreement, and a lease agreement.



These transactions can unlock capital while allowing continued use of critical assets. But determining whether a transaction qualifies as a sale-and-leaseback, and accounting for it correctly, needs careful application of IFRS. Most relevant are IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

The critical question in accounting for such arrangements is whether the transfer of the asset qualifies as a sale.

If it does, the transaction is accounted for as a sale-and-leaseback under IFRS 16. If not, it is treated as a financing arrangement under IFRS 9, *Financial Instruments*.

How should you assess if it counts as a sale?

The key point is whether the control of the underlying asset transfers to the buyer-lessor in accordance with IFRS 15. Both parties (seller-lessee and buyer-lessor) must independently decide whether the transfer qualifies as a sale. Several contractual features may determine that it doesn't:

- A substantive repurchase option (call or forward option) held by the seller-lessee
- A leaseback containing a fixed-price renewal option that the seller-lessee is reasonably certain to exercise, extending the lease to cover substantially all the asset's remaining useful life
- A put option with an exercise price higher than both the original selling price and the expected market value of the asset
- Classification of the leaseback as a finance lease by the buyer-lessor.

Crucially, a transaction qualifies as a sale-and-leaseback only if the seller-lessee controlled the asset before its transfer to the buyer-lessor. IFRS 16 paragraphs B45–B47 clarify that obtaining legal title alone does not determine the accounting outcome.

If these conditions are not met, the transaction is not a sale-and-leaseback and must instead be accounted for as a financing arrangement.

Measurement principle: how to account for a sale-and-leaseback transaction

Initial measurement

Once a transfer qualifies as a sale, the accounting depends on whether the transaction is conducted at market terms.

For a transaction at market terms:

| Seller-lessee | Buyer-lessor |
|---|---|
| <ul style="list-style-type: none"> Derecognises the underlying asset Recognises a right-of-use (ROU) asset for the leaseback, measured as the proportion of the previous carrying amount relating to the retained ROU Recognises only the portion of any gain or loss attributable to the rights transferred to the buyer-lessor | <ul style="list-style-type: none"> Recognises the underlying asset Applies the lessor accounting model to the leaseback |

Example 1: On market terms (As derived in KPMG's February 2023 Sales and Leaseback article)

Company C sells a building to Company D for CU 1,000,000, equal to its fair value. The building's carrying amount is CU 500,000. Company C leases the building back for 15 years, with annual lease payments of CU 80,000 payable in arrears. The implicit lease rate is 5%, resulting in a present value of lease payments of CU 830,400.

Analysis

The ROU asset is measured as:

$$\text{CU } 500,000 \times (830,400 / 1,000,000) = \text{CU } 415,200$$

The total gain on sale is CU 500,000, of which:

- CU 415,200 relates to the right of use retained by Company C
- CU 84,800 relates to the rights transferred to Company D

Accordingly, Company C recognises a gain of CU 84,800.

Journal entry – Company C

| | Debit | Credit |
|--------------------|-----------|---------|
| Cash | 1,000,000 | |
| Right-of-use asset | 415,200 | |
| Building | | 500,000 |
| Gain on sale | | 84,800 |
| Lease liability | | 830,400 |

What if transactions are not at fair value?

IFRS 16 paragraphs 101–102 refer to required adjustments when either the sale price or lease payments are not at market terms:

- Below-market terms are treated as a prepayment of lease payments
- Above-market terms are treated as additional financing provided by the buyer-lessor.

The adjustment is measured using the more easily determinable of:

- the difference between the asset's fair value and the consideration received, or
- the difference between the present value of contractual lease payments and market-rate lease payments.

Example 2: Off market terms (As derived in KPMG's February 2023 Sales and Leaseback article)

Company C sells a building for CU 1,000,000 when its fair value is CU 900,000. The lease terms are otherwise unchanged from Example 1.

The present value of the annual payments is 830,400. Of this amount, 100,000 relates to the additional financing and 730,400 relates to the lease – corresponding to 15 annual payments of 9,634 and 70,366, respectively, when discounting at 5.0% per annum.

Analysis

The ROU asset is measured as:

$$\text{CU } 500,000 \times (730,400 / 900,000) = \text{CU } 405,778$$

The total gain on sale is CU 400,000, of which:

- CU 324,622 relates to the right of use retained by Company C
- CU 75,378 relates to the rights transferred to Company D

Journal entry – Company C

| | Debit | Credit |
|--------------------|-----------|---------|
| Cash | 1,000,000 | |
| Right-of-use asset | 405,778 | |
| Building | | 500,000 |
| Gain on sale | | 75,378 |
| Lease liability | | 830,400 |

Subsequent measurement

After initial recognition, the seller-lessee applies:

- IFRS 16 paragraphs 29–35 to the ROU asset, and
- IFRS 16 paragraphs 36–46 to the lease liability

Lease payments are determined so that no gain or loss relating to the retained right of use is recognised at a later date.

What if transactions involve variable lease payments?

Amendments to IFRS 16 (effective from 1 January 2024) address the accounting for sale-and-leaseback transactions where there are variable lease payments. There are different scenarios for variable payments that are not indexed and those that depend on an index or rate.

Example 3: Variable payments not indexed rate (As derived in KPMG's February 2023 Sales and Leaseback article)

Company A sells a building to Company B for CU 900,000, equal to its fair value. The building's carrying amount is CU 500,000. Company A leases the building back for six years, with lease payments comprising fixed payments and variable payments that do not depend on an index or a rate. The implicit lease rate is 4%, resulting in a present value of estimated lease payments of CU 270,000.

Analysis

The right-of-use asset is measured as:
 $CU\ 500,000 \times (270,000 / 900,000) = CU\ 150,000$

The total gain on sale is CU 400,000, of which:

- CU 120,000 relates to the right of use retained
- CU 280,000 relates to the rights transferred

Accordingly, Company A recognises a gain of CU 280,000.

Journal entry – Company A

| | Debit | Credit |
|--------------------|---------|---------|
| Cash | 900,000 | |
| Right-of-use asset | 150,000 | |
| Building | | 500,000 |
| Gain on sale | | 280,000 |
| Lease liability | | 270,000 |

Example 4: Variable payments dependent on an index or rate (As derived in KPMG's February 2023 Sales and Leaseback article)

Consistent with Example 3, Company A is unable to reasonably estimate the expected lease payments at the commencement date. Company A sells a building to Company B for CU 900,000, equal to its fair value. The building's carrying amount is CU 500,000. Company A leases the building back for six years, with lease payments that are variable and depend on an index or a rate. The implicit lease rate cannot be readily determined and the present value of lease payments cannot be reasonably estimated at the commencement date.

Analysis

Company A estimated the proportion of the rights retained to be 33%. Using this percentage, it calculates that the initial carrying amount of the right-of-use asset is 165,000 ($33\% \times 500,000$), being the proportion of the previous carrying amount of the asset relating to the right of use retained.

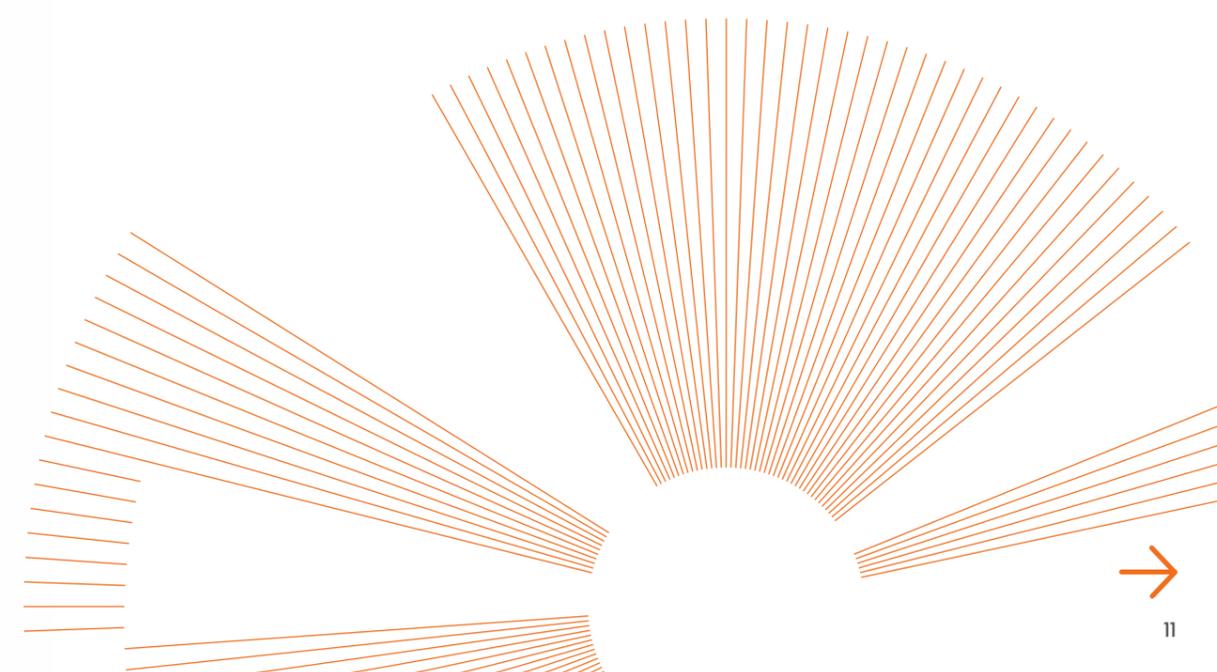
The total gain on sale is CU 400,000, of which:

- CU 132,000 relates to the right of use retained
- CU 268,000 relates to the rights transferred

Accordingly, Company A recognises a gain of CU 268,000.

Journal entry – Company A

| | Debit | Credit |
|--------------------|---------|---------|
| Cash | 900,000 | |
| Right-of-use asset | 165,000 | |
| Building | | 500,000 |
| Lease liability | | 297,000 |
| Gain on sale | | 268,000 |



What are the benefits of sale-and-leaseback transactions?

Despite their complexity, sale-and-leaseback arrangements offer several advantages:

- **Liquidity generation:** frees up capital for reinvestment
- **Improved financial ratios:** replacement of owned assets with ROU assets and lease liabilities often leads to lower reported balances
- **Flexible financing:** effectively finances 100% of the asset, with lease terms tailored to operational needs
- **Potential tax benefits:** depending on jurisdiction, lease payments may reduce taxable income.

How to prepare for an audit

As sale-and-leasebacks are complicated and involve judgement, they are a key focus area for audits. Auditors typically expect management to:

- fully understand and document the transaction's structure and key terms
- prepare a detailed accounting memo supporting the assessment under IFRS 15 and IFRS 16
- avoid common pitfalls, including:
 - incorrect assessment of control transfer
 - recognition of the full gain, not only the transferred portion
 - failure to adjust for off-market terms.

Management should also consider disclosure requirements under IFRS 16 paragraph B52, including the rationale for entering into sale-and-leaseback transactions, key terms, excluded payments, and cash flow effects.

How we can help

Sale-and-leaseback transactions can offer powerful financing benefits, but the accounting requirements under IFRS are complex. Determining whether a transfer qualifies as a sale, adjusting for off-market terms, and applying the correct measurement principles all require careful analysis to avoid errors.

We can help you understand these requirements and prepare robust accounting assessments for your sale-and-leaseback arrangements. Our **Financial Accounting Advisory Services** team provides clear, practical support to help you navigate the technical issues, document your judgements, to help ensure full IFRS compliance.

Whether you are considering a sale-and-leaseback as a source of capital or need assistance preparing for audit, we can help.

For more information or to schedule a consultation, please contact our experts.



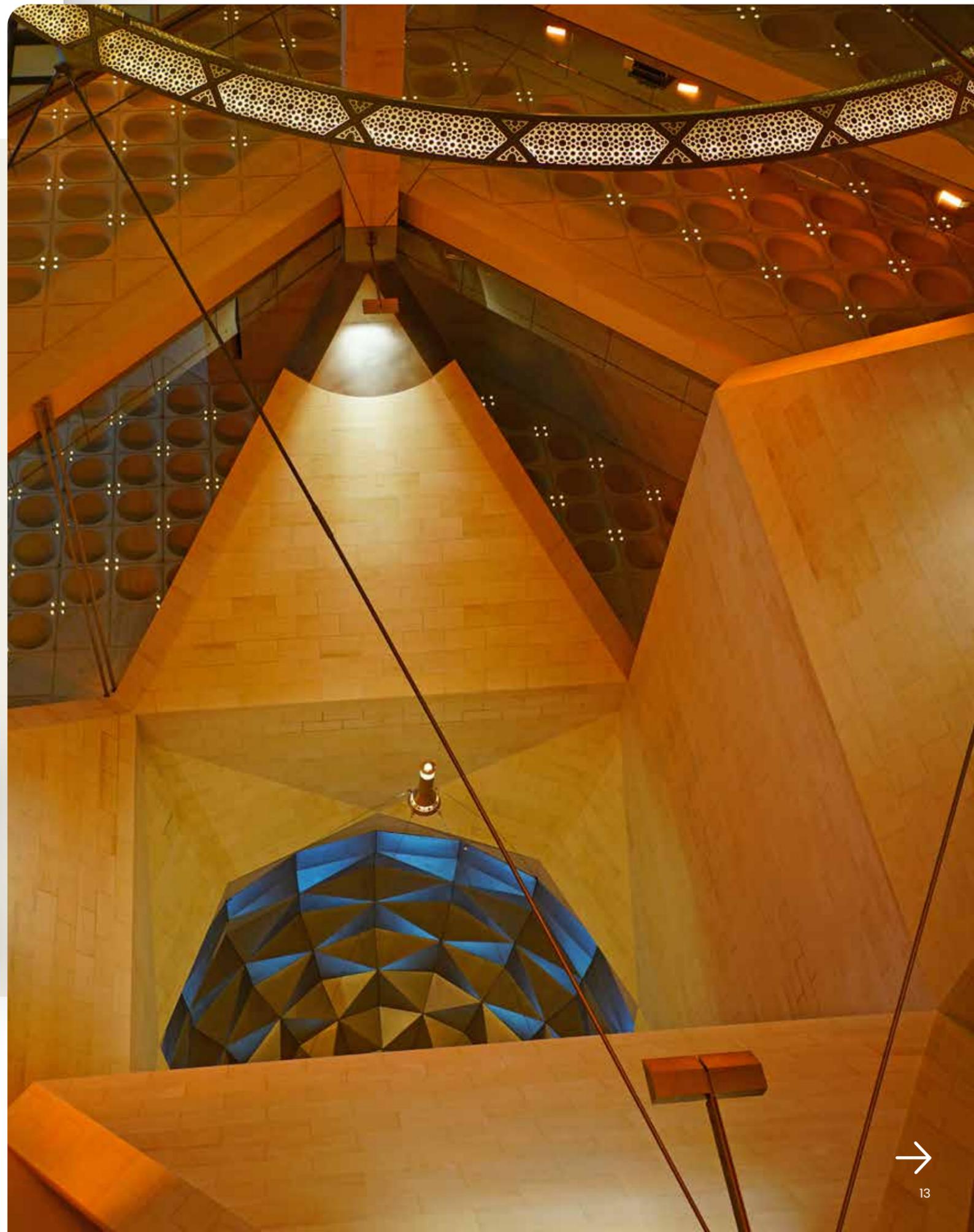
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The changing UK governance landscape

AI is becoming an increasingly useful tool to support corporate governance. Find out how different kinds of AI can improve the oversight and efficiency of your organisation. We also look at the latest updates to corporate governance codes: how might they alter your company culture?

Corporate governance in the UK is in a period of meaningful change. For directors - who are collectively responsible for overseeing risk, internal controls, strategic direction and the organisation's long term sustainability - the 2023 revision to the QCA Corporate Governance Code and 2024 update to the UK Corporate Governance Code introduce clearer expectations and a more defined framework for effective governance.

What are the key changes to the QCA Code?

The revised code is applicable to financial periods beginning on or after 1 April 2024. The changes bring the code in line with the latest good practice, while maintaining the flexibility valued by smaller, growing companies. Here are the new elements:

1. Greater emphasis on corporate purpose and culture

There are stronger requirements on boards to explain the company's purpose. This gives rise to the business model and long term strategy. The corporate culture must be developed via a 'tone from the top' to support the company's purpose.

New disclosures include:

- **Principle 1:** Explanation of the company's purpose
- **Principle 2:** Details on the corporate culture and explanations for deviations.

2. More focus on environmental and social responsibilities

Environmental and social responsibilities - including climate-related considerations - are now explicitly embedded in the code. Boards must improve their oversight of these areas, ensuring they are effectively managed and valued by the company's stakeholders and consumers. The company's workforce is recognised as a key stakeholder, with the expectation that its practices and behaviours consistently reflect and support the organisation's stated values in these areas.

New disclosures include:

- **Principle 4 & 5:** Clear explanation on how the organisation governs climate-related risks and opportunities, including the processes used to identify, assess and manage them.

3. A new standalone principle on remuneration

Companies must now align remuneration policy with purpose, strategy, culture, and long term value creation. It recommends shareholders be able to vote not only on remuneration reports but also on forward looking remuneration policy proposals.

New disclosures include:

- **Principle 9:** Disclosure on the remuneration policy should be simple to understand, and include an explanation on how it aligns to the company's purpose, strategy and culture.

4. Strengthened expectations for board structure and independence

At least half the board should be independent non executive directors. Audit and remuneration committees are also expected to have majority independence. Boards are encouraged to consider diversity and skillset in their composition, and implement board performance reviews. This must be supported by disclosures and an outline of the succession planning process.

How has the UK Corporate Governance Code been updated?

The FRC's targeted revisions to the UK Corporate Governance Code are applicable to periods beginning on or after 1 January 2025. The most significant change is the new Provision 29, effective from 1 January 2026.

What is Provision 29?

The code has always referred to the implementation and oversight of internal controls. But Provision 29 builds on these expectations and reflects the increasing importance of non-financial disclosures. It prompts directors to review the effectiveness of the material controls which are crucial to the sustainability of their company.

The board should monitor the company's risk management and internal control framework and, at least annually, carry out a review of its effectiveness. The monitoring and review should cover all material controls, including financial, operational, reporting and compliance controls. The board should provide in the annual report:

- A description of how the board has monitored and reviewed the effectiveness of the framework;
- A declaration of effectiveness of the material controls as at the balance sheet date
- A description of any material controls which have not operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues.

Source: [frc.org.uk](https://www.frc.org.uk)

How can AI support corporate governance?

Advances in AI are becoming increasingly relevant as expectations around governance, risk management and reporting continue to rise. When used responsibly, AI can strengthen control environments, improve oversight, and enhance the quality and efficiency of board level decision making.

Generative AI

Generative AI can rapidly summarise long documents, produce high quality first drafts, and answer queries by pulling information from multiple sources. This reduces manual preparation time and means boards and committees can focus on strategic oversight rather than administrative processes.

Example:

- Drafting an audit committee internal controls report using earlier reports, risk registers and control logs as inputs.

Agentic AI and workflow automation

Agentic AI performs multi step tasks with limited human input. It understands an objective, breaks it into steps, and executes autonomously within predefined boundaries. When combined with workflow automation, these tools can continuously monitor risks and controls.

Example:

- Ongoing review of user access logs, identification of segregation of duties issues, and preparation of a monthly summary for the audit committee.

Vendor services

Third-party governance and compliance platforms increasingly offer embedded AI capabilities. These include anomaly detection, sentiment analysis and regulatory mapping. These tools can improve the consistency of control monitoring and enhance reporting quality without requiring internal development.

Example:

- Identifying unusual journal entries (eg late-night manual postings or atypical approvers) and generating an exception report for finance and the board.



AI governance - ISO 42001

ISO 42001 provides the first international framework for governing the selection, use and oversight of AI systems. Even without certification, boards can use the standard to strengthen internal governance.

What would be the key actions aligned to ISO 42001?

- To define governance roles and oversight for AI use
- To assess AI related risks including data, security, GDPR, compliance and operational impacts
- To establish policies for acceptable use, procurement, monitoring and retirement of AI systems
- To maintain transparency through documentation and monitoring records
- To regularly review AI performance for accuracy and reliability
- To ensure human judgement and clear accountability remain central.

These give boards confidence that AI is being managed responsibly, even without formal ISO certification.

How we can help with corporate governance

Our specialist team and general corporate governance advisory services can:

- assess governance frameworks and identify areas for strengthening
- evaluate board and committee capability, skills and effectiveness
- review governance documentation and decision-making materials to ensure they support high-quality decisions and clear accountability
- provide an independent view on board effectiveness, for example when considering risks, impacts and the adequacy of decisions.



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How we can help with AI implementation

Our technology experts can advise on the implementation of AI tools, and provide:

- AI governance maturity assessments and gap analysis
- ISO42001 readiness assessment
- workshops to identify and prioritise AI opportunities
- outsourced AI officer support, including steering group setup and policy rollout
- vendor and third party risk assessments.



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Corporate reporting: what should you focus on for 2025/26?

The FRC's latest Annual Review of Corporate Reporting examined the financial statement disclosures of many FTSE 350 companies, among others, for the 2024/25 cycle. Its findings revealed weaknesses and deficiencies. What were they, and how should your company address them?

The review provides important regulatory insight into areas where reporting continues to fall short of the requirements of IFRS and UK company law. The findings highlight systemic weaknesses and recurring judgemental errors.

This latest edition identified 10 principal accounting areas that generated significant queries during the review process. They underline where companies are still failing to deliver on financial reporting expectations.

Key areas of focus included:

- **Impairment of assets, cash flow statements and financial instruments** – highest number of significant queries
- **Presentation and revenue recognition** – deficiencies in clarity, appropriate application of materiality, and alignment with accounting standards
- **Strategic reports, judgements and estimates and income taxes** – emphasis on transparency and compliance with Companies Act requirements
- **Consolidated financial statements** – in top 10 areas of regulatory scrutiny for the first time, as a result of challenges with assessment under IFRS 10 concerning control
- **Climate-related disclosures.**

Despite overall improvements in the quality of narrative and quantitative disclosures, there are still too many restatements from companies outside the FTSE 350.

What were the FRC's principal findings?

1. Impairment of assets

Impairment of assets remained the most common source of regulatory challenge, although none directly led to restatements. There were inconsistencies in assumptions used in impairment models and those disclosed elsewhere, particularly in viability statements. Some companies wrongly included cash flows from asset enhancement in VIU calculations, contrary to IAS 36. There was a lack of clarity in disclosures on cash-generating units.

Looking at the findings, it seems many of the issues could have been mitigated through clearer and more concise disclosures on key inputs and assumptions underpinning impairment assessments. Companies could also improve cross referencing and consistency between impairment disclosures and other sections of the annual report.

2. Cash flow statements

Cash flow statements continued to generate restatements, though fewer than the year before. Misclassification of cash flows between operating, investing and financing activities was still the main issue.

Errors often related to failures to exclude non cash items from operating cash flows or the wrong inclusion of accounting entries in investing or financing sections. The FRC stressed the need to apply IAS 7 consistently, avoid offsetting, and ensure narrative descriptions match the amounts disclosed.

3. Financial instruments

Financial instruments again featured heavily, reflecting judgements applied in IFRS 9 and IAS 32. All restatements related to inappropriate offsetting of financial instruments without meeting IAS 32's strict criteria.

Expected credit loss (ECL) disclosures were often incomplete or generic, with insufficient entity specific information about models, assumptions and risks.

Companies must clearly explain the nature and extent of risks arising from financial instruments and provide transparent detail on ECL methodologies.

4. Presentation of financial statements

The FRC asked fewer substantive questions on the presentation of financial statements than for 2023/24. But more restatements were needed. This was down to inconsistencies in the classification of amounts due from group undertakings between current and non-current. There were also omissions of accounting policies for material transactions or amounts, and inadequate disclosures on complex or unusual transactions and their nature.

It's important that entities provide disclosures that are sufficiently detailed to enable users of the financial statements to understand complex and judgement sensitive transactions. They must clearly articulate accounting policies for all material items, to support transparency and compliance.

5. Revenue

Since its September 2020 thematic review on revenue, substantive FRC enquiries have continued to decline during the 2024/25 review cycle.

Most remaining queries were on the clarity and robustness of accounting policies and disclosures of significant judgements. Insufficient explanation of the basis for revenue recognition was highlighted, along with inadequate disclosure of how performance obligations were satisfied over time or at a point in time, weaknesses in the setting of the transaction price, and insufficient consideration of principal versus agent assessments.

6. Strategic report and Companies Act considerations

There were fewer enquiries than for 2023/24, but dividend lawfulness remained a recurring issue. Challenges included insufficient distributable reserves at the point of declaration. There were also failures to comply with Companies Act requirements governing distributions. The FRC emphasised that strategic reports must provide a fair, balanced and comprehensive review of the business and that all dividends must be legally compliant.

7. Judgements and estimates

There was stress on the need for high quality disclosures that explain significant judgements and sources of estimation uncertainty. Many disclosures lacked detail, particularly on sensitivities and key assumptions. There were inconsistencies between front end reporting and notes to the accounts, where a significant judgement was implied but not disclosed. Entities must distinguish clearly between judgements and estimates, provide granular detail, and ensure consistency throughout.

8. Income taxes

Queries centred on the recognition of deferred tax assets without adequate evidence of future profitability, and on share based payment deductions where timing and forecast taxable profits were not fully considered. Inconsistencies between the tax reconciliation note and other disclosures were also common. The FRC expects transparent and well supported IAS 12 disclosures, particularly on the recoverability of deferred tax assets.

9. Consolidated financial statements

Consolidation issues featured in the top 10 for the first time in several years. There were weaknesses in companies' documentation and disclosure of control assessments under IFRS 10, especially in complex structures or transactions that changed ownership percentages without loss of control. Companies should clearly explain all factors considered in determining control and disclose significant judgements.

10. TCFD, CFD and climate-related narrative reporting

As companies grow increasingly familiar with reporting rules on climate-related issues, there is less need each year for FRC queries.

There were questions where companies had failed to provide qualitative or quantitative analysis in their business model, and in cases of wrong applications of the small companies' strategic report exemption, which would have included CFD disclosures, and inconsistent reporting on GHG emissions across the annual report.

Companies must ensure that disclosures are clear, concise and specific to them. They also need to disclose any material impact of climate change in the financial statements and be consistent between climate-related disclosures and others in the annual report.

What is the FRC expecting in the 2025/26 reporting cycle?

With few changes for the current period, the FRC's expectations remain consistent. The UK's principles based framework asks companies to exercise sound judgement in determining recognition, measurement and disclosure. Preparers must focus on what information is necessary to convey a coherent, entity specific story rather than producing extensive but immaterial disclosures.

High quality reporting depends on clarity and relevance, not volume. The FRC continues to call for elimination of boilerplate disclosures and a sharper focus on significant risks, judgements and estimates.

For 2025/26, the FRC highlights three priority areas:

- **Pre-issuance checks:** robust internal review processes are essential to identify technical issues and clear, entity-specific accounting policies will reduce queries and restatements
- **Judgements, risks and uncertainties:** disclosures must be specific, consistent and explain the rationale behind significant judgements, risks and uncertainties
- **Narrative reporting:** strategic reports need to provide a balanced and comprehensive review of performance, position and prospects, including compliance with climate-related disclosure requirements.

More on investment companies and share-based payments

The FRC also issued two thematic reviews covering investment companies and share based payment arrangements. These clarify expectations on recognition, measurement and classification. They are available on the FRC website: <https://www.frc.org.uk/>

How we can help

The FRC's latest Annual Review highlights persistent challenges across impairment, cash flow statements, financial instruments, revenue recognition, judgements and estimates, income taxes, consolidation and climate-related reporting. These areas continue to attract regulatory scrutiny, and companies must ensure their disclosures are clear, consistent and compliant.

Our **Financial Accounting Advisory Services** team can help you understand these expectations and strengthen the quality of your reporting. Whether you need help reviewing disclosures, assessing significant judgements, improving narrative reporting or carrying out a pre-issuance technical review, our experts will work with you to ensure your reporting is robust, accurate and aligned with FRC guidance.

For more information or to schedule a consultation, please contact our experts.



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Business Property Relief Reform – an Inheritance Tax headache for AIM investors

On Easter Monday, the 6th of April this year, BPR reform comes into effect and will potentially put a crack in nest eggs that business property owners and investors plan to leave to their heirs.

Business Property Relief (BPR) reform was first announced in the 2024 Budget and immediately caused a furore, specifically with regard to its likely impact on the viability of passing-on farm land and properties from one generation to the next. While BPR reform has since been revised to include a more generous allowance – from £1 million to £2.5 million, and permitting the allowance to be transferable between spouses, there is still concern about its impact on the UK's non-recognised stock exchanges, such as AIM.

The London Stock Exchange together with other industry professionals and media commentators have suggested that the reforms could drive a shift away from AIM shares into unquoted shares. As a result of AIM shares qualifying for less tax relief, they fear that AIM shares will become less attractive.

Whether or not that proves to be the case, the reforms are significant and will impact the Inheritance Tax (IHT) position of UK business property owners and investors holding shares listed on the AIM market and other non-recognised exchanges in companies with hotel premises, restaurant or retail chains, commercial office space, warehouses or factories, for example. The changes represent substantial shifts to BPR and there is a lot for investors to consider.

What is changing from April 2026?

From 6 April 2026, BPR will be reformed so that the existing 100% relief applies only up to a £2.5 million combined allowance for qualifying agricultural and business assets; value above that will receive 50% relief (an effective rate of up to 20%). Any unused allowance is transferable between spouses/civil partners. In addition, shares “not listed” on recognised stock exchanges (including AIM) will only attract 50% BPR in all cases.

Background: How the BPR reforms developed

The reform was first announced at the Autumn Budget 2024, when the government signaled it would cap the availability of the 100% relief and reduce the rate for shares designated “not listed” on recognised stock exchanges (such as AIM).

Draft clauses were published on Legislation Day (21 July 2025) for technical consultation, confirming the core structure and adding indexation from 2030/31.

At the Autumn Budget 2025, the Chancellor amended the package so that any unused portion of the new allowance could be transferred to a surviving spouse or civil partner.

In a late amendment to the rules and in response to the considerable protest against the upcoming changes, in December 2025 the allowance was increased to £2.5 million per individual (so couples can potentially shelter £5 million together), and the government reiterated that liabilities on qualifying APR/BPR assets can be paid in ten equal interest-free instalments.

When do the new rules apply?

The reforms take effect for deaths and chargeable transfers on or after 6 April 2026. However, anti-forestalling applies to certain lifetime gifts made after 30 October 2024 where the donor dies within seven years – preventing last-minute planning from bypassing the cap.

Estates and trustees can continue to settle qualifying agricultural or BPR inheritance tax in ten annual interest-free instalments, which may be important where liquidity is constrained.

Definition of “listed” and the new treatment of listed shares

The reforms take effect for deaths and in addition to the cap for all business property shares that are not listed on an HMRC recognised stock exchange, including the AIM and similar growth/MTF venues, any shares traded on foreign markets that HMRC does not recognise will qualify for BPR at 50% only.

Historically, BPR for listed shares has been limited – typically 50% relief only where the holding confers control – while many AIM holdings were treated as unquoted and qualified for 100% BPR. Under the reforms, all “not listed” shares, including AIM and similar foreign venues, will receive only 50% BPR regardless of size or control.

What this means for investors

For Main Market portfolios, BPR remains tightly circumscribed. Most ordinary listed holdings will not qualify for relief, and control holdings may attract only 50%, subject to the usual trading conditions.

Shares on AIM and other “not listed” markets will no longer qualify for BPR at 100% BP, instead qualifying shares will qualify for relief at 50% only from 6 April 2026.

For investors who have AIM portfolios, to access full BPR they should plan for an effective IHT rate of up to 20% on those holdings (subject to other allowances and exemptions).

Start planning now

- **Review AIM portfolios:** Where BPR was the primary driver of your investment, reassess risk/return and IHT positioning in the round, alongside other allowances and exemptions
- **Liquidity planning:** A dry tax charge on succession can be material for owner-managed businesses. People should consider funding mechanisms to avoid forced disposals
- **Use allowances:** With the £2.5 million 100% allowance and spousal transferability, re-balancing ownership between spouses/civil partners and reviewing Wills can maximise relief. Trusts remain useful but require careful navigation of ten-year and exit charges under the new regime.

Given the scale of the changes, investors with significant AIM or private business holdings should review their IHT strategy well ahead of April 2026. Tailored advice is essential, particularly where business structures, family trusts or cross-border considerations are involved.

How we can help

Navigating the new BPR rules will require careful planning, especially for investors holding AIM shares or interests in business property that were previously expected to qualify for 100% relief. Our experts can help you assess how the reforms affect your current estate plans, model your future Inheritance Tax exposure and identify opportunities to restructure ownership to maximise available reliefs.

For more information or bespoke advice, please contact our expert.



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About PKF

Simplifying complexity for our clients

PKF is one of the UK's largest and most successful accountancy brands.

We have a strong reputation with publicly listed companies, and understanding these highly regulated, technically complex businesses has become a specialism of ours. We focus on delivering consistent quality and making all our clients feel valued.

Our specialist capital markets team has vast experience working with companies listed, or looking to list, on a range of international markets including the London Stock Exchange Main Market, AIM, AQUIS, NASDAQ & OTC, ASX and TSX & TSX-V.

PKF in the UK...



4th ranked auditor of listed companies in the UK



£202 million annual fee income



1,450+ staff



Our Capital Markets sector credentials

How we can help...

- Pre-IPO →
- IPO →
- Specialist transactions →
- Audit & assurance →
- Tax →
- Business advisory →
- Business solutions →
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PKF UK in numbers



Capital Markets in numbers



PKF Global in numbers

12th

Largest audit practice in the UK

1st

Largest auditor of AIM listed clients

Part of the **14th**

Largest global accounting network

20

Offices across the UK

4th

Largest auditor of UK stock market clients

480

Offices in 150 countries

1,450+

Employees and 180 partners

86

Total AIM clients

\$1.4bn+

In aggregate fee income

£202m

Fee income and growing rapidly

180+

Listed audit clients

21,000

Employees



Get in touch today

To see how we can help...



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