Ensors

Information

Labour Budget 2024
Ensors Agriculture sector
Changes to Inheritance Tax Agricultural and Business Property Reliefs (APR/BPR)

The technical bit

As from 6 April 2026 an individual will only be able to qualify for 100% Business / Agricultural Property Relief on the first £1m of qualifying property, with 50% relief given on the value in excess of this. For the avoidance of doubt the £1m allowance covers any total combination of APR and BPR, it is not £1m of each.

The current position is that where 100% Business/Agricultural Property Relief applies it does so without limit.

Property that currently qualifies for 50% relief will not be affected and will continue to qualify for relief at 50%.

If two (or more) people own agricultural/business property jointly, they will each be entitled to the £1m allowance, but the allowance is not transferable between spouses.

How will this work?

IHT applies to:

- Assets held at the date of death; and
- Assets gifted in the 7 years before death.

The Government has not yet confirmed exactly how all of the changes will apply but our understanding is that in relation to the assets held by the deceased at the date of death:

- If the death is before 6 April 2026 the relief available will be calculated based on the current rules (i.e. not subject to the £1m limit).
- If the death is on or after 6 April 2026 the relief available will be calculated under the proposed new rules.

In relation to assets gifted away in the 7 years before death:

- If the death is before 6 April 2026 the relief available will be calculated based on the current rules (i.e. not subject to the £1m limit).
- If the death is on or after 6 April 2026 the relief available will be calculated:
    - Based on the current rules if the gift was made prior to 30 October 2024
    - Based on the proposed new rules if the gift was made on or after 30 October 2024

How might this impact a farming business?

Where the total value of the individual's interest in the business is £1m or less they will be largely unaffected by the changes. However, where the individual currently has 100% relief on a sum exceeding the £1m there will be an increase in the potential IHT liability.

By way of example, assuming a sole trader farm business that includes a farmhouse, 600 acres of land, a single let cottage and some farm machinery:

	Value £	Currently Taxable £	Taxable Post 5 April 2026 £
Farmhouse	500,000	(*) 150,000	325,000
600 acres	6,000,000	Nil	(**) 2,500,000
Let Cottage	350,000	Nil	175,000
Machinery etc	250,000	Nil	125,000
Total	**7,100,000**	**150,000**	**3,125,000**
Nil Rate Band		(325,000)	(325,000)
Taxable		**Nil**	**2,800,000**
IHT Due		**Nil**	**1,120,000**

(*) Assuming 70% of the property value is its 'agricultural value'.
(**) The £1m allowance has been used here against the 600 acres

Action to take

Under current legislation a farmer could continue to hold the assets long term given that, if he were to die while still owning them, there would be 100% APR or BPR to shelter the farm business and its assets from IHT.

That will no longer be the case under these proposals so the emphasis will be on gifting assets sooner. It currently remains possible to make gifts of the property during lifetime and hope to survive for 7 years such that the value falls entirely outside of the IHT net. Such gifts can be made to individuals, but possibly also into trust.

There are obstacles. A gift may well trigger a Capital Gains Tax liability (though holdover relief could provide assistance in this respect) and potentially SDLT.

It will also be necessary to ensure that the person making the gift does not fall foul of the 'Gift With Reservation of Benefit' rules.

Earlier planning, where possible, is going to be key here. There are, sadly, going to be some for whom their life expectancy is such that this is not a possibility.

The fact that the 100% Relief band is not transferable to a spouse means that it must be used on death. This will almost certainly mean that Wills need to be revisited to ensure that the relief is used on death and not lost.

For businesses where the owners are not yet ready to pass on the assets, a plan of action for the future should be put in place – alongside suitable insurance against an unexpected early death which could rip the business apart.

Taking good professional advice at an early stage is vital.

Opinion

We believe that in considering these changes the Government has either misunderstood or misinterpreted the available data in relation to many APR claims. In addition, there seems to have been an assumption that a business that has high asset values would easily generate sufficient income to pay any IHT liabilities arising given that the liability can be spread over 10 years.

That is simply not true of many family farming businesses. In the example above the business would need to find an additional post-tax £112,000 per year over and above any income needed to support the farming family.

It appears that the family farm business has been "thrown under the bus" and sadly it is the older farmer, or those with shorter life expectancies who will pay the heaviest price, as they are not in a position to make lifetime gifts and survive the seven-year period necessary for those gifts to fall outside of the taxable estate.

For further information or advice on the matters discussed, please contact your usual Ensors contact or send an enquiry.

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