Farmers given £2.5m allowance for inheritance tax in u-turn

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In a major u-turn, the chancellor Rachel Reeves has changed the threshold for agricultural and business property relief, raising it to £5m for couples

The allowance for the 100% rate of relief will be set at £2.5m, rather than £1m, with a 50% rate of relief thereafter. This means a couple will be able to pass on up to £5m of agricultural or business assets between them, on top of the existing allowances such as the nil-rate band.

The government estimates that up to 185 estates claiming agricultural property relief, including those also claiming business property relief, are expected to pay more inheritance tax in 2026-27. This means 85% of all estates claiming agricultural property relief in 2026-27, including those that also claim for business property relief, are forecast to not pay any more inheritance tax as a result of the changes. This change will cost an estimated £130m a year.

National Farmers Union (NFU) president Tom Bradshaw said: ‘We have spent the past 14 months campaigning and lobbying to try and mitigate the worst of the impacts of the proposals.

‘After it became clear that this policy wasn’t going anywhere, we have focused our campaign to mitigate the worst of its impacts for the majority.

‘Today’s announcement, which sees the tax threshold raised from £1m to £2.5m, will come as a huge relief to many. While there is still tax to pay, this will greatly reduce that tax burden for many family farms, those working people of the countryside.’

The move follows a House of Commons grilling of the prime minister, Sir Keir Starmer, on 17 December by MPs on the Liaison Committee, where he was questioned about the impact of the agricultural property relief changes on farmers, who were feeling pressured to ‘expedite their own deaths’.

For many the move marks a failure by the government to understand the farming community, not to mention the impact on family held businesses, whose owners are in exactly the same position as the farms.

Rural tax specialist, Sharon Omer-Kaye, partner at James Cowper Kreston, welcomed the announcement, but said: ‘It is sad that it has taken since October 2024 for the government to realise that the level first introduced was going to cause a heavy burden for working people, alongside stifling entrepreneurs and farmers.

‘Many of those affected have spent considerable time worrying about the impact as well as the cost of taking advice to restructure their affairs to enable them to pass on their business to the next generation, so a last-minute change, although welcome, is a bit too late for many.’

The decision was slipped out just before Christmas, raising questions about the timing so soon after the Budget last month.

Caroline Foulger, partner in the private client department at Hunters Law, said: ‘The timing of the announcement is interesting as MPs have just left for Christmas recess, and the new animal welfare strategy was announced yesterday; it is as though they want this concession to be lost in other political noise and the quiet of the festive period.

‘It is a welcome development, but still means many farmers and business owners will need to carry on with planning for the changes in April 2026, as the window for some estate planning options will close then.’

With four months to go until the legislation comes into force, tax planning now has to go into overdrive.

Lizzie Murray, partner and head of the private wealth team at Saffery LLP, said: ‘This will definitely come as welcome news to many farmers and business owners, and indicates that the government has finally acknowledged the £1m threshold was too low; the unintended consequence of this being that far too many taxpayers would have been caught by these new rules.

‘For many, however, this change will have little impact and there are now fewer than four months to complete any planning before the implementation of the new legislation.’

This is the second major concession since the original proposals and just three months before the new rules come into force from 6 April 2026.

Paul Townson, a tax partner at BDO said: ‘Many of our business and farming clients have been hugely concerned about the new rules with some having been forced into changing their succession plans already. For some, that effort may now prove to have been unnecessary – assuming there aren’t even more changes to the proposals before next April.

‘While the increase in the nil band is a sensible move, it’s difficult to understand why these changes have been announced in such an incremental way and within less than a month after the Budget. The stress this whole process will have caused to business owning families should not be underestimated.’

The revision applies to married couples and civil partners, and siblings according to the examples in the government announcement. But this means unmarried couples will only qualify for the £2.5m threshold, not the combined figure of £5m.

David Lunn, partner at TWM Solicitors, said: ‘One point really jumps out from the announcement: the £5m figure only applies if farmers are married or in a civil partnership.

‘If a couple is cohabiting but not married or in a civil partnership, they will still be capped at £2.5m. While this is an improvement on the £1m threshold announced previously, it is a significant shift for farmers who have long assumed their APR and BPR assets would be exempt without limit.

‘For those with farm or business assets worth more than £2.5m, this creates a powerful incentive to consider marrying a long-term partner - something that may not previously have felt necessary.’

In the Budget last month, the chancellor Rachel Reeves made a last-minute amendment to farm and business inheritance tax (IHT) changes which will see spouses and civil partners able to transfer unused allowances.

As a result, agricultural property relief (APR) and business property relief (BPR) was brought in line with the standard IHT regime.

Any unused £1m allowance for the 100% rate of APR and BPR will be transferable between spouses and civil partners, including if the first death was before 6 April 2026. This will be legislated for in Finance Bill 2025-26 and take effect from 6 April 2026. That decision will cost the Treasury £70m a year based on the Red Book calculations accompanying the Budget.

The latest increase in the threshold comes very late in terms of the planning cycle.

Julie Butler, founding director of Butler & Co, said the move was a ‘stand down’ by the government, stressing that critical tax planning was still essential.

‘We would stress that a lot of the tax work that has been undertaken has not been in vain and still needs following through,’ said Butler. ‘This includes the forensic understanding of the farming activities to ensure that the 100% IHT qualification can be achieved, registering unregistered land, and understanding ownership and occupation especially as non-partnership property only achieves 50% IHT relief’.

‘It is essential that the quality tax work carried out to date to protect the maximising of tax reliefs is followed through by fully understanding the transferable spouse allowance that can increase the combined allowance to £5m, and fully exploring the role of the spouse in the light of these changes, especially with surviving spouse relief surviving the budgets,’ added Butler.

In addition, Butler stressed the importance of taking into account the 0% IHT relief for farm investment activities under s105(3) and ensuring this is managed positively.

What farmers and business owners now need is stability after two major changes by the Treasury in just four weeks.

Townson is calling on the government ‘to commit to a moratorium on any further tightening of the IHT rules for at least 10 years’.

Meantime, Robert Salter, a director at Blick Rothenberg, wants regular reviews of the threshold to ensure it stays in line with inflation.

‘It is disappointing that it has taken the government so long to reach this decision, especially given that the new rules have been heavily criticised by both those impacted and the profession,’ Salter said.

‘It is important that this new threshold is continually reviewed by the government and updated to recognise the impact of inflation on farmers and business owners over the coming years.

‘Otherwise, the new £2.5m threshold (£5m with the ability to transfer) will quickly become out-of-date and simply “push the problem” of IHT on family-owned enterprises down the road, but not remove the issue.’

But there is still widespread disquiet about the basic principle of the government’s position.

Toby Tallon, tax partner at S&W, said: ‘In my view, and many others, it’s simply a bad policy that should be scrapped, not just amended. At the very least, the government should put a pause on these proposals, to properly consult on the damage it will do to individuals, communities and the country.

‘ With this increase in the allowance, the government seems to accept the reform is poorly targeted but doesn’t answer the wider criticisms of the proposals.’

It is not only farms that will benefit from the Christmas announcement with privately owned businesses also covered by the backdown by the government.

‘The majority of estates that will pay inheritance tax as a result of these changes will include businesses that are not farms,’ Foulger stressed. ‘Individuals with assets benefiting from business property relief need to start thinking properly about their estate planning, if their business is to pass on to the next generation successfully.’

But after more than a year of fighting the farm tax, the farmers at least have some good cheer to end the year.

Peter Harker, partner in the landed estates team at Saffery LLP, said: ‘It’s great to end the working year with a bit of good news on IHT. At last the government have listened to all the concerns and are raising the APR and BPR thresholds. There will be many farming families breathing a big sigh of relief over their Christmas dinner.’