

If you go into the woods today

Julie Butler and **Fred Butler** look at whether woodlands deferral relief has any value when compared with agricultural property relief, business property relief and heritage property relief.

With all the positives of 100% agricultural property relief (APR) for inheritance tax (IHT) and business property relief (BPR), we have always been focused on trying to ensure that APR and BPR apply and not use woodlands deferral relief unless absolutely necessary. The latter relief applies only to trees or underwood, not the underlying land, and allows the tax to be postponed until the timber is sold, felled or disposed of. It is supposed to be particularly useful for immature, non-commercial or non-agricultural woodlands but the land itself is immediately chargeable to IHT.

We can therefore see the first flaws in woodlands deferral relief, given it is only an IHT *deferral* relief that applies solely to the timber as opposed to the land. Furthermore, woodland values have increased dramatically over the past decade with benefits including carbon sequestration, environmental services and public and private recreation – factors that may be a headache for the land agent and something they might not have been trained for at agricultural college with current changes.

Key points

- Woodlands deferral relief applies only to trees or underwood, not the underlying land, and allows the tax to be postponed until the timber is sold, felled or disposed of.
- Farming for the environment (environmental schemes) qualifies for agricultural property relief (APR), but the downside to APR is the restriction to agricultural value.
- Business property relief (BPR) is probably the most attractive relief when compared with woodlands deferral relief and APR.
- To qualify for BPR, it is essential for tax advisers to remind clients to keep strong evidence of commerciality through detailed recording and accounts.
- Woodlands can also qualify as 'heritage property' for IHT purposes where they are ancient semi-natural woodlands.



© Getty Images

There is then the difficulty in establishing the valuation of the timber separately to the value of the land. Assuming that the valuer can divide the land and the timber and the timber is not sold, felled or disposed of for a number of decades, this value must be stored and retained very carefully.

The relevant legislation is found in IHTA 1984, s 125 to s 130, but now has more strength with the APR/BPR reduction to 50% on assets exceeding the £2.5m threshold from April 2026. To summarise:

- woodlands deferral relief is only given on death – election within two years;
- there is a five-year qualification period;
- it is only given on the trees and underwood (not land); and
- it is only a deferral of the tax.

So, let's look at BPR and APR separately with regards to woodland. Even at 50% relief, the calculations generally show this to be better than the combination of the bare land being subject to immediate IHT, with deferral relief then applying to the trees and underwood.

Achieving APR on woodland

APR is property-based. HMRC's *Inheritance Tax Manual* says at IHTM24032:

'Woodland is only agricultural property if it is occupied with, and that occupation is ancillary to, agricultural land or pasture. It will include woodland shelter belts, game coverts, fox coverts, coppices grown for fencing material on the farm and clumps of amenity trees or spinneys.'

The definition of agricultural land or pasture obviously then needs to be understood.

Agriculture is the science, art and practice of cultivating soil, producing crops and raising livestock to provide food, fibre, wool and other raw materials essential for human survival. There has been a growth in 'agroforestry' that will qualify for APR.

From April 2025, farming for the environment (environmental schemes) qualifies for APR and there are extensions to the scope of APR to include things such as short rotation coppices, whereby the trees are planted and harvested at least every ten years.

The downside to APR is the restriction to agricultural value (AV) under IHTA 1984, s 115(3). This is typically less than market value (MV), for which BPR is needed.

Achieving BPR on woodland

Given the potential problems of qualifying as agricultural property and the restriction to AV, arguably BPR is the most attractive relief when compared with woodlands deferral relief and APR. However, to qualify for BPR the woodland must be commercial. That can be relatively straightforward, for example it requires the sale of timber, but as part of good woodland management there should be harvesting and thinning. The environmental and recreational benefits can also generate income to help demonstrate commerciality, such as woodland camping and bushcraft lessons. It is essential for tax advisers to remind clients to keep strong evidence of commerciality through detailed recording and accounts.

Many would argue that, with planning, all woodland can evidence commerciality as there is clearly income to be achieved. As such, any woodland owner should look at selling timber and wood fuel as a simple part of woodland management.

There are cases where BPR can be achieved and heritage property relief or woodlands deferral relief can be used for IHT protection. This could also include woodland that would only qualify for 50% BPR or APR because the £2.5m threshold has been used already.

Heritage property relief on woodland

Woodlands can qualify as 'heritage property' for IHT purposes where they are ancient semi-natural woodlands. This can extend to new plantations on ancient woodland sites. HMRC will consider the claim for conditional exemption from capital

taxes based on scientific, scenic or historic value and the bar is typically set high. Conditional exemption cannot be granted unless reasonable public access is ensured, and failure to facilitate this and maintain the woodland could trigger immediate tax liabilities.

To quote from the gov.uk promotional material, *The benefits of woodland creation: Woods for Nature*:

'Trees not only support wildlife, they help sustain healthy ecosystems, maintain climate regulation, and protect soils – playing a major role of aiding nature's recovery.'

It is usually considered by the general public that one advantage of woodland ownership is the IHT relief. However, questions must be raised as to whether the benefits of woodlands deferral relief for the owner reflect the greater importance and advantages of maintaining woodlands for the environment and public as a whole.

Sadly, tax advice on woodland has lately become more pertinent 'in the round' due to problems caused by the spruce beetle in many parts of the UK, and the large-scale fellings about to be undertaken. While this can generate extra income, IHT planning reports may need to be updated to reflect the impact on, and future understanding of, how to manage woodland. ●

Author details

Julie Butler FCA is founding director of Butler & Co Alresford Limited. She can be contacted by email: infobutler@butler-co.co.uk or tel: 01962 735544.



Fred Butler ATT is tax director of Butler & Co Alresford Limited. He can be contacted by email: at@infobutler@butler-co.co.uk and tel: 01962 735544.



▼ FIND OUT MORE On [Taxation.co.uk](https://www.Taxation.co.uk)

- Claiming APR on farmhouses and cottages: tinyurl.com/2s4hkapu
- News: High Court date for judicial review of 'farm tax': tinyurl.com/4fc5p87y
- Readers' forum: Tax treatment of income from willow timber and solar panels: tinyurl.com/49fsfaaa

Think Tax. Think Tolley.



We have several options available, from print and digital packages, video panel discussions, bespoke surveys, reports and recruitment solutions.

For more information, contact
advertisingsales@lexisnexis.co.uk

ADVERTISE IN TAXATION

Tolley® Tax intelligence
from LexisNexis®