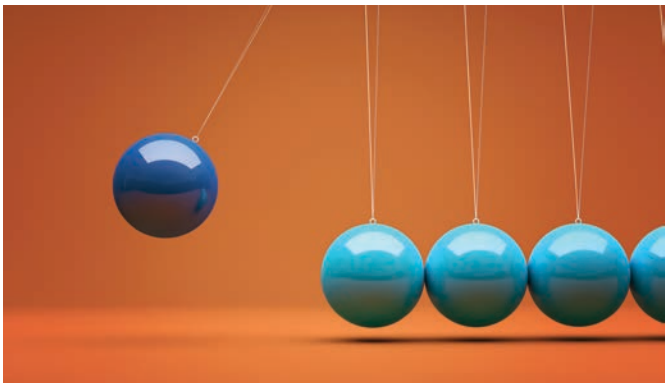
Real impact

Julie Butler discusses the real impact of reduced inheritance tax reliefs.



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Following the announcement to reduce agricultural property relief (APR) and business property relief (BPR) in the October 2024 Budget, it now looks likely that farms will have to pay some inheritance tax. The proposals introduce a £1m cap for 100% APR and BPR combined, with any value transferred in excess of this being subject to the reduced rate of 50%. These changes are set to come in in April 2026, though many are arguing for this to be delayed for a year given the narrow time frame this gives for business owners to respond. The implementation of these changes, along with the tax planning, will inevitably make the administration of farm estates more complex.

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It is worth noting that taxpayers have just six months after the end of the month in which the chargeable event occurred to pay any IHT due. The penalties for late delivery of an account begin with an initial penalty of £100 and a further penalty of £100 if the account is delivered six months or more after the time for delivery. Further, if a document contains more than one inaccuracy, a penalty is payable for each one. Full guidance is found at IHTM 36023 and IHTA 1984, s 245.

Late delivery of an account occurs where an account is delivered outside the normal time limits of 12 months from the end of the month in which the transfer is made or, if later, three months from the date when the person who is held accountable becomes liable for the tax.

Where accounts are delivered after more than 12 months, the penalty becomes more complex and increases. However, it is capped at £3,000. HMRC guidance includes calculations for accounts which have been submitted voluntarily and for those where HMRC have made enquiries.

Farm estates must, therefore, not only pay IHT on time but also deliver the IHT accounts on time. Given so much is dependent on the valuation of the farm, the executor must give instructions to the valuer as soon as practically possible. This will obviously place an immense amount of pressure on both the executor and the valuer, so where a farming client is ill with not long to live it may be beneficial to give early instructions.

Key points

- The government plans to cap APR and BPR at £1m, reducing relief to 50% for amounts over that.
- The cross-party Environment, Food and Rural Affairs Committee urges delaying reforms to 2027, citing lack of consultation and potential negative consequences.
- Executors face tight IHT deadlines, with penalties for late or inaccurate account submissions increasing significantly.
- Farmers need urgent legal, tax and valuation advice to prepare for complex estate planning changes.

Good news from EFRA

A report by the cross-party Environment, Food and Rural Affairs (EFRA) Committee published on 16 May calls on the government to delay announcing its final APR and BPR reforms until October 2026, and for the changes to come into effect in April 2027 instead of April 2026. It believes this delay 'would allow for better formulation of tax policy and provide the government with an opportunity to convey a positive long-term vision for farming'. In addition, it would give elderly and vulnerable farmers 'more time to seek appropriate professional advice'.

The committee raises concerns that the proposed IHT changes were made without adequate consultation, impact assessment or affordability assessment. As such, the scale and nature of their impact 'on family farms, land values, tenant farmers, food security and farmers in the devolved administrations' is 'disputed and unclear' with a risk of producing negative unintended consequences. MPs therefore want the government to consider alternative reforms before justifying its final approach to ensure the most vulnerable aren't affected.

Support for reduced APR/BPR but time to plan

While EFRA supports the government's objective to reform APR and BPR and close the loophole whereby wealthy investors buy agricultural land to avoid IHT, it notes several other alternatives have been proposed by various stakeholders and experts such as the Institute of Fiscal Studies and the National Farmers Union. These achieve the same objective without harming small family farms, and it therefore asks the government to consult on these proposals and publish its evaluation and rationale for following or not following such measures before publishing the 2026 Finance Bill.

The committee cautions that the sudden closing of the sustainable farming incentive (SFI) in March this year ‘affected trust in the government’ and ‘left many farmers without the funding they expected and at risk of becoming unviable in the period before the next scheme is introduced’. It is the SFI that is responsible for a large number of the beautiful purple and other coloured flowers in the fields at the moment and very likely the cause of more hay fever!

While the government has since announced it will allow the circa 3,000 applications that were in progress within two months of 11 March to progress, confidence still remains knocked and requires urgent repair. An alternative funding mechanism is therefore recommended to fill the gap in funding for those who missed out on the SFI24 and this should be put in place no later than September 2025. Clearer communication on what the next utterance of SFI will look like and the date it will be open for applications was also encouraged.

Chair of the EFRA Committee Alistair Carmichael said:

> ‘Farmers ought to be the essential element in the government’s plans both to achieve food security and to restore and protect the environment. When they make decisions for their businesses, farmers have to plan for the long term – but the landscape they are operating in currently is unclear. Farmers urgently need clarity, certainty and advance notice of changes – they cannot be expected to rethink their businesses on a whim. It is essential that Defra focuses on rebuilding trust through good-faith communications with the sector.’

Extra time to plan?

While a delay until April 2027 would certainly be a positive to help farmers and landowners plan not merely how to mitigate the new IHT liability but also how to fund them, many believe it is the minimum timeframe required to acquire the relevant legal and professional advice and implement such plans. These may include:

- Valuing the farm.
- Lifetime gifting and use of surging spouse relief.
- Efficient use of the £1m allowance at 100% BPR/APR across family members.
- Review of weak areas for BPR/APR, eg ensuring the farm operation will not fall foul of the ‘holding investment’ rules of IHTA 1984, s 105(3).
- Ensuring that wills are in place and updated, not just for the farmers making gifts but also for the recipients of the gifts.
- Identification of which assets could be sold to fund the IHT without causing detriment to the remaining business.
- The interaction of CGT/IHT.

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A headline in *Farmers Weekly* highlighted that ‘the middlemen’ would benefit most from the reduced IHT reliefs, ie the will writers, tax planners, valuers, etc. That might perhaps be true but farmers are, for once, focused and open to advice. They have a real sense of urgency and understanding, wanting full succession planning and accepting the need for updated wills and partnership agreements. For an industry which has historically shut down discussions for the future leading to many family disputes ending up in court, this can only ever be a good thing.

Author details

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- Consultation on IHT changes provides some clarity: tinyurl.com/hw8rhexw