COUNTRYSIDE ALLIANCE BRIEFING NOTE: IMPACT OF PLANNED CHANGES TO AGRICULTURAL PROPERTY RELIEF AND BUSINESS PROPERTY RELIEF ON SMALL BUSINESSES

Westminster Hall, Graham Stuart MP

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Summary

- **Budget announcements by the Chancellor of the Exchequer, Rachel Reeves MP, restricting the availability and thresholds for Agricultural Property Relief and Business Property Relief have produced a furious reaction among farmers.**

- **The Chancellor's stated policy objective was to prevent the use of land acquired by the wealthiest estates as a means of avoiding inheritance tax, but subsequent debate has focused on the number of estates that will be affected annually.**

- **Analysis from the NFU, the CLA and the Central Association for Agricultural Valuers has called in to question the claim by HM Treasury that the changes will only affect 500 farms per year. Even supposing that claim was correct, over a 30-year generational cycle it would mean 15,000 farms being affected.**

- **The House of Commons Environment, Food and Rural Affairs Committee held an oral evidence session on 11 December to seek to resolve the discrepancies between Treasury and sectoral forecasts as to the impact of the change.**

- **The Countryside Alliance is greatly concerned that the changes will mean family farms being captured by inheritance tax, meeting those bills will necessitate sales of parts of landholdings, food security will be threatened as a result, and there will be particular impacts on the estates of farmers who die within seven years of any tax planning measures they take to mitigate the effects.**

- **Closing a loophole to stop people avoiding tax is a legitimate aim, but the Chancellor has failed to meet her pledge to protect family farms in doing so.**

- **At the time of writing, twenty five local authorities have already passed motions condemning the budget changes and their impact on family farms.**

The Budget

- On 30 October 2024 the Chancellor of the Exchequer, Rachel Reeves MP, announced the first Budget since the Labour Party's general election victory. The Budget included changes to the inheritance tax regime affecting farms. The Red Book states these changes as follows:

"5.54 Inheritance tax: agricultural property relief [APR] and business property relief [BPR] – The government will reform these inheritance tax reliefs from 6 April 2026. In addition to existing nil-rate bands and exemptions, the current 100% rates of relief will continue for the first £1 million of combined agricultural and business property to help protect family businesses and farms. The rate of relief will be 50% thereafter, and in all circumstances for quoted shares designated as "not listed" on the markets of recognised stock exchanges, such as AIM."[1]

- The announcement produced a furious reaction among farmers. The Chancellor's stated policy objective was to prevent the use of land acquired by the wealthiest estates as a means of avoiding inheritance tax, but subsequent debate has focused on the number of estates that will be affected annually.

- It has been suggested, by the Countryside Alliance and others, that:

  - Family farms will be captured by inheritance tax that would not have otherwise been.
  - Meeting future inheritance tax bills will necessitate sales of parts of landholdings with particular impact on smaller holdings and potentially making some farms economically unviable.
  - Food security will be threatened as a result.
  - The Treasury appears to have assumed farmers would use tax planning to mitigate the effects of the changes on their estates, but such options are not universally available, in particular to farmers who die within seven years of any such planning taking effect.

Disputed Treasury impact calculations

- The HM Treasury line on the impact of the changes runs as follows:

"The reforms mean the majority of claims for [agricultural property and business property] reliefs will be unaffected. Almost three-quarters of estates claiming agricultural property relief and the majority of estates claiming business property relief in 2026 to 2027 are expected to be unaffected by these reforms. This means more than 3,000 estates making claims each year are expected to be unaffected. The reforms are expected to only affect around 2,000 estates each year from 2026 to 2027, with around 500 of these claiming agricultural property relief and around 1,000 of these holding shares designated as "not listed" on the markets of recognised stock exchanges."[2]

- Having cast doubt on the Treasury calculations from the outset, the NFU subsequently published analysis that supported its position:

"The government's initial claim that only 27% of farms will be affected by the new IHT policy materially underestimates the true proportion. We find that around 75% of commercial family farms will be above the £1 million threshold.

"The analysis also finds that the majority of medium-sized working farms that will be hit by the liability will not be protected by the ten-year payment window because the

[1] HMT, Autumn Budget 2024, 30.10.24, p. 128
[2] HMT, Summary of reforms to agricultural property relief and business property relief, 30.10.24

resulting payments would still be unmanageably large relative to the economic returns they earn.

"Put simply, the majority of farms don't earn enough money to pay the potential Inheritance Tax Bill without selling off some of their land or business, which in turn makes the farm business unviable."[3]

- The Country Land and Business Association (CLA), meanwhile, suggested a headline figure of 70,000 farms being affected by the changes. It has supported this calculation as follows:

  "This data is based on the number of size bands. According to Defra figures there are 30,000 farms in the UK that are over 50ha and 40,000 over 100ha.

  "If we take the average value of land as £9,250 per acre, which is sourced from Knight Franks Farmland Index of March 2024, every farm above 50ha has land that is worth more than £1m. This is where combined APR and BPR are nominally capped.

  "If you consider the other allowances, such as nil rate bands and residence nil rate band, it takes the allowance up to £1.5m. For some couples this could be £3m.

  "However, if you were then to include the value of the farmhouse, equipment, machinery and other assets, a farm over 50ha is likely to be worth over £2m. Farms over 100ha will definitely be worth over £2m.

  "It is important to note that the disparity comes about as we are looking at the impact on farms over a generation, whereas the government's figure is only looking at a single year. We are not - claiming that 70,000 farms will shut down or have to pay the tax a year."[4]

- It goes on to explain that the claim that the allowance really amounts to £3 million when all reliefs are taken into consideration involves fully utilising all the Nil Rate Band of £325,000, Residential Nil Rate Band of £175,000 and the £1 million IHT reliefs cap at each of the couple's death, which may not be possible or practical in certain cases. It maintains that getting the full £3 million allowance will often involve restructuring of the business, reorganising property ownership and updating wills.

- A later notable intervention came from the Central Association for Agricultural Valuers. Its analysis found:

  "Working from the available data and with judgments from experience, this paper assesses that figure as up to 75,000 in a generation, before any effects from inflation – so the equivalent annual figure for 2026/27 would be 2,500 taxpayers, not 500. Perhaps the essential point is that this reaches far wider than APR. That has been recognised by the Government's consideration of APR claimants with BPR claims but this has not considered those making purely BPR claims and other issues."[5]

[3] NFU, An impact analysis of APR reforms on commercial family farms, 25.11.24
[4] CLA, Changes to inheritance tax - frequently asked questions, 08.11.24
[5] CAAV, The October 2024 Budget - How Many Farming Taxpayers Might Pay Inheritance Tax on Their Business After April 2026?, 11.24

- Its secretary and advisor, Jeremy Moody, clarified that some farms do not include farmhouses because the farmers do not live on the property, so could be expected only to claim BPR, thereby limiting the overall availability of relief.

- Dan Neidle of Tax Policy Associates, who had criticised initial media coverage of the changes as *"over-the-top"*[6], subsequently formed the view that the policy as announced in the Budget was flawed, and should be revised as follows:

  > *"Protect real farmers with a complete exemption from inheritance tax (subject to a very large cap, say £20m). At the same time, counter avoidance by clawing-back the exemption if a farmer's heirs sell the farm. This could achieve the Government's aims in a way that's both fairer and more effective – and plausibly raise about the same amount of revenue."*[7]

- As a result of the dispute, as part of its broader inquiry into the future of farming, the House of Commons Environment, Food and Rural Affairs Committee held an oral evidence session on 11 December. It is seeking to resolve the discrepancies between Treasury and sectoral forecasts as to the impact of the change. Please see below for further details.

Political debates

- The first major parliamentary debate on this subject came in the House of Lords on 21 November.[8]

- Opening the debate, Baroness Northover (LD) set out the human impacts of the government's policy. She recounted the tale of a farm owned by a 94-year-old widowed father but worked by his offspring, whose ownership had never been passed on owing to the longstanding principle that it would be protected from IHT; she then detailed a:

  > *"farm of 350 acres… owned by a widow of 87. Her daughter's voice broke as she told me that her mother thought she was better off dying before the change comes into effect in April 2026. The debates over assisted dying and the elderly potentially feeling that they are a burden came horribly to mind as I listened to her."*

- Lord Herbert of South Downs (Con), Chairman of the Countryside Alliance, expressed pride in having joined the farmers' demonstration in Whitehall the previous Tuesday. In an already challenging environment, he said, the changes to IHT are a tax too far. He pointed out that the Defra Secretary himself had observed that, last year, half of all farmland sold went to non-farmers, so where families must sell acreage to fund a tax bill the result will be land no longer farmed.

- Lord Herbert's predecessor as Countryside Alliance Chairman, the former Labour MP and now non-affiliated peer Baroness Hoey, spoke of her *"disappointment and indeed… sadness at the Government's attack on family farms."* She cast doubt on Treasury figures predicting the number of farms that will be affected and decried the failure to consult farmers' representatives, warning the government:

[6] Dan Neidle, Tweet, 31.10.24
[7] TPA, How to stop IHT avoidance but protect farmers, 24.11.24
[8] HL Deb, 21.11.24, v841

"It is a measure being pushed through by the Treasury, which has long wanted to do this but was stopped by both Labour and Conservative Chancellors over the years. Sadly, the current Chancellor has given in, and now she will have to face the consequences—not just for her party but for the country."

- Frontbench spokespeople for both the Liberal Democrats (Baroness Bakewell of Hardington Mandeville) and the Conservatives (The Earl of Effingham) each confirmed their parties' opposition to the change, with the latter stating that:

  "His Majesty's Official Opposition are committed to reversing the family farms tax if the Government refuse to listen to farmers before the next general election."

- Subsequently the Conservative Party brought an Opposition Day debate on the subject on 04 December.[9] The Party's motion was defeated by 339 votes to 181.

- The House of Commons Environment, Food and Rural Affairs Committee's oral evidence session on the impact of the APR and BPR changes took place on 11 December. Over two sessions it heard from representatives of the Central Association of Agricultural Valuers, the Centre for the Analysis of Taxation, the Institute for Fiscal Studies and Howes Percival LLP, and then the NFU, the CLA and the Tenant Farmers Association.[10]

- The evidence of Tom Bradshaw, President of the NFU, were publicised widely. When asked about the impact of the inheritance tax changes on farmers' mental health, he said:

  "[Farmers] who are genuinely in ill health or don't believe that they will be able to live for seven years, may well decide they shouldn't be here in April 2026. No policy should ever be published which has that unintended side effect."[11]

- Robert Martin, the National Chair of the Tenant Farmers Association for England and Wales, outlined the especial difficulties he foresaw the tax posing his sector:

  "The unintended consequences on the tenant sector are my concern. On the evening of the Budget, we met with Daniel Zeichner and explained to him in words of one syllable the effect it is going to have: we are going to see shorter-term tenancies, risk-averse landlords, notices to quit to free land, in order to sell and pay tax."[12]

- At the local level, at the time of writing 25 councils have approved motions condemning the Budget measures, with support from the Countryside Alliance.

Countryside Alliance position

- Our immediate reaction to the Budget announcement was as follows:

  "[T]he Alliance shares the concern of the NFU and CLA about the changes announced to agricultural property relief and business property relief which may

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[9] HC Deb, 04.12.24, v758
[10] EFRA Committee, NFU President and IFS among witnesses to give evidence to MPs on impacts of proposed changes to APR and BPR, 10.12.24
[11] Farmers Guardian, NFU president Tom Bradshaw bravely highlights impact of Inheritance Tax on farmer's mental health, 13.12.24
[12] EFRA Committee, Oral evidence: The future of farming, HC 527, 11.12.24

threaten the long-term viability of the family farm. Young farmers taking over their parents' farms already face significant challenges breaking even. The possibility of facing a 20% inheritance tax bill above the first £1 million in business value at the outset may prove one obstacle too many."[13]

- We have since maintained opposition to the tax changes and support for farming families that risk being affected, including by running an extensive e-lobbying campaign and supporting the farmers' protest in Whitehall on 19 November.

- The Treasury's calculations as to the number of farms affected by the changes are clearly in dispute. Even supposing its claim of 500 farms being affected each year was correct, over a 30-year generational cycle that would still mean 15,000 farms in total facing an inheritance tax bill that could give rise to a need to sell land.

- Baroness Mallalieu, a Labour peer who serves as President of the Countryside Alliance, wrote:

  "Closing a loophole to stop people avoiding tax is a legitimate aim and Rachel Reeves is perfectly justified in addressing that.

  "What she has not done, however, is to do what she also promised and protect family farms whilst doing that.

  "The threshold she has set for inheritance tax is completely unrealistic and my farming neighbours and others all across the country are now terrified that dying at the wrong time will see farms that have been in the same families for generations broken up to meet the demands of the tax man."

- The Countryside Alliance calls on the Chancellor to revisit this policy. She should revise it so it can fulfill the objective of preventing the abuse of landholding as a means of avoiding inheritance tax without risking the inter-generational viability of legitimate family farms.

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[13] Countryside Alliance, Countryside Alliance responds to Budget Statement 2024, 30.10.24