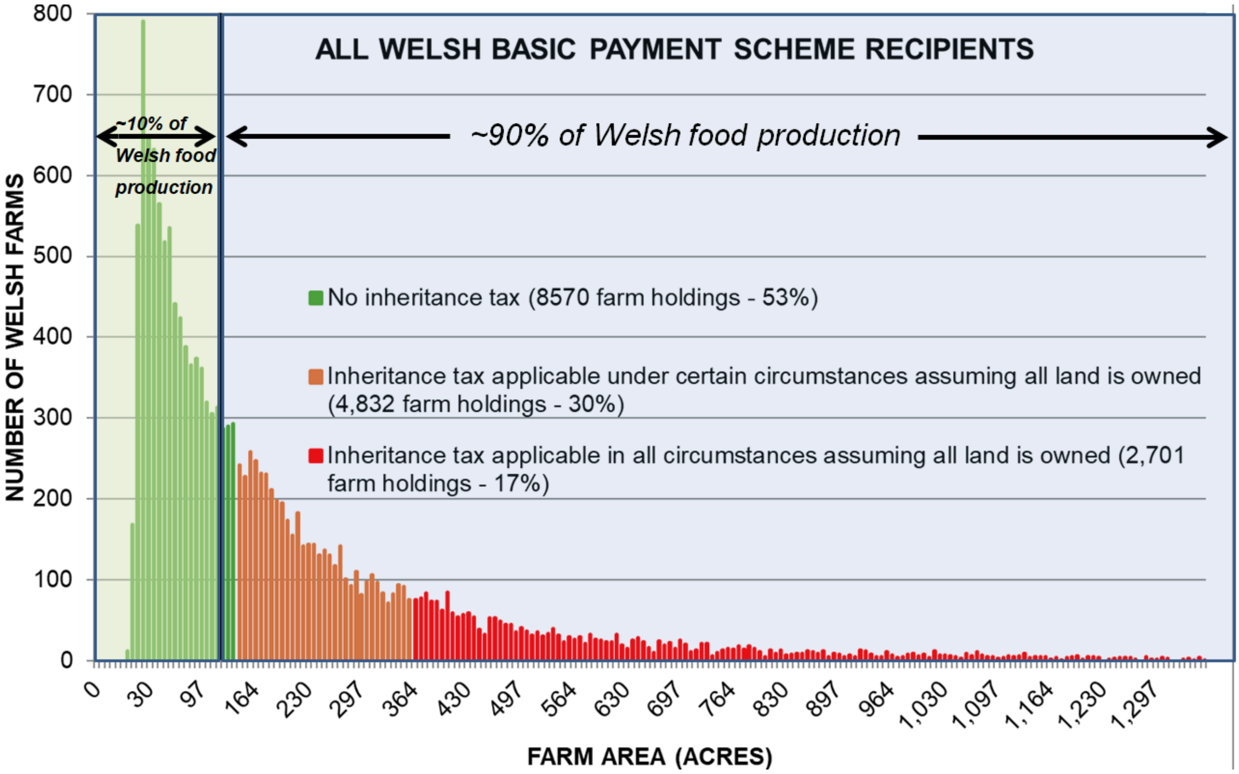
# FUW BRIEFING & POLICY POSITION PAPER ON CHANGES TO AGRICULTURAL PROPERTY RELIEF ANNOUNCED BY THE UK TREASURY ON 30TH OCTOBER 2024

24th February 2025

- The proposal that from 6th April 2026, the full 100% relief from inheritance tax will be restricted to the first £1 million of combined agricultural and business property has raised major concerns within the agricultural community.
- The proposals equate to inheritance tax being introduced at a rate of 20% of estate value above a number of thresholds, depending upon circumstances, with such tax payable in instalments over 10 years interest free, rather than immediately, as with other types of inheritance tax.
- The FUW wrote to the Chancellor of the Exchequer, the Rt Hon Rachel Reeves MP, on 5th December 2024 outlining the Union's position on the changes to Agricultural Property Relief (APR) and Business Property Relief (BPR). In a letter received in response from Exchequer Secretary to the Treasury James Murray MP on 7th February 2025, the following points were made:
  i. *The UK Government has had to make tough spending decisions* - The FUW accepts that the UK Government, and devolved administrations for that matter, are under significant financial pressure, however, we do not believe that this policy decision on APR/BPR is going to significantly address such challenges:
     - The UK Government and HMRC has considered this policy through a single lens based on financial predictions (the UK government estimates that the changes to APR will raise £520 million per year), and has not considered the unintended costs this policy will create for the Government in terms of: increased number of speculators seeking to benefit from any rates of relief, the loss of land used for agricultural purposes, increased reliance on food imports, reduced agricultural activity within rural communities and economies etc.
  ii. *Any tax bills can be paid over 10-year interest free payments* - The fact that such options are not available to others is noted, however, tax bills are likely to be significantly higher than average Farm Business Incomes (profitability) in Wales (avg. around £30,000) and across the UK, and therefore highlighting the fact that such options are available to farmers will not make such bills affordable.
     - It should also be noted that it is not simple for businesses to sell assets to pay such bills as other forms of taxes (i.e. Capital Gains) would then be due, and lenders are unlikely to offer loans or financial agreements to pay tax bills as the effective Return on Investment (ROI) would be zero.
  iii. *Along with the significant thresholds, any gifts of assets made more than seven years before death are fully excluded from inheritance tax* - Whilst this is technically the case, it can create complications for 'retired' farmers who are still involved in the running of the farm business and/or who benefit directly or indirectly from such activity i.e. by residing in the farmhouse. Nevertheless, this is crucial for succession planning and the continuation of our heritage as farmers. The '7-year rule' must not change, and the UK Government must consider those that will fall foul of these policy decisions who do not have enough time to make alternative succession and business arrangements.
  iv. *We expect people to respond to this measure in a number of ways, including by changing ownership structures, and for land prices to become more affordable for farmers due to a reduction in tax-motivated investment in agricultural land* - Whilst we may see a shift in ownership structures where feasible, the UK Government's belief that this policy will reduce land prices is absurd:

- With the demand for land increasing significantly for non-agricultural purposes such as carbon offsetting, afforestation, housing etc., these policy changes will unquestionably increase the proportion of Welsh land transferred into the ownership of remote corporate bodies and companies that have no such concerns over inheritance tax.
- Many businesses were in fact unaware of reliefs that exist for agricultural assets, and therefore the demand for such land is increasing evermore by businesses seeking to reduce their tax burden. In this context, the FUW does agree with the need to change the current policy on APR/BPR, however, we believe that our proposed policy will genuinely protect family farms whilst addressing loopholes that currently exist for speculators.

- While the Treasury has given the estimate of a total across the whole UK for the first year, 2026/27, of 520 affected taxpayers, the Office for Budget Responsibility has now twice described that as having a high level of uncertainty and advised that it might take 20 years for patterns to settle down with changing taxpayer behaviour.
- According to the Agricultural Budgeting & Costing Book (May 2024), the average price of farmland in England and Wales has increased from £2,436 per acre in 2004 to £7,542 in 2018. This is an increase of 209%, or an average annual increase of around 9%. Yet, the Return on Capital (ROC) for agricultural businesses remains at less than 1%.
- The Central Association for Agricultural Valuers (CAAV) has concluded that: *"each year, some 200 Welsh farming taxpayers will have an Inheritance Tax liability arising from the reduced benefit of APR and BPR. That would be 6,000 affected Welsh farming taxpayers over a 30 year generation, before considering the effects of inflation should the full relief band not be properly indexed as other Inheritance Tax thresholds have been frozen."*
- Analysis compiled by the FUW suggests that between 18% and 48% of Basic Payment Scheme (BPS) recipients in Wales may be subject to the new Inheritance Tax proposals depending on circumstances. However, between 39% and 100% of the top 8,774 BPS recipients responsible for circa. 89% of Welsh Standard Agricultural Output could be affected.



- Various industry bodies, including the FUW and CAAV, have conducted their own analysis of the potential impacts this policy could have on the agricultural sector. Despite the fact that these figures vary between different analyses, models and regions, they all bring into question the Treasury's own analysis on the potential number of estates that will be impacted by these changes.
- The FUW is therefore calling on the UK Government to establish a UK-wide working group, to include tax experts, agricultural economics and valuers and other relevant stakeholders, tasked with analysing the available data and multiple interpretations to agree on a dataset that accurately represents the extent of these impacts, and to prove to the industry that the UK Labour Government is willing to listen and make policy decisions in transparent consultation with the industry upon an analysis that we can all agree on.
- Whilst we acknowledge that the current HMRC analysis cannot be applied at a regional level, other analyses compiled by industry stakeholders can in fact be applied regionally, and therefore further justifies our call for such a group to be established.

**FUW POLICY POSITION ON AGRICULTURAL PROPERTY RELIEF**

*The FUW believes that proposals to restrict the full 100% relief from inheritance tax to the first £1 million of combined agricultural and business property, and to introduce inheritance tax at a rate of 20% of estate value above a number of thresholds, will:*

- *not protect family farms or ensure that only the 'wealthier estates and most valuable farms pay their fair share' as claimed by the UK Government,*
- *be detrimental to a far higher proportion of farm businesses across the UK than claimed by the UK Treasury, and*
- *naturally reduce the number of farms seeking to purchase land, potentially leading to an increase in the proportion of agricultural land being transferred into the ownership of remote corporate bodies and companies.*

In order to genuinely protect family farms and address loopholes that currently exist, the FUW proposes that:

*As a principle, Farming/Agricultural assets should not be taxed when passed from one generation to another for farming themselves or letting to another farming family. The Union proposes that if a generation decides to sell those assets that those assets should be taxed at the point of selling.*

*All tax-free allowances should be transferable between spouses.*

*There should be a transitional period to allow gifts of agricultural property and farm business assets (after the appropriate 2 or 7 years of ownership[1]) to be made and qualify immediately for APR and BPR at the relevant rates of inheritance tax relief without the time periods of the Potentially Exempt Transfer rules applying.*

*For land managed under an environmental agreement with, or on behalf of, the UK Government, devolved governments, public bodies, local authorities, or approved responsible bodies to be eligible for APR, it should continue to be associated with genuine agricultural businesses so that the purchasing of agricultural land purely for investment purposes is discouraged.*

[1] *S.106 (BPR) & S.117 (APR), Inheritance Tax Act 1984. (https://www.legislation.gov.uk/ukpga/1984/51/contents)*