



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Dame Meg Hillier MP
Chair of the Treasury Select Committee
House of Commons
London
SW1A 0PW

Dear Dame Meg,

Treasury Committee oral evidence: Impact and distributional analyses of the reforms to Agricultural Property Relief

At my session with the Committee on Wednesday 6 November I confirmed that I would write with more detail to address the questions members raised.

At Autumn Budget 2024, the Government took a number of difficult but necessary decisions on tax, welfare, and spending to restore economic stability, fix the public finances, and support public services. These were tough decisions given the situation we inherited from the previous administration, but the Government has done so in a way that makes the tax system fairer and more sustainable.

The government set out its plans to reform agricultural property relief (APR) and business property relief (BPR) at Budget.

From 6 April 2026, the full 100% relief from inheritance tax will be restricted to the first £1 million of combined agricultural and business property¹. This is on top of all the other spousal exemptions, nil-rate bands, and gifting rules that people can access for inheritance tax. A farm in an estate may benefit from the reliefs more than once, depending on its ownership structure.

The effective minimum tax-free allowance for the typical owner of a farm passing it on to their descendants will therefore be up to £1.5 million, up to £3 million for couples, and unlimited if they do so at least seven years before they pass away.

According to the latest inheritance tax liabilities statistics, around 3% of estates requiring probate or confirmation have a net estate worth more than £1.5 million, and around 1% of estates requiring probate or confirmation have a net estate worth more than £3 million.

Above the £1 million threshold for APR/BPR claims, individuals will receive 50% relief on the standard 40% rate of inheritance tax, meaning it is effectively charged at 20%. Any tax can be paid in instalments over 10 years interest free (if paid on time), rather

¹ The rate of relief will be 50% in all circumstances for shares designated as 'not listed' on the markets of recognised stock exchanges, such as AIM.

than immediately, as with other types of inheritance tax. Interest free instalments only apply in relation to property qualifying for APR and/or BPR. Time to Pay arrangements may also be available in particular circumstances, to help spread the cost of each instalment².

The government believes this approach strikes the right balance between protecting family farms and fixing the public finances in a fair way. The government's commitment to farmers and the vital role they play in feeding our nation remains steadfast. The reliefs in total will continue to provide £1.1bn of tax relief each year for agricultural and business assets, providing significant support for those owning farms and businesses. This will increase to £1.8bn a year over the next five years, and reflects that the minority of estates that will have a liability from agricultural or business assets will continue to benefit from a minimum of £400,000 each in tax relief.

These reforms should also be seen in the broader context of the significant existing support for the farming industry in the wider tax system. The existing rules already provide considerable support for the agricultural sector beyond the general support for businesses. This includes the exemption from business rates for agricultural land and buildings, the ongoing entitlement for vehicles and machinery used in agriculture to use rebated diesel and biofuels, and the exemption from the plastic packaging tax for the plastic film used by farmers to produce silage bales. Furthermore, farmers are able to add together their profits from farming for two years or five years and be taxable on the average of those profits.

Finally, at the Budget, the government provided £5 billion across this year and next to support the ongoing transition towards a more productive and environmentally sustainable agricultural sector in England. Similarly, the devolved governments' settlements for 2025-26 are the largest in real terms of any settlements since devolution. This will strengthen the domestic sector, and improve food security.

HMRC and Defra data are consistent, because they describe different things. The Defra data shows the asset value of farms in England. However, it is not possible to accurately infer a future inheritance tax liability from data on farm asset values. HMRC data relates to estates making claims for agricultural property relief. Claims data is the correct way to understand an inheritance tax liability. The number of affected estates, meaning how many estates making relief claims that would be impacted by this change, and their value, is affected by who owns the business, the nature of that ownership, how many owners there are, any borrowing the business has, and how they plan their affairs. For example, a farm worth £5 million but owned by five relatives in equal shares could have no inheritance tax liability.

HMRC figures are based on inheritance tax administrative data relating to previous years, which is robust and based on observable outturn information, and illustrates the distribution of claims values where 100% relief has been available on agricultural and business property. We anticipate a significant behavioural response to grow over time to the reforms set out at Autumn Budget, which is accounted for in the published costings as certified by the independent Office for Budget Responsibility. 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.

At Autumn Budget, the government published summary data setting out the distribution of claims at death for APR and BPR in 2021 to 2022:

² <https://www.gov.uk/guidance/find-out-how-to-pay-a-debt-to-hmrc-with-a-time-to-pay-arrangement>

<https://www.gov.uk/government/publications/agricultural-property-relief-and-business-property-relief-reforms/summary-of-reforms-to-agricultural-property-relief-and-business-property-relief>.

Further explanatory information is available here:

<https://www.gov.uk/government/news/what-are-the-changes-to-agricultural-property-relief>.

This letter provides further data, including data showing:

1. **HMRC projections for the number of estates where more tax is liable compared to the counterfactual after the introduction of the changes to agricultural property relief and business property relief** – this shows the maximum number of estates we expect to be impacted by these reforms going forwards.
2. **Distribution of claims at death for agricultural property relief (2018-19, 2019-20, 2020-21 and 2021-22)** - this shows the number of estates making claims and the total value of assets qualifying for relief within those claims, broken down by value of APR relief claimed.
3. **Distribution of claims at death for agricultural property relief with values of business property relief claims added, where an estate has also claimed business property relief if relevant (2018-19, 2019-20, 2020-21 and 2021-22)** – this shows the same population of estates making claims, with the additional amount of BPR claimed added, where applicable.

Where estates include a claim for both APR and BPR, the estate may not consist entirely of a farming business and its working capital. Currently, of the population of affected estates that claim both APR and BPR, almost a quarter of claims include a claim for AIM shares³. Whilst it is not possible to confirm, it is likely that these estates represent, at least in part, investment portfolios set up in order to minimise inheritance tax liabilities, rather than being comprised solely of farming businesses.

Some of the key conclusions from this data are:

- Up to around 520 estates a year who claim APR (including those that also claim BPR) across the UK will be impacted to some extent by these changes. Excluding those claims that include AIM shares reduces this number to up to around 430.
- Almost three-quarters of estates claiming APR (including those that also claim BPR) are unaffected by these changes. This equals 71% of all claims involving any APR, and 76% when those including AIM claims are excluded.
- Historic data shows that, in 2021-22, 84% of claims for APR only (with no BPR) made by estates were worth less than £1.5m.
- The data also show that, in 2021-22, where an estate was claiming APR and BPR where applicable, 78% of claims made by estates were worth less than £1.5m.
- On average over the period 2018-19 to 2021-22, 47% of the benefit of the reliefs went to the top 7% of estates making claims.

³ Business property relief is currently available on shares in an unlisted company, including, for example shares designated on the Alternative Investment Market (AIM). The Government is reducing the rate of business property relief available from 100 per cent to 50 per cent on unlisted shares, and such shares will not form part of the £1 million allowance. AIM shares are sometimes marketed as a tool for inheritance tax planning.

I appreciate that this is a significant change, and individuals will need to familiarize themselves with these. HM Treasury, HMRC, and Defra are working together to ensure that stakeholder groups and affected individuals have the best information available to understand the changes.

Yours sincerely,

A handwritten signature in black ink that reads "Rachel Reeves". The signature is written in a cursive, flowing style.

RT HON RACHEL REEVES MP
Chancellor of the Exchequer

1. HMRC projections for the number of estates where more tax is liable compared to the counterfactual after the introduction of the changes to agricultural and business property relief

The table below shows HMRC projections for the number of estates where more tax would be liable compared to the counterfactual 'do nothing' scenario. It shows that from 2026-27, around 2,000 estates each year are expected to pay more tax. Around 1,000 of those estates contain only claims for BPR on AIM shares. Around 520 of them are expected to contain claims for APR (and BPR, including on AIM shares, where relevant).

These projections were generated using the same detailed HMRC modelling that was used to create the costing for this measure. That costing was certified by the Office for Budget Responsibility (OBR) at the 2024 Autumn Budget.

There is an important difference between these projections and the final certified costing. These projections are static and do not account for any potential avenues through which affected estates may change their behaviour. As the OBR outlined in [Chapter 3 of their October 2024 Economic and fiscal outlook](#), a large behavioural response is anticipated in response to these changes, including a significant increase in the use of the spousal exemption. While the costing itself accounts for these losses, these projections do not as, following standard practice, behavioural adjustments are applied to the costing top-down after distributional analysis has been produced.

As such, these projections should be viewed as a maximum, since some of these estates may change their behaviour to avoid this projected increase in tax. The costing certified by the OBR assumes many will do so.

How are the relevant estates affected?	2026-27
All estates claiming for BPR only	3,230
of which: are affected	1,440
<i>of which: include AIM claims</i>	1,150
of which: are unaffected	1,790
All estates claiming for APR only	920
of which: are affected	130
of which: are unaffected	800
All estates claiming for APR and BPR	860
of which: are affected	400
<i>of which: include AIM claims</i>	90
of which: are unaffected	460
All estates with an APR claim	1,780
of which: are affected	520
of which: are unaffected	1,250
All estates with a BPR claim (including AIM claims)	4,090
of which: are affected	1,840
of which: are unaffected	2,250
All estates with an APR and/or BPR claim (including AIM claims)	5,000
of which: are affected	1,960
of which: are unaffected	3,040

Source: HMRC. Totals may not sum due to rounding.

2. Distribution of historic claims by estates at death for agricultural property relief (2018-19, 2019-20, 2020-21 and 2021-22)

The tables below show the number of estates making claims for agricultural property relief, by the size of the total claim made, for the stated tax year.

Value of APR claim	2021-22				
	Numbers	% of all claims	Amount (£m)	% of all value claimed	Median (£)
£0-<£1.5m	1,449	84%	£707	45%	£400,000
£1.5m-<£3m	202	12%	£419	27%	£2,000,000
£3m+	76	4%	£448	28%	£4,939,000
All	1,727	100%	£1,574	100%	£486,000

Value of APR claim	2020-21				
	Numbers	% of all claims	Amount (£m)	% of all value claimed	Median (£)
£0-<£1.5m	1,142	88%	£490	48%	£309,000
£1.5m-<£3m	110	8%	£222	22%	£1,990,000
£3m+	50	4%	£304	30%	£4,389,000
All	1,302	100%	£1,016	100%	£394,000

Value of APR claim	2019-20				
	Numbers	% of all claims	Amount (£m)	% of all value claimed	Median (£)
£0-<£1.5m	1,005	86%	£421	45%	£306,000
£1.5m-<£3m	107	9%	£225	24%	£2,037,000
£3m+	56	5%	£282	30%	£4,232,000
All	1,167	100%	£929	100%	£405,000

Value of APR claim	2018-19				
	Numbers	% of all claims	Amount (£m)	% of all value claimed	Median (£)
£0-<£1.5m	1,148	88%	£422	44%	£219,000
£1.5m-<£3m	89	7%	£165	17%	£1,655,000
£3m+	70	5%	£369	39%	£5,105,000
All	1,307	100%	£956	100%	£290,000

Source: HMRC. Totals may not sum due to rounding.

3. Distribution of historic agricultural property relief claims by estates with values of business property relief claims added, if relevant (2018-19, 2019-20, 2020-21, and 2021-22):

The tables below show the same number of estates making claims as those above, but now also include any additional amount of BPR claim added, where relevant. These figures form a subset of total estates making APR and BPR claims, since many estates only make BPR claims, and this latter group is excluded. The BPR claims included in this table may not relate to farming assets.

For example, in 2021-22 there were a total of 1,727 estates which made claims for APR, and the median value of APR claimed was £486,000 (see first table in the first section above). Of these 1,727 estates making claims for APR, some also included a claim for BPR, and taken together the median value of the combined claim was £581,000.

Note that of the population of affected estates that claim both APR and BPR, almost a quarter of those claims include a claim for AIM shares. If estates are removed where any of their claim related to AIM shares, the proportion of all claims under £1.5m in 2021-22 in the table below would rise to roughly 80%.

Value of combined APR & BPR claim (if relevant)	2021-22				
	Numbers	% of all claims	Amount of APR claimed (£m)	Amount of BPR claimed (£m)	Median value of combined claim (£)
£0- <£1.5m	1,344	78%	£612	£81	£427,000
£1.5m- <£3m	262	15%	£434	£113	£2,068,000
£3m+	121	7%	£528	£280	£5,015,000
All	1,727	100%	£1,574	£474	£581,000

Value of combined APR & BPR claim (if relevant)	2020-21				
	Numbers	% of all claims	Amount of APR claimed (£m)	Amount of BPR claimed (£m)	Median value of combined claim (£)
£0- <£1.5m	1,078	83%	£430	£45	£338,000
£1.5m- <£3m	143	11%	£236	£59	£1,950,000
£3m+	82	6%	£351	£383	£4,967,000
All	1,302	100%	£1,016	£487	£487,000

Value of combined APR & BPR claim (if relevant)	2019-20				
	Numbers	% of all claims	Amount of APR claimed (£m)	Amount of BPR claimed (£m)	Median value of combined claim (£)
£0- <£1.5m	965	83%	£387	£66	£390,000

£1.5m- <£3m	126	11%	£224	£43	£2,084,000
£3m+	76	7%	£318	£219	£5,002,000
All	1,167	100%	£929	£328	£512,000

Value of combined APR & BPR claim (if relevant)	2018-19				
	Numbers	% of all claims	Amount of APR claimed (£m)	Amount of BPR claimed (£m)	Median value of combined claim (£)
£0- <£1.5m	1,087	83%	£373	£87	£282,000
£1.5m- <£3m	127	10%	£183	£51	£1,745,000
£3m+	94	7%	£401	£530	£5,448,000
All	1,307	100%	£956	£668	£416,000

Source: HMRC. Totals may not sum due to rounding.

To note: The current inheritance tax system is paper based, which places limitations in terms of the ability to produce more granular data. The government announced at Autumn Budget that it will invest £52 million to digitalise the inheritance tax service from 2027-28 to provide a modern, easy-to-use system, making returns and paying tax simpler and quicker. This will, in turn, improve the accessibility of data for analysis.