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Dear Ruth

The Budget - 30th October 2024 - Reforms to Agricultural Property Relief and Business Property Relief, and the Barnettisation of funding for agriculture from 2025-26

The proposals in last week's budget to reform Agricultural Property Relief and Business Property Relief came as a devastating blow for Wales' farmers, with confirmation of the UK Government's intention to severely curtail the scope of two essential reliefs from inheritance tax. You will, I am sure, also have picked up through the press and social media as to some of the anger and anguish that there is about the anticipated impact of these changes on Wales' family farms.

Business property relief and agricultural property relief were of course introduced in the 1970s and 1980s, in order to ensure that upon the death of the owner the farm or family business could continue as a trading entity, and so for decades APR and BPR have underpinned viable working farming businesses and family businesses of all shapes and sizes.

Whilst there is of course an across the board £325,000 nil rate band per spouse under current inheritance tax arrangements, which is transferrable to the surviving spouse, there is no such provision for the transfer of the £1m nil rate band for agricultural property under the proposals unveiled by the Treasury last week, and it is unclear why the Treasury decided against making the £1m allowance transferrable between spouses in the same way as the £325,000 nil rate band.

With no scope to transfer spousal allowances, agricultural assets over £1m will attract inheritance tax at a rate of 20% from April 2026. I am therefore afraid that the majority of Wales' working family farms will be brought into the scope of this tax (despite Treasury claims to the contrary), rather than it being a tax which captures those individuals who have purchased agricultural land as a speculative investment, as may perhaps have been the intention behind this reform.

Returns from farming are typically extremely modest, with the return on capital employed for farming, after taking into account a wage for the farmer, averaging less than 1%. This means that the vast majority of farm owners would be unable to meet an inheritance tax charge even if they were to utilise their entire return on capital employed during their career/period of ownership, leaving them with little choice but to take on additional borrowings or to sell off part of the farm in order to meet the charge. So, whilst a family farm may look like a valuable asset on paper, that does not mean those who work it are wealthy or are able to meet a large tax bill.

I would further add to this that owing the way in which family farms are typically structured as one business unit (and not a limited company with for example 100 shares which you could easily break up), there are particular challenges created for partners in a family farm, if an inheritance tax bill should fall due.

Farmers do not hold the farm as an investment, rather it is held as effectively a trading asset, by taxing the asset which creates the income and employment, there will be significant damage done to the sector. There will be little in the way of incentive for business growth when the growth in asset value is simply lost at each generational transfer.

If the Treasury's concern is with the use by some (from outside of the agricultural sector) of APR reliefs in order to avoid inheritance tax, then one potential approach to tackle this might be to mandate that you must be working the agricultural business in order to derive the relief.

NFU Cymru's fear is that last week's changes, if they go ahead as planned, will cause lasting damage to Welsh farming, leading to the break-up of family farms and leaving farmers with neither the means, confidence nor incentive to invest in the future of their business. In turn this damage inflicted upon Wales' family farms would soon be felt in companies which rely on farming businesses, such as those selling goods and services onto farm as well as those businesses which purchase the outputs which our farms produce.

As we also know our farms and rural communities are strongholds of Welsh language and culture, with 43% of those involved in the sector speaking Welsh as opposed to 19% of Wales wider population, and so there is also a potential detriment flowing from these proposals to Wales' cultural heritage.

Removing the inheritance tax relief on agricultural property will have very significant impacts on the farming industry and would severely damage what is often called our most fragile economy. The knock-on effects would be even more catastrophic, destabilising rural communities who rely on the food and drink sector and tourism for employment and services.

One policy announcement in last week's budget, which was not picked up upon as widely as the proposed changes to APR and BPR is the way in which it is proposed that, from 2025-26, the Barnett formula will be used to calculate any block grant adjustments to agricultural funding for the devolved governments.

We were pleased to see confirmation on Page 9 of last week's Treasury Statement of Funding Policy that the funding for agriculture from 2024-25 has been baselined into each devolved government's block grant (essentially locking in the historic funding allocation, which is itself based on historical levels of agricultural production in each of the home nations). Despite this positive step, we are concerned that the Statement of Funding Policy goes on to say that from 2025-26 the Barnett formula will apply in the usual way to funding for agriculture.

NFU Cymru's own rough calculation suggests that for every £100 of additional funding for agricultural support in England, by analogy to the 'old' arrangement for distributing EU funds for agriculture amongst the home nations, Wales would be in line to receive over £13.50 in additional funding. Running the same £100 through the Barnett formula would imply a consequential for Wales of just £5.75, or just 42% of what we would have received under the old arrangement which takes account of the historical levels of agricultural production in each of the home nations. It is therefore not at all difficult to see that the Treasury's proposal would result in Wales losing out quite significantly in this regard.

It is with all these anticipated detriments to Welsh agriculture, our rural communities, and our cultural heritage in mind that I now write to you as Chair of the Welsh Affairs Committee to ask that the committee now consider undertaking an urgent enquiry into the budget and its implications for Wales? I believe that there is a now window of opportunity for the Committee to gather in the views of stakeholders and report back on the likely impact of the proposed changes before the government legislates to give effect to its proposals, and I therefore urge you and the Welsh Affairs committee to agree look into these matters while there is still a possibility of shaping the government's thinking.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Aled Jones', with a stylized, cursive script.

Aled Jones
President/Llywydd
NFU Cymru