Northern Ireland Affairs Committee

Andrew Muir MLA
Department of Agriculture, Environment and Rural Affairs

By email only

27 November 2024

From the Chair
Tonia Antoniazzi MP

Dear Minister,

The Northern Ireland Affairs Committee will be holding an oral evidence session on Tuesday 10 December on the recently announced changes to inheritance tax and agricultural property relief/business property relief by the UK Government in the Autumn Budget, and its impact on the farming sector in Northern Ireland. Ahead of this, I would be grateful if your department could provide my committee in writing by 6 December its response to and assessment of the impact of the changes in Northern Ireland to help inform our upcoming meeting.

Yours sincerley,

Tonia Antoniazzi

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Dear Tonia,

POTENTIAL IMPACT OF THE UK GOVERNMENT PLANNED CHANGES TO INHERITANCE TAX/APR/BPR ON THE FARMING SECTOR IN NORTHERN IRELAND

Thank you for your email of 27th November 2024 informing me that the Northern Ireland Affairs Committee will be holding an oral evidence session on Tuesday 10th December 2024 on the recently announced changes to Inheritance Tax and Agricultural Property Relief (APR) and Business Property Relief by the UK Government in the Autumn Budget, and its impact on the farming sector in Northern Ireland.

I am grateful for the opportunity to share with your Committee, findings of the analysis undertaken to date, by my Department, of the potential impact of the inheritance tax changes on the farming sector in Northern Ireland.

At the outset, I would say that the changes have caused widespread alarm within the farming sector in Northern Ireland as evidenced by a rally organised by the Ulster Farmers' Union on 18 November 2024. This was attended by over 6,000 farmers and was the largest attendance at an event of this kind in recent times.

At the event you could feel the emotion of many who are running farms which have been in their family's name for generations and from 6 April 2026 will be a death away from a significant inheritance tax burden that may only be met by an enforced sale of land which would completely undermine the continued viability of an otherwise viable business.

My Department has produced an analysis paper, considering the impact on Northern Ireland farms of the inheritance tax changes announced as part of the Budget statement on 30th October 2024 and the limitation of Agricultural Property Relief and Business Property Relief at a rate of 100% to a combined value of £1million. I have attached a copy of the full analysis for your information and this is also available at the NI Assembly Library (https://www.niassembly.gov.uk/assembly-business/research-and-information-service-raise/deposited-papers-2024/).

The analysis from my Department was based on 'farms by **owned** land' which was taken from data collected as part of the Northern Ireland Agricultural Census 2023. This data was then considered in the context of data on the average price of agricultural land.

A 2023 Irish Farmers Journal survey showed the average price of agricultural land in Northern Ireland to be £13,794/acre and it has increased from £10,045/acre in 2020. Therefore by 2026, when the inheritance tax limitation changes take effect, it would be reasonable to assume that the average price will have increased to £15,000/acre.

Based on this information, farms which own land of 27 hectares and over in Northern Ireland will have an agricultural land value exceeding £1 million and therefore will be impacted by the UK Government's announcement in the budget that Agricultural Property Relief (APR) and Business Property Relief (BPR) combined at 100% will be limited to estates valued at £1m.

DAERA analysis of farms by owned land (Northern Ireland agricultural census) shows that the proposed tax relief change will affect around one third of all Northern Ireland farms but more significantly, these farms account for 60% of owned land and the majority of farm production in Northern Ireland. Furthermore, a large proportion of farms of significant size will be affected including 77% of those in the dairy sector.

Looking solely at the number of farms impacted by the change does not measure the true impact on the sector and consideration must be given to the proportion of land farmed and proportion of output produced by the impacted farms. Additional analysis illustrating this point is also included. It shows that the impacted farms account for around 70% of total land farmed in Northern Ireland, 57% of beef cows, 85% of dairy cows, 69% of all cattle, and 62% of sheep.

The analysis presented by my Department has various caveats concerning the variation of land values from the average, land owned on a single farmed unit may be owned by more than one person, and some land will have development potential. It is focused on agricultural land given the availability of data but farm estates will have other assets such as residential property and capital equipment which will all be taken into account in an inheritance tax assessment. These issues are referred to in the analysis. Despite the limitations, it gives a good indication of the potential impact.

Most of the caveats will increase the number of impacted farms and the scale of the impact on individual farms. In relation to the point that land owned on a single farmed unit may be owned by more than one person, the traditional practice in Northern Ireland is that land on a farm tends to be owned by a single person (who previously inherited it) and on his/her death is either passed to the spouse (if surviving) or to the next generation.

The analysis is prior to mitigating measures which may be taken by farmers although these will not be possible in all cases. The Irish Farmers' Journal survey also shows that Northern Ireland has the highest agricultural land prices in the UK and Ireland and therefore the limitations to APR and BPR will have far-reaching and potentially disproportionate impacts in Northern Ireland.

Taking into account the caveats referred to in the analysis, I am of the view that this is a realistic appraisal of the potential impact in Northern Ireland and the analysis has found general acceptance among stakeholders.

I have serious concerns about the Treasury figures on APR claims and their use to state that less than 500 estates with agricultural land will pay inheritance tax each year due to the Budget changes. These statistics relate to 2021/22 when APR was unlimited at 100% and therefore the value of agricultural land declared as part of the estate or whether it was declared at all made no difference to the calculation of inheritance tax liability. That context will be very different from 6 April 2026.

There were 1,730 claims for APR in 2021/22 but this seems very low given that there are 209,000 farms in the UK and there will also be APR claims by non farming landowners.

Furthermore, the value of APR claimed of £1,570million equates to only around 80,000 hectares at an average UK market land value of £8,000/acre in 2021/22 (and not all APR claims will be exclusively for agricultural land) which again is very low given the total UK agricultural area of 17 million hectares and the area that would be expected to transfer each year given farms will be transferring every generation which is taken as around 30 years (expected to be closer to 570,000 hectares per year rather than the 80,000 hectares implied by the Treasury analysis).

This would give rise to the possibility that in the past, either agricultural land was given a low value or was not included in estates at all or a combination of both, in the knowledge that it made no difference to inheritance tax calculations. It will be a very different situation post 6 April 2026 and hence it does not appear to be valid to use the Treasury figures on APR claims in the past to assess the potential impact as they will be a serious underestimate given the different policy context. I would ask that the NI Affairs Committee explore these issues with the Treasury figures.

I also question the assertion by the UK Government that a £3 million threshold is available and implying that this will be close to a universal occurrence. Indeed, the changes announced in the budget attempt to limit this occurrence by making the £1 million threshold for 100% APR and BPR combined **non transferable,** which is contrary to the practice for other taxation thresholds.

Consequently, to get to a £3 million overall threshold, it will be necessary for sufficient agricultural property to be owned by 2 people, which would usually be a farmer and his/her spouse. This is far from a typical case at present and in many cases, it is not possible at all - for example an elderly farmer with no surviving spouse or a farmer who is single. Furthermore, the individual nil rate band of £325,000 can only be increased to £500,000 where the estate is worth less than £2 million, at which point it tapers away. Many estates will be worth more than £2 million.

Finally, it is not the case that a farmer's estate will consist solely of agricultural or business property and consequently the nil rate band may be used up by other assets not eligible for APR or BPR.

I wish to express my strong opposition to the changes announced in the budget.

It is crucial for the future of the agricultural sector that family farms can pass from generation to generation without incurring large inheritance tax liability resulting in their breakup.

The limitation of APR and BPR combined to £1 million for 100% relief threatens succession arrangements for farms. A sudden death (including as a result of a farm accident) could result in a massive inheritance tax liability and making the farm non-viable. This should not be the result of fair and proportional taxation and therefore I call on the UK Government to re-think its approach on this matter.

Once again, thank you for the opportunity to provide input for this oral hearing and if you have any questions regarding our analysis, please contact my office at Private.Office@daera-ni.gov.uk

Yours sincerely

ANDREW MUIR MLA
Minister of Agriculture, Environment and Rural Affairs

DAERA ASSESSMENT OF THE IMPACT OF THE INHERITANCE TAX CHANGES IN UK BUDGET STATEMENT OF 30 OCTOBER 2024 ON THE AGRICULTURE SECTOR

BACKGROUND

1. Inheritance Tax is chargeable at a rate of 40% of the value of estates inherited. But there are reliefs and thresholds that can reduce the inheritance tax payable substantially and in many cases to zero. Less than 4% of estates in the UK paid inheritance tax in 2020/21 although with frozen thresholds, this is expected to increase to over 7% in 2032/33 (before the Budget changes).

2. As regards agricultural land, 2 reliefs are applicable – Agricultural Property Relief (APR) and Business Property Relief (BPR) which can reduce its valuation to zero for inheritance tax purposes. APR applies to the agricultural value of land while BPR applies to any value above agricultural value such as where land is capable of development.

3. Prior to the Budget, APR was available in most cases to agricultural land being inherited at a rate of 100%, hence reducing the agricultural value to zero. If land has development or hope value, BPR is needed (for the development value) which again was available at a rate of 100% provided the owner was operating a farm business.

4. APR is generally available on all land used for the purposes of agriculture irrespective of whether it is farmed by the owner or another person such as when it is rented out under conacre arrangements. Following a NI court case in 2009 (McClean), BPR is generally not available to non farming land owners who rent out land under conacre arrangements as such businesses are regarded as being mainly or wholly for the purposes of investment activity and are not eligible under the rules.

5. The outcome of these reliefs was that almost all working farms could pass from generation to generation without inheritance tax liability. This avoids situations where agricultural land needs to be sold in order to generate liquidity to pay what could otherwise be a large tax liability which can threaten the viability of the farm affected. While BPR is not available to non farming landowners, again substantial inheritance tax liability is unlikely as only a small percentage of land has development value and careful tax planning can also remove it from the scope of inheritance tax.

6. In the budget statement on 30 October 2024, the UK Government announced that from 6 April 2026, APR and BPR combined, at 100% would be limited to £1m. After this, the relief would be available at a rate of 50% meaning an effective inheritance tax rate of 20% on land values above £1m. There are other general changes announced to BPR concerning the treatment of shares.

7. In 2023, the Irish Farmers Journal Survey showed that agricultural land was selling in NI at an average value of £13,794/acre. The value will vary depending on location, type of land, and individual circumstances pertaining to the sale. Agricultural land values are typically out of kilter with the agricultural income that can be generated from it. This reflects the fact that only a very small proportion of farmland is put up for sale each year. Given the very limited supply, farmers see land purchases as a once in a generation opportunity with the result that land prices can be very high. NI has some of the highest agricultural land prices in the UK and Ireland. The average price in England in 2023 was £11,300/acre. Prices in Scotland are very variable but the highest average was in the Lothian region at £10,000/acre for arable land and £5,000/acre for pasture. For Wales it was £8,500/acre for

arable land and £6,000/acre for pasture while it the Republic of Ireland it was €9,300 (£7,815)/acre.

8. With NI agricultural land values at £13,794/acre in 2023, it would be reasonable to assume that they may be around £15,000/acre in 2026 when the inheritance tax changes take effect. This would mean that 27 hectares of land would equate to an agricultural value of £1m.

9. DAERA analysis of farms by owned land (NI agricultural census) shows that 36% of farms in Northern Ireland owned more than 27 hectares of land in 2023. These accounted for 611,000 hectares out of 802,000 hectares owned by NI farms in total and just under 60% of total NI agricultural land. By farm type, 33% of LFA cattle and sheep farms, 28% of lowland cattle and sheep farms and 77% of dairy farms have more than 27 hectares.

10. There is also a further 250,000 hectares approximately of agricultural land owned by non farming landowners. DAERA has no data on non farming landowners but it is thought that there are around 60,000 landowners in NI so non farming landowners could number around 30,000. Hence they are mostly small holdings with an average of less than 10 hectares. In any event, even if they are subject to inheritance tax, the land is likely to remain available on the conacre market and hence not cause disruption to farming businesses.

11. There are a number of caveats that must be applied when attempting to translate the analysis into potential inheritance tax liability. Agricultural market value will vary significantly across NI and will be lower in parts of the LFA, particularly mountain areas. Farms operating as one unit may have land owned by more than one family member, to which the APR and BPR thresholds would apply individually. Also, some land will have development value which will increase the number of farms above the £1m value threshold. While the numbers are unlikely to be large, development value can generate a very large inheritance tax liability for an individual estate.

12. The analysis does indicate that the limit of £1m for APR and BPR at 100% does potentially bring a significant number of farms into the scope of inheritance tax and is much higher than the 4% to 7% of estates likely to be liable for inheritance tax generally over the forthcoming period. The number of farms actually paying inheritance tax is expected to be much less due to tax planning to make maximum use of thresholds and exemptions.

13. The main exemption that farms can avail of in order to reduce or eliminate inheritance tax liability is that all assets are transferred for 7 years or more prior to death which takes the assets out of the scope of inheritance tax. Transferring assets such as land earlier in life may also have beneficial effects on the age structure of farmers although there can be a difference between who owns the land, who is named/stated to be the farmer and who is actually undertaking the work or making the key decisions so this change may have minimal impact in practice. There may be reluctance to transfer land earlier in case of concern about family disputes arising in the future and the 7 year rule may be difficult to meet now where the land owner is elderly and was working on the basis the agricultural land could avail of 100% relief from inheritance tax. A sudden death, including in the case of a farm accident could also mean that the 7 year rule is not met.

14. Taper Relief is available on assets transferred for more than 3 years prior to death where the inheritance tax rate tapers down to 32% (3 - 4 years), 24% (4 - 5 years), 16% (5 – 6) years and 8% (6 – 7 years). DAERA is unsure whether this is affected and how it interacts

with the changes made to APR and BPR.

15. Also, the first £325,000 transferred is exempt from inheritance tax which can increase to £500,000 where the transfer involves a residential property, provided the transfer is to children or grandchildren and the estate is worth less than £2m. It is also possible to use a partner's unused allowance meaning that in many cases the threshold could be as high as £1m (in addition to the £1m available via APR and BPR) although on larger farms this could be taken up by the residential property (which could in certain cases be eligible for APR), savings, machinery and livestock and the estate may exceed the £2m limit for the increase in the inheritance tax free threshold. A residential property associated with a farm may be eligible for APR but it must be connected with the running of the farm business and be character appropriate. This is an assessment on a case by case basis and can be contentious. If the residential property is eligible for APR, 100% relief from 6 April 2026 will depend on whether the total value for which APR is claimed is below £1m.

LAND USED FOR ENVIRONMENTAL PURPOSES

16. The UK Government has confirmed it will extend the existing scope of agricultural property relief from 6 April 2025 to land managed under an environmental agreement with, or on behalf of, the UK government, devolved governments, public bodies, local authorities, or relevant approved responsible bodies. Legislation will be included in Finance Bill 2024 to 2025.

17. This is a welcome change as it removes a potential barrier to the uptake of environmental schemes where there was concern that the land would be no longer eligible for APR if no agricultural activity was carried out. That concern arose in England but hasn't been an issue in NI to date as previous agri - environmental schemes rain in conjunction with agricultural activity but nevertheless the change will safeguard the future position.

IMPACT

18. The UK Government is predicted to raise £0.5 billion per year from the changes to APR and BPR from 2029 – 2030, factoring in expected behavioural changes. This is a tiny amount in terms of overall UK Government spending (c. £1.2 trillion) but a more significant proportion of the £40 billion total tax increases in the budget.

19. The UK Government has also stated that it wishes to prevent non farmers purchasing large amounts of land and passing it on free of inheritance tax. In other words, non farmers are using APR to pass assets to the next generation free of inheritance tax. However, the changes don't make any distinction between farmers and non farmers. Furthermore, non farmers can engage in tax planning as well and make use of the 7 year rule.

20. The limitation of £1million to APR and BPR at 100% does bring a considerable amount of NI farmers into scope of inheritance tax, much higher than the general population and influenced by the high price of agricultural land in NI. These farmers will account for the majority of land and by extension, the majority of agricultural production in NI. For reasons stated in paragraph 12, it is impossible to precisely determine the number of farms affected but around 1/3rd would be a reasonable estimate from the data but much higher in the dairy sector at around 75%.

21. It must be stressed that all the information above in relation to tax is in general terms only and there can be other conditions applying to various reliefs etc. that mean they do not apply in specific circumstances. Furthermore, transferring land and other assets may generate other tax liabilities, particularly Capital Gains Tax although reliefs may be available. It is therefore vital that anyone seeking to minimise tax liability obtains advice from a professional tax advisor so that individual circumstances are taken into account.

FURTHER ANALYSIS OF AFFECTED FARMS

The table below provides an analysis of those farms which own greater than 27 hectares of agricultural land and therefore has a value exceeding £1million when valued at an average of £15,000/acre. (Source: 2023 NI Agricultural Census)

	Farms owning 27ha+	**NI Total**	**% on farms owning 27ha+**
Very Small Farms	5,326	20,603	25.85%
Small Farms	1,806	2,641	68.38%
Medium Farms	878	1,168	75.17%
Large Farms	1,465	1,719	85.22%
Total Farms	**9,475**	**26,131**	**36.26%**
Total Area Farmed (ha)	**734,424**	**1,042,318**	**70.46%**
Dairy Cows	273,334	319,346	85.59%
Beef Cows	135,404	236,082	57.35%
All Other Cattle	750,016	1,117,917	67.09%
Total Cattle	**1,158,754**	**1,673,345**	**69.25%**
Ewes	603,493	973,718	61.98%
All Other Sheep	667,426	1,073,116	62.20%
Total Sheep	**1,270,919**	**2,046,834**	**62.09%**
Pigs	533,916	682,339	78.25%
Poultry	13,933,007	25,584,747	54.46%
Cereals (ha)	25,515	31,803	80.23%
Other Field Crops (ha)	11,240	13,785	81.54%
Horticultural Crops (ha)	1,094	2,189	49.97%
Agricultural Labour Force	23,764	52,676	45.11%

NB. The figures for some enterprises, particularly horticultural crops, pigs, and poultry should be treated with caution as non land assets of the farm will have a greater bearing on the total value of farm assets in these cases.