INHERITANCE TAX – PROPOSED REDUCTIONS IN APR AND BPR

HOW MANY FARMING TAXPAYERS MIGHT BE AFFECTED FOR WALES?

Jeremy Moody – 29th January 2025

1. This Paper

1.1 The October 2024 Budget proposed to reduce the benefit of Agricultural Property Relief (APR) and Business Property Relief (BPR) from Inheritance Tax for the private owners of businesses and farms with effect from April 2026.

1.2 Following the conclusion of the main CAAV's discussion paper that 75,000 farming taxpayers across the UK could have a tax liability in respect of their farms under the changes when considered over a generation (some 2,500 each year), this paper responds to a more specific request for a view as to the number of farming taxpayers in Wales who could be expected to pay Inheritance Tax on their farms as result of that change.

1.3 Only very limited information that is directly relevant to forming such a view is available. However, the broad conclusion is 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.

1.4 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. The assessment of this paper suggests that Wales would, on its own, produce 40% of that UK total, adding to the view that the official estimate of the number of those affected substantially underestimates that number. That is seen to be principally because the figures used for the Treasury do not take account of large number of farming claims made solely under BPR and also that the change is expected to create new claims that would previously have been exempt transfers between spouses.

1.5 An ancillary point is the interaction between the new charge and the disproportionately older (or ill) fraction of owners for whom it has been good tax advice to hold farm assets until death, advice changed by the Budget. Many might not have the years left in which to implement appropriate mitigating advice, giving a disproportionate impact in the initial years.

1.6 The Central Association of Agricultural Valuers (CAAV) represents, briefs and qualifies some 3,000 professionals who advise and act on the very varied matters affecting rural and agricultural businesses and property throughout the United Kingdom, including land tenure, taxation, compulsory purchase, valuation and other matters. Members are instructed by a wide range of clients, including farmers, owners, lenders, public authorities, conservation bodies, utility providers, government agencies and others; their work requires an understanding of practical issues.

2. The Present Position and Proposed Changes

2.1 At present:

- APR usually offers full relief on the "agricultural value" of agricultural land, buildings and dwellings occupied for the purposes of agriculture for a qualifying period. This typically does not cover part of the value of most farmhouses and the potential non-agricultural value of these assets. It is not a relief on the operational assets of farming, such as livestock, machinery, stocks and stores which are covered by BPR. By covering qualifying land, APR is the critical relief that removes a major tax obstacle to owners in letting land and substantially covers the farmhouse which does not generally fit with BPR.
- BPR usually offers full relief on the market value of the ownership of a business or business assets where the business has been owned for two years and does not consist "wholly or mainly of investments". That exclusion typically excludes let property, whether farmland, cottages, commercial units, etc.

2.2 APR, in particular, comes with a number of complex and subjective qualifications. It has also been too easily used as proxy for faming claims for Inheritance Tax relief when more than half of APR claims have not had an attached BPR claims, being for family members with land used in the business or, more generally, private landlords, able to let land protected by this important use of APR and so offering land to be tenanted.

2.3 The Budget changes would move to an initial £1 million band of full relief for the combined full benefit of APR and BPR (on their present rules for relief and assessment) with 50 per cent relief after that – and so an effective marginal rate of 20 per cent. The £1 million is available to each qualifying taxpayer but is not transferable between spouses.

2.4 Also under the October Budget, the value of unused pension funds will also come into Inheritance Tax from April 2027, adding to the taxable value where relevant and, in addition, for farming:

- reducing access to the benefit of the Residential Nil Rate Band Amount where the additional value takes the taxpayer's estate over £2 million (before reliefs) and removing it where the estate is over £2.35 million (£2.7 million if the relief has bene transferred between spouses). This has a particular farming use in covering the share of a farmhouse's value that is not relieved by APR (as above its "agricultural value"), where that house is given to lineal descendant
- where the taxpayer has a SIPP that has bought farmland used by the business (other business owners have often used a SIPP to own their offices or other premises). The illiquid nature of the asset interacts poorly with the proposed rules on liability for and payment of tax.

3. How Many Farming Taxpayers Might be Affected in respect of Farms in Wales?

3.1 Considerations

3.1.1 This paper seeks to provide an indicative figure of the number of affected farming taxpayers by working with very limited data from a number of sources while statistics for agriculture are notoriously slippery as to what they describe. As will be seen, the estimate resulting from such a review must necessarily be understood as indicating an order of magnitude with a margin of error.

3.1.2 While there is much discussion of the overall value of farm businesses, Inheritance Tax is a tax on the net market value (after liabilities) of what is owned by individual taxpayers as at death together with the value of gifts they have made in the seven years previous. If that value is £4 million and:

- if owned by one individual, that would be £4 million
- if owned in equal shares by two individuals (such as a married couple), then each would be taxed on £2 million
- if one owned £3 million and two others £500,000 each, each would be taxed on that basis.

3.1.3 Particularly, with that need to assess individual ownerships, there is no solid source of data to provide any direct figure for this. Indeed, there seems relatively little published material on the net worth of Welsh farms before asking this question.

3.1.4 With the agricultural basis of the data, this excludes such taxable value as might arise from farm-related diversified activity.

3.1.5 A further complication is the number of cross-border businesses. At the introduction of the Single Payment Scheme, it was thought there were 1,300 of these. The reactions by farmers and landowners to the different SPS regimes of England and Wales in 2005 saw this number fall to say 600 cross border BPS claimants. The real answer is likely to be between these figures.

3.2 How Many Farms Might be in Frame?

3.2.1 While Wales has some 24,500 recognised holdings (24,677 in 2020 – *Farming Sector in Wales*, Senedd Research Briefing, July 2022):

- a large number are classed as "very small" requiring less than 1 FTE of labour. Only some of these would have assets above £1m. Such farms may typically have little debt. Relatively few are likely to a significant liability under the changes. As an assessment based on labour requirements, this will not include the small but more valuable and more capitalised units, such as for some horticultural, pig, poultry and equivalent enterprises.

3.2.2 There were then some 9,983 small, medium and large farms, being:

- 1,469 dairy farms – business likely to have substantial operational farming assets including their herds but also some debt
- 6,287 LFA cattle and sheep farms – including a wide variety of operations and scale
- 1,176 lowland grazing – again with a mix of operations

- 551 arable and horticultural – with the element of potatoes and other enterprises in this and the expected larger scale of operation, many of these will be over £1m but have some debt
- and, say, 550 mixed farms.

3.2.3 In a very broadbrush approach, taking the great majority of the dairy farms (say, 1,250), half the LFA livestock farms (3,150), a third of the lowland grazing farms (400), two thirds of the arable and horticultural farms including potato farms (370) and half the mixed farms (275) as having a value over £1 million gives 5,445 farms. That is likely to be an underestimate but, as a cross check, the 2018 consultation paper, *Brexit and Our Land*, advised that 3,300 farms had a turnover (not profit) above £125,000, as a possible indication of scale.

3.2.4 A second approach works from the Senedd paper reporting that *Agriculture in the UK 2021* recorded for the area of agricultural land alone that:

- 14% of Welsh farms (say, 3,450 farms) had between 125 and 250 acres (50 to 100 ha) – all worth over £1m except where the smallest have land worth less than £8,000/acre
- 14% (say, 3,450 farms) had more than above 250 acres (100 ha) - all worth over £1 million unless land is worth less than £4,000/acre. At £8,000 an acre all are worth more than £2 million before considering operational assets.

While there may be some Welsh land valued below £8,000/acre, little will be less than £4,000/acre. With some 6,900 farms between them, both groups are likely to have land worth at least £1 million (provided it is owned and including the agricultural value portion of the farmhouse) before considering operational farming assets of livestock machinery and other goods but also liabilities to be deducted. There will also be smaller more intensive farms with higher values of combined land and operational assets, such as in poultry, pigs, and horticulture or where a small unit is the base for larger farming operation on other people's land, with commensurately large scale machinery and livestock. Some farms will, of course, have joint owners.

3.2.5 Some will be tenanted. Data drawn from the 2018 SAF forms found that 19% of Welsh farms were wholly or mainly rented and, in that 9% of farms were solely tenanted with no owned land. Unless they are in one of the probable minority of cases where a conventionally unassignable tenancy is found to have value here (case law showing this was developing just as full relief was introduced in 1992), they will have a lesser or no land value but will have all their farming assets, putting fewer in frame.

3.2.6 Allowing for two thirds of the mainly tenanted businesses to be below £1m, that gives 6,003 farms.

3.2.7 Account should also be taken of some, probably few and typically larger and more commercial units, that are run as companies, with Inheritance Tax on shareholdings, not the underlying assets. Some may have just one shareholder but a company structure can facilitate transfer of ownership with families with more diverse shareholdings. However, this is not seen as reducing the value of such businesses as a starting point.

3.2.8 Conclusion - It seems reasonable to conclude that there are some 5,500-6,000 farm businesses in Wales with a value above £1 million, leaning to the higher figure to allow for the value of other on-farm business activity. The number could be higher.

3.3 How Many Farming Taxpayers might be Affected?

3.3.1 In moving to look at individual owners, the Welsh Government's report on the June 2023 Census returns found:

- 38,500 principal farmers, directors, business partners and spouses
- 18,000 of whom were self-reported as "full time", seen as more a statement of self-perception than of the formal labour requirement for the farm and so is assumed to be over-stated. Not all will be owners of the business.

3.3.2 DEFRA has given figures for England as to the proportions for the options as to who has financial and legal responsibility for claimant and which seem plausible:

- 46% - a sole individual
- 49% - more than one individual for the same family
- 4% - a company
- 1% - unrelated individuals.

Those figures are seen as plausible also for Welsh farming business, a point confirmed in discussion with Welsh CAAV members.

3.3.3 Applying the DEFRA proportions to 6,000 farms gives:

- 2,760 with a sole owner
- 2,940 owned by more than one individual for the same family. These are typically husband and wife but could siblings or children. If an overall multiplier of 2.25 is used that gives 6,615 owners, not all of whom will have a value of relevant assets above £1 million. There could be 2,000 owners each with more than £1 million of relevant assets
- 240 owned by a company of which, say, 120 have a single shareholder and the remainder have, say, 3 shareholders. There might be 180 with relevant assets of more than £1 million
- 60 owned by unrelated individuals but these might often have one dominant owner – perhaps 50 owners have relevant assets of over £1 million.

3.3.4 That review produces 4,990 farming taxpayers with net assets above £1 million, say 5,000 and probably at the lower end of the likely range.

3.3.5 With deaths occurring over a generation (say 30 years), that would give an average of 166 deaths a year, or 32% of the Treasury's estimate of those affected in the whole UK in the first year of 2026/27. That is then before considering the numbers to come forward in England, Scotland and Northern Ireland.

3.3.6 The age profile of those affected might give a reason for that figure to be higher. With 32 years in which practical tax advice has reinforced other pressures to hold assets until death, it likely that, consistent with general anecdote, owners are disproportionately older and therefore more likely to die in the early years of the policy without time to take effective measures, such as gifts, to mitigate their liability.

3.3.7 A further factor will be that the policy will tend to create more spouse claims under APR and BPR where the deceased spouse does not, as typically, transfer all assets to the survivor but use some or all of the allowance in bequeathing assets to the next generation. The principal constraint on that (other than available assets) is to protect resources for the livelihood and accommodation of the survivor.

4. A View

4.1 In conclusion, it seems a reasonable estimate for the reductions in relief to bring 200 taxpayers a year in Wales into tax on the value of their farming businesses, 6,000 over a generation.

4.2 That assessment is before considering the effect of inflation should the £1 million band be frozen rather than indexed for inflation. The warning to consider that is given by the freezing of the general £325,000 Nil Rate Band since 2009, now to run to 2030 over a period of 21 years. It now has a 2009 value of £209,000. Were the proposed £1 million full relief band for combined APR and BPR stated for 2026/27 to be the same in 2036/37, it would have fallen in value over the decade to £640,000, simply at the average 3% inflation seen since 2009. That "fiscal drag" would bring many more farming taxpayers into this tax liability.

4.3 As a final point, the nature of Welsh farming is such that while all areas will have affected taxpayers, there may well be particular geographical concentrations especially in the dairy farming areas but also among the poultry and potato sectors.

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