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

Rt Hon Alistair Carmichael MP
Chair of the Environment, Food and
Rural Affairs Committee
House of Commons
Palace of Westminster
Westminster
LONDON
SW1A 0AA

23 December 2025

Dear Alistair,

Your Committee has considered issues relating to the forthcoming reforms of agricultural property relief and business property relief. The Government has been grateful for your scrutiny of these necessary reforms.

The Government is announcing further changes today to the forthcoming reforms of agricultural property relief and business property relief from 6 April 2026. This is after listening carefully to feedback from the farming community and family businesses. The changes mean more farms and businesses will not be affected by inheritance tax reforms, while maintaining the core principle that more valuable agricultural and business assets should not receive unlimited relief.

The Government is announcing that the allowance for 100% rate of relief will be increased from £1 million to £2.5 million. This means a couple will now be able to pass on up to £5 million of agricultural or business assets tax-free between them, on top of the existing allowances such as the nil rate band.

Widows and widowers whose spouse died before 6 April 2026 will be able to receive all of the £2.5m allowance from the first death even if the first death was many years ago (and there is no time limit). This means existing widows and widowers will be able to pass on up to £5 million of agricultural or business assets tax-free, on top of the existing allowances such as the nil rate band.

This further reduces the number of estates forecast to pay more inheritance tax and further reduces the liability for many of the remaining estates.

Compared to Budget 2025, today's announcement will halve the number of estates claiming agricultural property relief, including those also claiming business property relief, paying more in 2026-27. The reforms are now expected to result in up to 185 such estates across the UK paying more inheritance tax in 2026-27. This a reduction from up to 375 estates forecast to pay more at Budget 2025. This means 85% of such estates making claims are now forecast to not pay any more inheritance tax.

Excluding estates only holding shares designated as ‘not listed’ on the markets of recognised stock exchanges, the reforms are also now expected to result in up to 220 estates across the UK only claiming business property relief paying more inheritance tax in 2026-27. This is a reduction from up to 325 such estates forecast to pay more at Budget 2025. This means just over 80% of such estates making claims are forecast to not pay any more inheritance tax.

The increase to the allowance will be reflected in Government amendments to the Finance Bill.

The Government’s commitment to farmers and the vital role they play in feeding our nation remains steadfast. Nonetheless there is a need to reform agricultural property relief and business property relief, and as such after the changes announced today we still expect the reform to APR and BPR will raise around £300 million in 2029-30. The Government’s commitment to the policy remains and there will be no further changes to the reforms.

We will be writing to all MPs to make them aware of today’s changes, which will continue to be scrutinised during the passage of the Finance Bill.

Yours sincerely,

DAN TOMLINSON MP
EXCHEQUER SECRETARY TO THE TREASURY

RT HON EMMA REYNOLDS MP
SECRETARY OF STATE FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS