Changes from 6 April 2026

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- The government has announced it will reform Agricultural Property Relief and Business Property Relief from 6 April 2026.
- The government will publish a technical consultation in early 2025, so we may not know the final rules that will come into force until then.
- Protests have taken place and lobbying is ongoing. But there is little indication that the government is willing to change its announced plans.
- Start appropriate planning now to be ready for the changes.

The £1 Million Allowance

A new allowance will apply to the combined value of property in an estate that qualifies for 100% Business Property Relief or 100% Agricultural Property Relief.

If the total value of the qualifying property to which 100% relief applies is more than £1 million, the allowance will be applied proportionately across the qualifying property.

The £1 Million Allowance

Assets automatically receiving 50% relief will not be impacted by these new rules and will not use up the allowance.

But any unused allowance will **not** be transferable between spouses and civil partners.

The £1 Million Allowance

The allowance covers the following transfers:

- lifetime transfers to individuals in the 7 years before death ("failed potentially exempt transfers").
- chargeable lifetime transfers where there is an immediate lifetime charge. For example when property is transferred into trust.
- property in the estate at death.

Rates of relief – first £1 Million

The existing 100% rate of relief will continue to be available for the first £1 million of property qualifying for agricultural property relief or business property relief.

Rates of relief – over £1 Million

The existing 100% rate of relief will be 50% for the value of any qualifying assets over £1 million.

For example, this means an interest of £2 million in a farming partnership would attract 100% relief on the first £1 million and 50% relief on the second £1 million. This means a potential inheritance tax liability of £200,000.

£1 Million allowance for Trusts

The trustees of certain trusts are liable to an inheritance tax charge of up to 6% of the value of property held in a trust every 10 years. There is also an exit charge when property leaves the trust.

Agricultural property relief and business property relief can apply to property in trust.

There will be a combined £1 million allowance for trustees on the value of qualifying property to which 100% relief applies, on each ten-year anniversary charge and exit charge, consistent with the treatment of qualifying property chargeable to inheritance tax on death.

£1 Million allowance for Trusts

The government will publish a technical consultation in early 2025 on the detailed application of the policy to charges on property within trust.

Settlors may have set up more than one trust comprising qualifying business property and/or agricultural property before 30 October 2024, in which case from 6 April 2026, each trust would have a £1 million allowance for 100% relief.

The government intends to introduce rules to ensure that the allowance is divided between these trusts where a settlor sets up multiple trusts on or after 30 October 2024.

Lifetime transfers prior to 6 April 2026

The new rules will apply for lifetime transfers on or after 30 October 2024 if the donor dies on or after 6 April 2026. This prevents forestalling.

For example, a lifetime gift of farmland worth £2 million made on or after 30 October 2024 will be a failed potentially exempt transfer if the donor dies within 7 years.

100% relief would apply to the first £1 million and 50% to the next £1 million under the new rules if the recipient owned the farmland until the donor's death and the donor's death is on or after 6 April 2026.
(please also note taper relief rules which will be covered later)

Nil-rate band and other exemptions

Estates will continue to benefit from the nil-rate band, residence nil-rate band, and other exemptions (such as transfers between spouses and civil partners).

Transfers to individuals more than 7 years before death will continue to fall outside the scope of inheritance tax in the normal way.

Payment of tax

Inheritance tax liabilities relate to the overall value of the estate so these can be paid from the proceeds following the disposal of other assets within an estate or by other means.

Liabilities relating to agricultural and business property can currently be paid in equal annual instalments over 10 years in certain circumstances.

More detail is available at www.gov.uk/paying-inheritance-tax/yearly-instalments.

All change!

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- Holding agricultural property has previously not caused Inheritance Tax issues.
- The budget proposals turn this on its head.
- Holding agricultural property can now cause IHT problems and so we need to plan for this.
- Giving away agricultural property and insuring against the IHT risk will now be important aspects of IHT planning.

	Current rules £ '000
Farm	2,500
Farmhouse	450
Total estate	2,950
Less 100% AR/BR	(2,800)
Less: 50% AR/BR	n/a
Chargeable estate	150
Less: NRB	(150)
Less: RNRB	Not available
Taxable estate	Nil
IHT @ 40%	Nil

	Current rules £ '000	New rules £ '000
Farm	2,500	2,500
Farmhouse	450	450
Total estate	2,950	2,950
Less 100% AR/BR	(2,800)	(1,000)
Less: 50% AR/BR	n/a	(900)
Chargeable estate	150	1,050
Less: NRB	(150)	(325)
Less: RNRB	Not available	Not available
Taxable estate	Nil	725
IHT @ 40%	Nil	290

Review IHT exposure

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- Compare value of estate with available Nil Rate Bands and Agricultural and Business Relief allowances.
- Are there any factors that affect asset values:
  - Discounts for part ownership
  - Reductions for ties
  - Reductions for tenancies

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Review Ownership and Wills

- Want to use all available Agricultural and Business Relief allowances.
- The allowances are not transferable.
- Want each person to hold at least £1 million of assets and to use their allowance on their death.
- Wills leaving all assets to surviving spouse may not be appropriate – watch joint ownership.
- Review benefits of owning assets personally or as partnership assets.

Transfer assets between spouses

- No Capital Gains Tax.
- Ownership conditions relaxed for Agricultural Relief but not for Business Relief.

	No restructuring
	Mr F
Total estate	4,200
Less 100% AR/BR	(1,000)
Less: 50% AR/BR	(1,600)
Chargeable estate	1,600
Less: NRB	(650)
Less: RNRB	unavailable
Taxable estate	950
IHT @ 40%	380

	No restructuring	Restructuring	
	Mr F	Mr F	Mrs F
Total estate	4,200	2,100	2,100
Less 100% AR/BR	(1,000)	(1,000)	(1,000)
Less: 50% AR/BR	(1,600)	(550)	(550)
Chargeable estate	1,600	550	550
Less: NRB	(650)	(325)	(325)
Less: RNRB	unavailable	(125)	(125)
Taxable estate	950	100	100
IHT @ 40%	380	40	40

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Transfer assets to children

- Aim to survive 7 years but lower IHT after 3 years.

IHT rates

Taper relief for AR/BR qualifying assets exceeding £1 Million.

	Years following transfer				
normal	3 or less	3-4	4-5	5-6	6-7
20%	20%	16%	12%	8%	4%

Transfer assets to children

- Aim to survive 7 years but lower IHT after 3 years.
- Holdover Relief should be available to avoid a chargeable gain but watch position if there are borrowings.
- Watch for possible reservation of benefit.
- Reducing estate below £2 million will qualify for Residential Nil Rate Band.
- Could protect transferred assets from care fees.

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Transfer assets into trust

- Where gifts to children are not appropriate.
- Transfers into trust are chargeable to IHT so may want to carry out before 6 April 2026.
- Trusts are subject to IHT charges every 10 years and when assets are taken out of the trust.

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Life insurance

- An IHT risk exists while assets are held in a chargeable estate and for 7 years after assets are transferred out of the estate.
- Consider taking out life insurance to cover the risk of death occurring and creating an IHT liability.
- Term insurance may be appropriate to cover the period of ownership plus 7 years following a transfer.
- Possibly transfer assets to spouse with cheaper insurance prior to gifting assets.

Life insurance

7 year level term, single life (max age at policy end date is 89)
Figures stated in premium payable per month:

Age at inception	£400,000 insured	£800,000 insured
Age 70	£213	£425
Age 75	£429	£840
Age 80	£1,049	£1,979
Age 82	£1,425	£2,605

7 year reducing term cover, single life (max age at inception is 79)
Figures stated in premium payable per month:

Age at inception	£400,000 insured	£800,000 insured
Age 70	£235	£467
Age 75	£420	£839
Age 79	£818	£1,634

Payment of tax

- Payable over 10 years, interest free.
- Are there funds available to cover the tax.
- Can any land or buildings be sold and not missed.

Summary

- Use all available AR/BR allowances
- Where there is still an IHT exposure, look to give away assets and survive 7 years and insure the risk in the meantime.

Questions

- For APR, please could you clarify the owner occupied 2-year rule and the owned for 7-year rule?
- How is an estate valued for IHT purposes?
- What is the difference between market value and agricultural value?
- Do you think these rules will be significantly altered before being introduced or could a different government reverse them?

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