From the Office of the
Minister of Agriculture,
Environment and Rural Affairs

Department of
Agriculture, Environment and Rural Affairs
An Roinn
Talmhaíochta, Comhshaoil agus Gnóthaí Tuaithe
Depairtment o'
Fairmin, Environment an' Kintra Matthers
www.daera-ni.gov.uk

Trevor Clarke MLA
Northern Ireland Assembly
Parliament Buildings
Ballymiscaw
Stormont
BT4 3XX
trevor.clarke@mla.niassembly.gov.uk

DAERA Private Office
First Floor, Clare House
303 Airport Road West
Sydenham Intake
Belfast, BT3 9ED
Telephone: 028 9052 4140
Email: private.office@daera-ni.gov.uk

Our Ref: SUB-1979-2024
Date: 6 November 2024

Dear Trevor

IMPACT OF INHERITANCE TAX CHANGES IN UK BUDGET STATEMENT

In an answer to your topical question (AQT 692/22-27) on 4 November 2024, I referred to placing analysis on the impact of the inheritance tax changes announced in the UK budget statement of 30 October 2024 on farms, carried out by my Department in the Assembly Library.

I am pleased to say that the attached paper has now been placed in the Assembly Library which I hope is helpful. If you have any questions in relation to the analysis, please contact Policy, Economics and Statistics Division for which the email address is tradepolicy@daera-ni.gov.uk.

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.

DEPARTMENT OF AGRICULTURE, ENVIRONMENT AND RURAL AFFAIRS

5 NOVEMBER 2024