

# The Taxing Wealth Report 2024

Every politician's guide to  
"How to pay for it"

## Inheritance tax reforms

### Reforming agricultural property relief

#### Brief summary

This note suggests that:

- Inheritance tax agricultural property relief currently costs just over £1 billion a year in tax foregone at present.
- The relief is open to abuse and that opportunity should now be denied.
- There is limited evidence of an economic need for this relief in other cases, although the provision of deferred payment arrangements to prevent business disruption at the time of the death of the owner of agricultural assets is entirely appropriate.
- A payment deferral period of up to five years might be permitted in cases where the estate of a person who actually used the assets in their farming business (some exceptions now being noted) has to sell assets to make payment of tax owing, with the option for extension at the discretion of HM Revenue & Customs.
- Up to £1 billion of additional tax might be collected per annum over time as a result of the adoption of these recommendations.

<sup>1</sup> This note forms a part of 'The Taxing Wealth Report 2024' published by Finance for the Future LLP, which is UK LLP number OC329502, registered at 33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ. See <https://www.financeforthefuture.com/taxing-wealth/>. This note was written by Richard Murphy FAcSS FCA FAIA (Hon), Professor of Accounting Practice, Sheffield University Management School, who is a director of Finance for the Future LLP. © Finance for the Future LLP 2023

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**Finance for the Future**

and



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<p><b>The proposal</b></p>	<p>To abolish inheritance tax agricultural property relief in cases where it might be abused and to replace it in other cases with generous deferred payment periods so that the disruption that might result from making forced sales soon after death to settle inheritance tax liabilities is avoided, thereby protecting the ongoing agricultural business subject to this arrangement.</p>
<p><b>Reason for the proposal</b></p>	<ol style="list-style-type: none"> <li>1. To improve the horizontal equity of taxation, which is currently undermined by this exemption which removes an inheritance tax charge at the time when a capital gains tax is also avoided in many cases.</li> <li>2. To increase the prospect of vertical equity of taxation in the UK which is currently undermined by this relief.</li> <li>3. To reduce the tax spillover effect that this exemption creates by encouraging the ownership of agricultural property at death.</li> <li>4. To reduce the rate of tax avoidance in the UK which this exemption encourages.</li> <li>5. To consequently improve the rate of tax compliance in the UK.</li> <li>6. To raise additional tax revenues.</li> </ol>
<p><b>Estimated tax that might be raised as a result of the recommendation made</b></p>	<p>The behavioural response to this recommendation is likely to be small.</p> <p>The reasons for providing this relief are respected by the proposal made, which grant significant time to make payment of the inheritance tax payable on most agricultural assets, so avoiding any serious business interruption that may result from the requirement to do so.</p> <p>At the same time the opportunity to abuse this relief is closed.</p>

	<p>There are unlikely to be few realistic objections to this proposal.</p> <p>Based on reasonable assumptions this relief might cost more than £1 billion annum at present and this sum is likely to be raised in future as a result of its cancellation.</p>
<b>Ease of implementation</b>	Relatively straightforward.
<b>Likely difficulties that might result from implementation</b>	Few.
<b>Likely time required to implement the change</b>	Months in the year preceding the year of actual change.
<b>Consultation period required.</b>	Moderate because objections are likely to be made and will have to be heard.

## Background

Inheritance tax agricultural property relief is a widely used exemption within the UK inheritance tax regime.

HM Revenue and Customs have the following to say about this relief<sup>2</sup>:

*You can pass on some agricultural property free of Inheritance Tax, either during your lifetime or as part of your will.*

*Agricultural property that qualifies for Agricultural Relief is land or pasture that is used to grow crops or to rear animals. It also includes:*

- *growing crops*
- *stud farms for breeding and rearing horses and grazing*
- *trees that are planted and harvested at least every 10 years (short-rotation coppice)*
- *land not currently being farmed under the Habitat Scheme*
- *land not currently being farmed under a crop rotation scheme*
- *the value of milk quota associated with the land*
- *some agricultural shares and securities*
- *farm buildings, farm cottages and farmhouses*

<sup>2</sup> <https://www.gov.uk/guidance/agricultural-relief-on-inheritance-tax>

*These do not qualify for Agricultural Relief:*

- *farm equipment and machinery*
- *derelict buildings*
- *harvested crops*
- *livestock*
- *property subject to a binding contract for sale*

#### **Location**

*A property may be owner occupied or let, but it must be part of a working farm in the:*

- *UK*
- *Channel Islands*
- *Isle of Man*
- *European Economic Area*

#### **Period of ownership or occupation**

*The property must have been owned and occupied for agricultural purposes immediately before its transfer for:*

- *2 years if occupied by the owner, a company controlled by them, or their spouse or civil partner*
- *7 years if occupied by someone else*

Some restrictions do apply.

Notably, the period of required ownership can be remarkably short, whether the property is used the owner or by a company that they own or used by someone else (i.e. let to a tenant farmer). There is obvious opportunity for abuse in these arrangements, most especially when self-occupation does not require that the owner actually run the agricultural business in person, and when the ownership of tenanted land requires little more than rent collection on the part of the owner.

### **The amount of inheritance tax business property relief claimed**

In the tax year 2020/21, which is the one for which most recent data is available<sup>3</sup>,

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<sup>3</sup> <https://www.gov.uk/government/statistics/inheritance-tax-statistics-table-122-exemptions-and-reliefs>

inheritance tax business property relief was claimed by 1,300 estates. The total relief sum claimed amounted to £1,020 million, or approximately £784,615 for each claim made.

No further analysis of these claims is available i.e. the number made for owner-occupation and for tenanted land is unknown.

### The logic behind inheritance tax agricultural property relief

The logic implicit in this relief is that it is important that an agricultural business survive the death of its owner or owners without business disruption arising from the need to realise capital to make payment of inheritance tax.

There are a number of very obvious problems with the supply of this relief on a universal basis without taking into consideration the particular circumstances of the business under review. These include:

- That in the case of tenanted farms there is usually no reason why there should be any business disruption in the event of the death of an owner.
- That the relief is available for land outside the UK, for reasons that are not all apparent and which provides no return to the UK for the relief given.
- That in the case of the ownership of shares in a farm there is no reason why the death of an owner need necessarily disrupt the business of the agricultural property.
- To describe stud farms as agricultural property is surprising.
- The relief can be given for shooting estates and other land uses that are now considered environmentally harmful.
- That it is inappropriate that the owners of assets of this sort should have the opportunity to avoid inheritance tax in addition to avoiding capital gains tax on gains they might have made during their lifetime on the property in question, which charge is cancelled on death. This double taxation relief makes this relief particularly generous as well as open to abuse.

These situations all suggest that:

- The relief might be too generous.
- The relief is open to abuse.
- The assumptions underpinning the relief are inappropriate.
- An alternative is needed.

## Recommendations

A number of recommendations flow from these observations:

1. No relief should be provided on agricultural assets used by other persons. It should, however, be possible to apply for deferred tax payment in the event of sale of such property to raise funds to pay tax for a maximum of two years, but thereafter no further relief is required.
2. Relief for property outside the UK should be abolished.
3. Relief for stud farms should be abolished.
4. Relief for gaming estates should be abolished.
5. Relief for other personally owned assets used in an agricultural property should be abolished but any tax due should be deferred for a period of no more than 5 years, with extensions being permitted on a case-by-case basis. The intention of this arrangement would be to prevent business disruption. This deferral should be sufficient to achieve that goal. Capital gains rebasing at the time of death should be permitted, but a charge should be placed over assets so that they cannot be sold without the liability to inheritance tax due being paid. Revaluation of liabilities owing to take into account changed market circumstances should only be permitted in the first two years following death.

These proposals withdraw inheritance tax agricultural property relief altogether in cases where it is currently likely to be abused and turn it into a deferred payment arrangement in other cases to prevent the disruption that might occur by demanding payment soon after the time of death of the owner of a business or asset. The reasons for originally providing this relief are respected. The opportunity to save two taxes (i.e. both capital gains tax and inheritance tax) is, however, denied, creating much stronger vertical and horizontal tax equity as a result whilst raising £1 billion in additional tax revenue over time on an annual recurring basis.