

Changes to IHT Agricultural and Business Property Reliefs: CenTax Evidence

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1 About CenTax

We are researchers at the Centre for the Analysis of Taxation (CenTax), a research centre co-hosted by LSE and University of Warwick. CenTax is dedicated to improving public understanding of tax policy and helping to design a better tax system, by generating evidence that is rigorous and relevant to policymakers and the public. Further information about CenTax is available via our website.

Our work focuses on tax policy design and the measurement of tax policy outcomes. We conduct cutting-edge research on the behavioural and economic impacts of tax policy changes and have contributed substantively to debates on tax policy in the UK over recent years. We use HMRC administrative data accessed through a secure research environment that allows us to compare academic research findings with official government costings, providing insight into how policy analyses are conducted.

This evidence was submitted to the House of Lords Finance Bill Sub-Committee's inquiry on the draft Finance Bill 2025–26, focusing on changes to Agricultural Property Relief (APR) and Business Property Relief (BPR). In accordance with parliamentary convention, CenTax publishes this evidence following the Committee's publication of the evidence it received. The inquiry page can be found [here](#).

2 Our work on Inheritance Tax

Since the October 2024 Budget, we have published a major policy report on the changes to APR and BPR, which provides the first independent, evidence-based analysis of these changes using HMRC administrative data:

Advani, Gazmuri-Barker, Mahajan & Summers, [‘The Impact of Changes to Inheritance Tax on Farm Estates’](#) published August 2024.

The report focuses on the impact of the planned reform to APR and BPR on ‘farm estates’ (as defined in the report). We find that the planned reform would significantly reduce the concentration of relief amongst the wealthiest ‘farm estates’, whilst protecting family farms to a large extent. However, we also conclude that reform is not well-targeted at reducing the

use of APR and BPR for tax planning, and that adjustments to the reform could raise additional revenue whilst addressing the concerns raised by farmers and other business owners.

Given the focus of our previous work, this evidence responds solely to questions 9–14.

3 Identifying and funding Inheritance Tax due

Our analysis indicates that between 480 and 600 ‘farm estates’ would see their Inheritance Tax liability increase each year. Of these, we estimate that 86% could fund their liability using non-farm assets, provided these assets could be realised within the statutory six-month period. This would leave around 70 estates per year without sufficient non-farm assets to cover their liability, of which approximately 40 would face a residual bill (after the disposal of non-farm assets) that exceeds 20% of the farm’s income (net of tax and depreciation), assuming that the residual liability were paid over ten annual instalments.

Our report also contains an extensive discussion (in Appendix C) of valuation issues for agricultural property. Previous work undertaken for the Wealth Tax Commission explored the practicalities of valuing agricultural and business property: Nelder (2020), [‘Valuation of shareholdings in private companies’](#); Clark & Fu (2020), [‘Valuation of agricultural property’](#).

4 Government impact assessments

The Government has published statistics on the number of estates expected to face an increased Inheritance Tax liability as a result of the reforms. These statistics are limited insofar as they identify estates with APR or BPR claims but do not provide a definition of ‘farm estates’. On this basis, the government’s published figures appear broadly consistent with our own analysis.

With respect to ‘farm estate’ size, our analysis finds that 80% of the additional tax liability arises from the one third (34%) of impacted estates worth in excess of £5 million, whereas less than 1% of the additional liability is attributable to the one in ten (11%) estates valued below £2 million.

In terms of ownership types, we show that owner farmers (representing 17% of all ‘farm estates’) are more likely to be impacted, accounting for 37% of impacted ‘farm estates’. Landowners are less likely to be impacted, representing 64% of all ‘farm estates’ but only 42% of impacted ‘farm estates’.

While it is not possible to identify ‘smaller farms’ directly from HMRC data, our analysis shows that additional tax liabilities are concentrated among estates with the largest APR/BPR claims. For example, estates with APR/BPR claims below £2 million represent 45% of impacted estates but account for only 6% of additional revenues. Conversely, the 5% of estates with claims exceeding £10 million account for 43% of the additional revenue.

Overall, our analysis indicates that the planned reform protects family farms to a large extent. However, we also find that the planned reform could have been better targeted at those using agricultural land as a tax shelter by estates not otherwise involved in farming, which would allow to increase the protection of ‘small family farms’ on a revenue neutral basis.

5 Implementation and transition

In our report, we explore three potential adjustments to the planned reform that could address the concerns raised by farmers and business owners:

5.1 Minimum share rule

A minimum share rule would remove relief from estates for which farm and business assets are a relatively minor share, reducing the use of these assets as a tax shelter. Restricting relief to estates whose APR/BPR claim covers at least 60% of the total estate could fund an increase in the combined allowance for 100% relief to £5 million per estate, whilst still raising at least as much revenue as planned reform overall. This adjustment would better target estates using APR and BPR for tax planning, whilst extending protection for family farms and other businesses.

5.2 Upper limit on relief

An upper limit on relief would be the most direct means to reduce the concentration of relief, which was one of the Government’s stated aims of the reform. If relief was restricted to the first £10 million of claim, with no additional relief above this limit, this could fund an increase in the combined allowance for 100% relief to £2 million per estate. The effect would be to extend protection for family farms and other small businesses, at the expense of larger landowners and businesses.

5.3 Transferrable allowance

Under the planned reform, the Government has said that the combined allowance will not be transferrable between couples, meaning that any unused allowance on the first death cannot be carried over to the surviving

spouse. We suggest that the allowance should be made transferrable, as is already the case for the NRB and RNRB. In the long run, the revenue cost would be small and would save couples from having to engage in tax planning to fully utilise their allowances.

We think that these three adjustments would provide long-term improvements to the reform.

There have been several proposals to implement transitional rules that would exempt gifts made by older farmers from IHT after a shorter period than seven years. We do not endorse this kind of transitional regime. If transitional measures were introduced that allowed individuals currently aged over 85 to make exempt gifts without needing to survive seven years, 54% of impacted estates would stand to benefit, and around 50% of the additional revenue would be at stake. If individuals aged over 75 were to benefit from these transitional measures, then 83% of impacted estates would benefit, with around 83% of the additional revenue at stake.