

IHT agricultural property relief

Synopsis: The Government is seeking views on the taxation of ecosystem service markets, and the potential expansion of agricultural property relief, including explanations of where decisions about land use change have, and have not, been influenced by the current scope of agricultural property relief.

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In the 15 March 2023 Spring Budget, the Government announced that it is exploring elements of the tax treatment of environmental land management and ecosystem service markets.

Part 1 is a call for evidence on the tax treatment of the production and sale of ecosystem service units.

According to the Government, some tax advisers, industry representatives, and the recent Rock Review of tenant farming in England have highlighted a desire to clarify the tax treatment in this area. The aim of this call for evidence is to understand the commercial operations and the areas of uncertainty in respect of taxation.

Part 2 is a consultation about the scope of APR.

According to the Government, concerns have been raised by some tax advisers and industry representatives that the current scope of APR is one potential barrier to some agricultural landowners and farmers making long-term land use change from agricultural to environmental use. The aim is to explore the extent to which the current scope of APR may represent a barrier and, if necessary, potential updates to the scope of the existing land habitat provisions in the relief.

The Government is not considering changes to business relief.

The Government says that it will respond to the Rock Review in full in due course. However, the Government is also using this opportunity to explore in more detail a recommendation in the Rock Review to restrict the application of 100% APR to farm business tenancies of at least eight or more years under the Agricultural Tenancies Act 1995 and secure agreements under the Agricultural Holdings Act 1986.

The Rock Review suggests this would encourage landlords to grant long term tenancy agreements and encourage tenants to enter long-term environmental agreements.

The consultation will run from to 9 June 2023. Any comments or submissions should be sent to personaltaxconsultations@hmtreasury.gov.uk. Alternatively, responses can be submitted to: Personal Tax Team HM Treasury 1 Horse Guards Road London SW1A 2HQ.

Any changes that require legislation in a future Finance Bill will be announced at a future fiscal event in the normal way.

Agricultural property relief (APR)

APR is available for transfers of agricultural property, whether it is owned, occupied or let. It is available for transfers both during lifetime and on death. The relief also extends to certain transfers of shares in companies that own or occupy a farm.

Relief is available at 100% for owner occupied land and qualifying tenanted property where the letting commenced on or after 1 September 1995, including successions to tenancies following the death of the previous tenant on or after that date; 50% for transfers of property where the letting commenced before 1 September 1995.

The property must normally have been owned and occupied for agricultural purposes immediately before its transfer for: two years if occupied by the owner, a company controlled by them, or their spouse or civil partner; or seven years if occupied by someone else, such as a tenant farmer.

For the purpose of the relief agricultural property means agricultural land or pasture in the EEA, Channel Islands and the Isle of Man (prior to 22 April 2009 it was restricted to United Kingdom, Channel Islands and Isle of Man), including short rotation coppice land and farmland dedicated to wildlife habitats under Government Habitat Schemes, and any farmhouses, cottages or farm buildings which are of a character appropriate to the property. So, a large house situated on a small area of agricultural land would probably not be regarded as agricultural property, nor would farm buildings used for purposes other than agriculture.

Agricultural property includes buildings used for the intensive rearing of livestock or fish if they are occupied with agricultural land or pasture and the occupation is ancillary to that of the agricultural land or pasture. Such items as growing crops are included when transferred with the land.

The benefit of APR is also extended to stud farms engaged in the breeding and rearing of horses and to land used for grazing associated with those activities.

Woodlands are included if transferred with other agricultural land if their use is ancillary to the agricultural purposes, for example shelter belts and shade trees. But where woodlands are agricultural property, they are not eligible for the woodland relief. APR is not available on farmland converted to woodland used for the production of commercial timber, but, in this case, woodland relief may apply.

Farmland that is managed in an environmentally beneficial way under the Countryside Stewardship Scheme will usually qualify for APR, providing the land was occupied for agricultural purposes at the time it was brought within the Scheme. It was also announced in the 15 March 2023 Spring Budget (at section 4.33) that the Government will restrict the scope of APR, and woodlands relief, to property in the UK, from 6 April 2024.

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