

Agricultural and business relief proposals - further details on costings

Synopsis: The Office for Budget Responsibility (OBR)’s costings on the reform of agricultural and business IHT reliefs.

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It may be no coincidence that the OBR weighed back into the subject of inheritance tax (IHT) business and agricultural relief on 22 January. The timing coincided with a day when Rachel Reeves was out of the country, wooing Davos attendees, and when [Lidl](#) joined Tesco in calling for consultation on agricultural relief.

The OBR said it was responding to “requests for further information on the costing of changes to agricultural and business property reliefs”. The October 2024 [Economic and Financial Outlook](#) (EFO) costings, shown below, were classed by the OBR as having “high uncertainty” and were considered “unlikely to reach a steady state for at least 20 years”.

Table 3.4: Costing of changes to the inheritance tax regime

	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	0.0	0.0	-0.3	-1.6	-3.0	-3.8
<i>of which:</i>						
Inheritance tax on pension wealth	0.0	0.0	0.0	-0.9	-2.1	-2.6
Changes to APR and BPR	0.0	0.0	-0.3	-0.7	-0.8	-0.8
Extension to threshold freezes	0.0	0.0	0.0	0.0	-0.1	-0.4
Behavioural response	0.0	0.0	0.1	0.5	1.1	1.5
<i>of which:</i>						
Inheritance tax on pension wealth	0.0	0.0	0.0	0.3	0.8	1.1
Changes to APR and BPR	0.0	0.0	0.1	0.2	0.2	0.3
Extension to threshold freezes	0.0	0.0	0.0	0.0	0.0	0.1
Post-behavioural costing	0.0	0.0	-0.2	-1.1	-2.0	-2.3
<i>of which:</i>						
Inheritance tax on pension wealth	0.0	0.0	0.0	-0.6	-1.3	-1.5
Changes to APR and BPR	0.0	0.0	-0.2	-0.5	-0.5	-0.5
Extension to threshold freezes	0.0	0.0	0.0	0.0	-0.1	-0.4

Source: OBR

The OBR’s [Supplementary forecast information release](#) explains how it made the EFO forecast, but does not address the issues raised by bodies, such as the NFU, about the [types of property attracting agricultural relief](#). The main points from the OBR release are...

- *Data.* The main source of data for the costings was HMRC administrative data from 2021/22 on the composition of death estates from IHT400 forms completed by executors. As HMRC do not currently differentiate between types of unlisted shares, to estimate the proportion of business relief claims that relate to shares ‘not listed’ on recognised stock exchanges, HMRC randomly sampled around 300 business relief claims in the 2021/22 data.

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- *Modelling.* The 'static costing' (please see above) applied the proposed new relief measures to an amended version of the existing IHT model (which allows for Office for National Statistics (ONS) demographic projections), taking account of the unlisted shares estimate. The result from this was then compared with the output of the unchanged model. The negative numbers indicate a saving in relief for the Treasury – hence extra revenue.
- *Behavioural response.* As the OBR says, seemingly without irony, "Individuals have a wide range of tax planning options which could be used to respond to these changes". Thus...
 - To allow for "a likely significant increase in the use of spouse exemption by married estates", the OBR assumed that use of the exemption would rise from 25% to 80% in 2026/27 and 95% in the long term.
 - In adjusting for "other tax planning channels", the additional IHT yield from unmarried estates was scaled down from the static costing using an increasing attrition assumption, rising from 5% to 20% over time.
- *Nil rate band freeze.* The OBR notes that the continued nil rate band freeze "has a small upward impact on this costing towards the end of the forecast period".

Comment

The OBR's extra information was already largely in the public domain, so does not take the discussion much further forward. The [NFU](#), like others, noted the OBR's repetition that its figures were in the "high uncertainty" category.

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