Agricultural and business relief

Synopsis: The Centre for the Analysis of Taxation (CenTax)'s proposal to restructure agricultural and business reliefs which could give Rachel Reeves pause for thought...and potentially more tax revenue

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The Budget 2024 proposals to restrict the levels of business and agricultural relief have attracted considerable criticism from the farming sector, with tractors parading down Whitehall and an intensive lobbying campaign from the NFU. That has not stopped the Government pressing ahead, with draft legislation published last month.

The Centre for the Analysis of Taxation (CenTax), a research group headed by some leading tax academics, has thrown what could be a spanner into the works with proposals for further revisions to the way in which the reliefs operate. CenTax's idea is to more closely target the removal of relief on those instances where agricultural land is primarily being used as a tax shelter. The corollary is that 'family farms' would suffer less inheritance tax (IHT) than under the current draft legislation. The same logic would apply to family businesses.

The way in which CenTax achieves this in the agricultural context is to first to consider 'farm estates', rather than farms. It defines a farm estate as the total wealth of an individual who dies owning some farmland and/or other farming assets on which they can claim agricultural/business relief under current law. This definition covers working farmers (including tenant farmers) and investors in farmland.

CenTax's proposal is that only farming estates with business/agricultural relievable assets worth at least 60% of the total estate should be able to claim relief. If that 60% threshold is not met, then no relief would be available. On this basis, CenTax calculates that the combined 100% agricultural and business relief ceiling could be increased from the Government's proposed £1m to £5m per estate, while raising at least as much revenue as under Government's planned reform.

CenTax argue that its revised structure would better target estates using agricultural and business reliefs for tax planning, while simultaneously extending IHT protection for family farms and businesses. The proposals' authors accept that, in isolation, their reform would slightly increase the concentration of relief compared with the Government's draft legislation. They also recognise that, while their proposal might be deliverable by April 2026, implementation on such a short timescale "would likely require some design compromises".

As part of its proposals, CenTax also joins others in saying that the combined business/agricultural relief 100% limit should be transferable between spouses and civil partners in the same way as the nil rate bands. It acknowledges that if this transferability were 'backdated' for individuals whose spouse had already died – as happened with the residence nil rate band - revenue cost would be a consideration. That is presumably why it has not been added to the draft legislation.

Comment

The best summary is CenTax's own...

"If the UK is to have an Inheritance Tax at all, it should apply as equally as possible to all types of wealth. The only economic justification for deviating from this principle is where credit constraints could make it difficult for otherwise profitable farms and small businesses to pay the tax. On this basis, the planned [government] reform is better targeted than the status quo, but it could be better targeted still. Whilst there are no silver bullets, we have sought to explore options that could extend protection for farms and other small businesses whilst further reducing the use of agricultural and business property as a tax shelter."