

Government reveals details of inheritance tax reform on farms and businesses

Eight essential points

On 27 February the government published its consultation on the changes to inheritance tax (“IHT”) announced in the October 2024 Budget.

As is now well known, from 6 April 2026 only £1m of a person’s assets will be eligible for 100% agricultural property relief (“APR”) and business property relief (“BPR”). Beyond that £1m allowance, APR and BPR will be available at only 50%. The widely criticised changes will bring a huge number of farms and businesses into the IHT net.

The consultation clarifies some of the announcements made in the Budget and sets out how the new rules will apply to trusts.



There are a number of technical matters covered, but the eight key points to be aware of are:

- 1** The allowance (like the familiar £325,000 nil rate band) will ‘refresh’ every seven years, meaning that an individual can settle £1m of relievable property into trust every seven years. (There were concerns that the consultation would announce a £1m lifetime allowance.)
- 2** Unlike the £325,000 nil rate band, however, any unused portion of the £1m allowance cannot be transferred between spouses. We expect this point to be widely criticised in the consultation. But on the assumption that the government will not be diverted from its course, individuals should review their wills to ensure that everyone makes full use of their £1m allowance. The fact that the £1m allowance is not transferable may lead families to divide their businesses or farms between themselves in order to use as many allowances as possible. On a related note, the consultation proposes specific anti-fragmentation rules designed to prevent people depressing the overall value of their farm or business by dividing it between trusts and family members.
- 3** Helpfully, any pre-Budget succession planning (i.e. gifts of APR or BPR assets) will be subject to the rules at the time. So if someone dies after next April, but within seven years of having made a pre-Budget gift, the current rules (i.e. full BPR and APR) will apply.
- 4** IHT on agricultural and business property can be paid over ten years in interest-free instalments. As the interest rate on unpaid IHT is currently extremely high, this is helpful.

- 5** On an individual’s death, the £1m allowance will be shared with any trusts in which they have a ‘qualifying interest in possession’.
- 6** Trustees of ‘relevant property trusts’ (i.e. those that are subject to IHT charges every ten years) will have a £1m allowance, which will refresh every ten years.
- 7** Trusts created before the Budget that held relievable property will each have their own £1m allowance. For any trusts created subsequently, the settlor’s £1m allowance will be split between them.
- 8** For trusts created before the Budget, no IHT exit charges will arise on distributions of APR or BPR qualifying assets until those trusts have passed their first tenth anniversary. After the first tenth anniversary, the new regime will apply.

In conclusion, the details set out in the consultation are, in the main, sensible, albeit in the context of what is, for many business owners and farms, an enormously damaging change in the tax code. While we await the draft legislation, those affected by the reforms should seek specialist advice.

Contact us

Please get in touch with your usual Forsters contact to find out more or contact enquiries@forsters.co.uk.

Last updated: March 2025