The Rural Accountancy Group

The Real Impact of the 2024 Autumn Budget IHT Announcements

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On 30 October, following the budget announcements, the Rural Accountancy Group (RAG) met to discuss the impact of the proposed measures on farmers. Since 30 October there has been time to reflect, consider the wider implications and other potential solutions to deal with the perceived policy behind the new measures.

The members of RAG include 10 accountancy firms from across England and Scotland who specialise in farming, estates and rural businesses. There is a core technical committee of 25 individuals from the 10 member firms, most of whom are Chartered Accountants and Tax Advisors and have a huge amount of experience in their field. There are around 200 members in total and the newest members, although not yet qualified in their profession, have a keen interest in the future of land management and the associated tax consequences.

The Purpose of this Report

Given the RAG members act for around 10,000 farming and rural businesses across England and Scotland they are well placed to consider the impact of the proposed measures for inheritance tax (IHT) announced in the autumn budget.

The purpose of this report is to provide examples of the real-life impact on RAG clients, which are typical of the membership's whole client base.

This report also provides potential alternative solutions which RAG consider will have less negative impact on genuine commercial farming and other businesses, while still raising tax and preventing tax avoidance.

The Current Rules

Currently trading businesses can qualify for up to 100% relief from IHT with business property relief (BPR). Further property occupied for the purposes of agriculture can qualify for up to 100% agricultural property relief (APR).

This means most businesses can be handed to the next generation to run, largely without a tax liability. This enables the business to continue in the hands of the next generation, without the need to sell assets, and provides certainty and confidence and the ability to continue to invest in that business for long term growth.

Without the reliefs IHT would be payable on death at 40% on the value of assets in the deceased's estate.

The RAG agree that APR and BPR are used by a minority of individuals to enable them to invest in qualifying assets to reduce their IHT burden on death. The current rules allow investments in businesses to qualify after two years ownership and to be handed down to descendants free of IHT. Further the descendants can sell the assets without paying capital gains tax.

The RAG members consider a smaller minority (below 10%) of their 10,000 client base include businesses set up purely for IHT planning purposes.

The Proposed Changes

The measures announced in Rachel Reeves' Budget mean that from April 2026 the reliefs will be subject to a combined cap of £1M for 100% relief per estate. Value over £1M will only benefit from 50% relief - effectively a 20% tax charge on businesses and agricultural property values of more than £1M.

The Chancellor claimed that the £1M allowance would protect small farms.

What is a Small Farm?

Fig.1

POST APRIL 2026 IHT EXAMPLES Nil rate bands available	£4M	£6M	£10M	£20M
100% relievable APR/BPR assets	£4,000,000	£6,000,000	£10,000,000	£20,000,000
Less;				
100% relief on 2 x £1M allowances	(£2,000,000)	(£2,000,000)	(£2,000,000)	(£2,000,000)
50% relief on remainder	(£1,000,000)	(£2,000,000)	(£4,000,000)	(£9,000,000)
	£1,000,000	**£2,000,000**	**£4,000,000**	**£9,000,000**
Less;				
nil rate bands	(£650,000)	(£650,000)	(£650,000)	(£650,000)
residence nil rate band	(£350,000)	-	-	-
	-	**£1,350,000**	**£3,350,000**	**£8,350,000**
IHT Liability at 40%	**-**	**£540,000**	**£1,340,000**	**£3,340,000**
Annual instalments over ten years	**-**	**£54,000**	**£134,000**	**£334,000**
Estimated annual profits (1% return on capital)	**£40,000**	**£60,000**	**£100,000**	**£200,000**
Estimated annual profits net of income tax	**£36,136**	**£50,936**	**£80,536**	**£138,623**
Number of years to repay using all profits	**-**	**11**	**17**	**24**

Assumptions: Husband and wife jointly own. Will planning utilises RNRB and £1M allowance. No other assets.

Fig.1 provides a summary of the potential impact on businesses depending on the value of the assets qualifying for APR/BPR.

The calculations assume that the business assets are owned by two individuals and, if married couples, their wills are structured in a way that allows them to claim two £1M allowances for APR/BPR (the allowances are not transferable) as well as the IHT free nil rate band (£325K per individual) and the residence nil rate band (£175K per individual) for residences left to direct descendants.

The calculations also assume that the values include all agricultural property as well as business property such as working capital including, livestock, crops in store and in the ground, plant and machinery and goodwill, less liabilities including bank debt, and that the individuals have no other assets outside the business.

Based on the above assumptions, a 'small farm' for a married couple might be worth up to £4M, whereas for a sole owner the value would be up to £2M. Once you remove working capital, this might be a farm of between 100 to 250 acres.

Country Land and Business Association (CLA) confirmed the changes will impact 70,000 farms in the UK. HM Treasury have confirmed 500 farms a year would be impacted.

DEFRA figures confirm there were 209,000 farm holdings in the UK in 2023 and 70,000 of those were over 100 acres, including 40,000 holdings with more than 250 acres.

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Comparing to HM Treasury numbers in 2021-22 there were 500 APR claims on individual estates of more than £1M and 150 claims on individual estates worth more than £2M. Therefore 150 to 500 farms could be impacted by the new rules each year, when purely looking at APR, which suggests that it would take 140 years for the total number of 70,000 farms to be impacted. Clearly the figures do not stack up with each other. There are many reasons for this, including the timing of the historic data, the lack of information on combined claims for BPR and APR and the number of farms and businesses gifted in lifetime, so no claims are required.

Is the Tax Affordable?

As assets qualifying for APR and BPR tend to be illiquid, there is much concern over how the IHT would be funded without a sale of the business or assets used in the business.

There is the option to fund the IHT in instalments over ten years with the first instalment due six months after death. Interest is generally charged over the ten year period, with the interest rate increasing from 6 April 2025 to 8.75% (assuming no Bank of England base rate changes before then). However, where the IHT relates to certain assets qualifying for APR and BPR, if the instalments are paid on time no interest would be charged. This does not include non-agricultural assets used in the business but held outside the business. Therefore, it is important to consider whether the descendants can meet the deadline for each ten year instalment and that the ownership and structure of the assets and business can result in no interest charges.

To enable the instalments to be funded on time, without an interest charge, there would need to be sufficient profits generated in the business over the ten year period. Alternatively, the deceased would need to have sufficient life insurance in place, which comes at a cost depending on age and health.

Can IHT be Funded from Profits?

In 2022/23, a year of higher-than-average farm profits, the Farm Business Survey confirms that the return on capital employed in a farm business was 0.5%, with dairy returns that year at their peak of 4% and livestock at -2%. Dairy returns range from 2% in 2013-14 reducing to -1% in 2015/16 and levelling around 1% for a few years before the peak in 2023. This peak has since fallen back.

Balance sheet analysis and farming performance, England 2022/23 - statistics notice - GOV.UK

Returning to Fig.1, assuming a higher than average return on capital of 1% a year, having paid the annual income tax liabilities, the farm businesses could not afford to fund the IHT out of profits over the ten year period.

Given that profits are required to fund existing debt and HP repayments, new capital purchases and investment, such as new machinery and technology or increasing livestock numbers, as well as providing income for the business owner/s to live, it is not likely to be financially viable for a business to pay the IHT liability over the ten year period.

Therefore, a business is faced with a choice of:

- Taking out life insurance, if affordable
- Funding the IHT over the longer term with bank debt and interest charged
- Selling assets, resulting in reduced profits
- Giving assets away before death

The likely impact of the first three options above is that there will be less capital available in the business to fund growth and investment.

Please refer to the case studies in the appendix. In each case we have found that the IHT cannot be funded over ten years.

It is simply unaffordable out of profits.

Gifting

The availability of APR and BPR combined with the ability to obtain a capital gains tax (CGT) uplift in value on death has encouraged land and business owners to retain qualifying assets until death. These behaviours would need to change, and the new measures will encourage earlier handing on of assets in lifetime, particularly where the IHT is unaffordable. This will provide certainty and security for the next generation investing their time, energy and money into a family business that they may currently have little ownership of.

However, to enable a gift to be effective it must be made more than seven years before death and the donor must not reserve a benefit in the assets given away. To achieve this the existing owners must be able to afford to live without the income from the business. Given the lack of farm profitability, discussed above, there will be a cost to business owners who will need to invest earlier into pensions, so a retirement fund is available, outside of the business.

Further a gift of property is chargeable to CGT. Holdover relief may be available on agricultural property, and certain business assets, but not all. For many farms there is let property income supporting the farm and any gifts of this property would not qualify for holdover relief. Therefore, there would be a dry tax charge with no cash realised to settle the tax liability.

In addition if death occurs within seven years of a gift, which results in an IHT liability, there is potentially a double charge to both IHT and CGT. This is because, where holdover relief has been claimed there is no CGT uplift in the base cost on death.

Other Practical Implications

1 Land Values

There has been much debate as to whether current land values , compared to the returns on capital, is because of investment in land for tax 'avoidance' purposes.

Some commentators suggest that the proposed measures will reduce land values, making it more affordable, allowing more entrants into the industry. However, if that is true, then the amount of tax to be raised by HM Treasury is likely to be lower than their estimated figures.

Many consider, given the proposed measures do not fully remove the possibility for tax avoidance, with relief still available and the tax rate more than halved, land values may not reduce but just hold steady. Further, where the IHT liabilities are unaffordable for family farms, land may have to be sold. If at the same time land remains an attractive investment to minimise IHT, there is concern that more land may come into the ownership of wealthy individuals or corporates.

2 Cost to Administer

In addition to the IHT costs of the new measures, there will be additional cost and administration time dealing with share and working capital valuations. Given these values will become chargeable to IHT we expect there to be more scrutiny by HMRC and the Valuation Office. It will be important that both have sufficient qualified resource to meet the extra demand and for lack of resource and expertise not to put an extra cost and burden onto business owners.

3 Future Banking Serviceability

It is likely that banks will need to consider the impact of the proposed new measures on serviceability of existing and/or new debt. Businesses will probably need to have an IHT succession plan, including life insurance, to deal with the potential future IHT liabilities arising on death, to ensure the business can continue to borrow to invest in the future of the business.

Matt Clapp of Knight Frank Finance commented *"while banks historically have not had to directly fund IHT liabilities in the rural sector, they do now need to consider potential future tax burdens when assessing a borrower's overall financial position."*

Further *"if a significant portion of the borrower's assets are subject to IHT, their available borrowing capacity may be reduced. This is because lenders may factor in the potential need to sell assets to pay the tax."*

4 Investment and growth

Given future IHT liabilities will need to be planned for and met, the cash required to meet the liabilities for IHT, CGT and or life insurance will result in less cash available in the business to invest, to meet regulations or to invest for growth. Please *see case study 4* showing the real impact already of the proposed measures - the shelving of a multi million pound investment to ensure the business can borrow instead to meet future IHT liabilities.

5 Age and Time

Given the new measures have been announced with only 18 months to plan for them, and current land and business owners have planned their succession based on the current measures, many are not able to make gifts, because:

- There is a risk of death within seven years and under the new measures a post April 2026 death would still result in an IHT charge plus a CGT charge on the sale of assets
- Life insurance is unaffordable
- The lifetime dry tax charges are unaffordable
- There is no alternative retirement income to live off

Referring to the case studies in the appendix, given the IHT liabilities cannot be funded out of profits over the following ten years, we have explored other planning measures. In most cases, due to the age of the owners or the profitability of the farms, life insurance is unaffordable, or in some cases impossible. Further, given the low returns in farming, many have not been able to make provision for retirement outside of the farm, so they are reliant on the farm to live. As a result, gifting is difficult and, in some cases, results in a dry CGT charge - a CGT liability with no cash generated to pay the CGT.

Due to previous deaths, in some cases there is only one £1M allowance available, and in many cases, there is a risk that death could occur within 7 years of the gift, so a gift could result in higher overall tax charge under the proposed measures.

The RAG group are already seeing farming and other businesses reducing investment in the business so that cash can be retained, or the ability to take debt out protected, to fund future IHT liabilities. For example, *see case studies 2 and 4.*

Other Solutions to meet the Policy Objectives

The RAG group consider improved measures could be put in place to target the use of land and businesses for tax avoidance.

Currently it is possible to qualify for APR and BPR within two years, making it an attractive investment in the short term to avoid IHT.

To protect genuine commercial farmers and business owners, whilst making it a less attractive investment for tax avoidance, the qualifying ownership period could be lengthened to ten or more years.

Further, as recommended by the Office for Tax Simplification in July 2019 **Inheritance tax review - second report**, a further measure could be to remove the CGT uplift on death where IHT relief has been claimed. That way, where investment in land and/or business is made for the purposes of avoiding IHT, where descendants sell, rather than carry on the business, tax would become payable on the historic gains. The tax rate would be higher than the proposed new measures so, this measure, combined with the above, would likely reduce the use of land for tax avoidance whilst also raising tax.

An alternative to removing the CGT uplift on death where IHT relief has been claimed is to claw back IHT where the relievable assets are sold in a specified period of time.

Removing the CGT uplift could result in unfairness where IHT relievable assets have to be sold to fund failed gifts or IHT on other assets. Further there will be compliance costs with historic valuations required of the base cost which may carry forward through multi-generations.

The above measures would enable genuine commercial businesses to carry on after death without selling assets to fund an unaffordable IHT bill, whilst ensuring those businesses that do not carry on pay their fair share of tax.

Protecting Farms under the Proposed Measures

This paper and the case studies highlight the real impact on many farm businesses who have planned their succession based on the current measures. They highlight the likely hardship which will result in the sale of family farms. There is a fear we may see an increase in the purchase of land for tax avoidance because of the proposed measures, with the availability of more land to the market and the ability to continue to avoid IHT on death through investment in land.

If the proposed measures remain unchanged, HM Treasury should consider enabling farming businesses to plan without a dry tax charge, so protecting future farms.

Measures could include:

- Extending CGT holdover relief to other business assets such as let property
- Retaining the existing measures for land and business owners over the age of 70 years
- Amending the gift with reservation of benefit rules for land and business owners over the age of 70 years
- Providing income tax relief for life insurance

Conclusion

The proposed measures will continue to encourage investment in land for the purposes of tax avoidance. RAG urge Government to consider the alternative measures discussed, which should discourage the investment in land for the purposes of tax avoidance whilst also increasing the tax take and protecting genuine businesses to continue to invest and positively contribute to the economy.

The proposals as they stand are ill-thought through and will force many already struggling hard-working farming families and business owners to adopt behaviour to reduce the impact of the changes in order to avoid the cost and disruption to their business. For many this may result in reduced investment in their business.

This perceived 'wealth', which is by nature illiquid and unavailable for private use, is fundamentally to enable the carrying on of a strategically important business. Being forced to settle tax, including by the sale of assets, could cause irreversible damage. The proposals come at a time of continued low farming profits, on top climate uncertainties and rising costs which further impact profit - these costs cannot be passed on by the farmer to the consumer.

As discussed in this report, and evidenced in the case studies, paying the IHT, even when spread over ten years, is unaffordable by farm businesses. Further, due to low farm profits, most farming businesses have not been able to make pension provisions and life insurance is unaffordable, or impossible.

Some can plan to gift assets in lifetime, but due to lack of income, as explained above, this can be difficult. In addition gifts can result in a dry tax charge and sometimes a double tax charge where CGT and IHT becomes payable.

Given the above, the proposals as announced, are likely to result in permanent damage to the rural and small business sector. Therefore the RAG urge Government to reconsider their proposals, and to protect the rural and small business economy.

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Case Study 1 Chicken Shed Cleanout Business

A contracting chicken shed cleanout business with no land or property, only plant and machinery, has no IHT liability under the existing rules but under the new measures there will be a liability of £196.6K or £19.7K a year for ten years. This requires additional profits to meet the liability of £47K a year. This business will not be able to fund the IHT over ten years.

Although the sole shareholder is in his 60's, some of his children are <5 years old and therefore are not in a position to receive the business or assets. Currently there is no spouse to utilise two £1M allowances. There has been no investment into a pensions as instead the owner has invested in the future of the business. Due to a recent divorce there is no intention to retire any time soon as there is no alternative income.

Case Study 2 Tenanted Farm

A family tenant farm business with 30 acres of owned land and two farm properties running a beef and sheep enterprise and having recently invested in a new dairy has no IHT liability based on the current rules.

The business includes three farming sons and their parents with the tenancy and owned property held in parents' names.

From April 2026 the revised IHT liability is £210K or £21K a year.

The business is profitable but once the business funds its existing liabilities, which include hire purchase finance, bank debt and income tax, then it would have to sacrifice reinvestment to pay this liability. This would put the businesses future at risk.

The parents have already brought their children into partnership giving them a share of the partnership's working capital. If this had not happened the IHT liability would have been in the region of £451k or £45k a year.

The parents will have to consider further gifts of partnership capital and the freehold property. However, the parents have no significant investments or pensions away from the farm. This will severely limit the ability to gift away their share of the business without reserving a benefit. One of parents has recently also had a health scare which will put at risk the ability for lifetime gifts to be appropriate and life insurance unaffordable.

Case Study 3 Beef and Sheep Farm

A hill farm valued at £3.9M after deducting debt is owned by widowed man in his 80s. As such there is only one £1M allowance. Profits are very low and with an IHT liability increasing from nil under today's legislation to £440K under the new measures, £44K a year is unaffordable. In this position the bank is likely to cease lending to the business at the next review early next year, forcing the farm to be sold.

Case Study 4 A Farming and Hospitality Business

An unmarried 80 year old who has already made substantial gifts to the next generation and who remains very much involved in the day-to-day management of the hospitality business faces an increased IHT bill from £45K to £2.8M or £280K a year.

As the assets are held within a limited company, to fund the IHT due on the shares over ten years, dividends would need to be paid. This would require additional profits of £500K a year grossed up to cover the corporation tax and income tax - an overall effective tax rate of 58.75% to fund an IHT tax rate of 40%, total tax rate of 98.75%.

Given age and health, life insurance is unaffordable and a gift may not reduce the tax burden if death occurs within seven years.

As a result of the above the multi-million planned investment in the hospitality business has been shelved to ensure the business can afford debt instead to fund the future IHT liability.

Case Study 5 Mainly owned 500 acres

Mainly owned 500 acres plus commercial lets of old converted farm buildings etc. Has no IHT liability under the existing rules. With the new rules, the liability will be £1.46M or £149K per year, which requires an additional profit of £256,966 before tax. The husband has terminal cancer so gifts are complicated and life insurance is expensive. However gifts for the wife are being considered.

Case Study 6 Mixed arable with Contracting Business

A mixed arable with a contracting business with 407 acres. The contracting business contributes £1.5K of profit. The annual profit pre-capital and drawings is £94K, and post drawings, £25K. The partners are 68 and 32 years old. There would be no IHT liability under the current rules; under the new measures the total liability is £1.07M, or £107K, requiring an additional £184K pre-tax profits.

There is potential for the 68 year old to gift to his son (30) but there is no retirement fund outside of the business so this would be a problem. The family are considering the cost of life cover.

Case Study 7 Potato and Contracting Business

Potato and contracting business with 246 acres. The contracting business contributes £80K profit. Annual profit pre capital and drawings £225K and post drawings £72K. The partner is age 57. From April 2026, the revised IHT liability will be £448K or £45K per year, which requires an additional £77,188 of pre-tax profits.

The family have no viable options to make alternative provisions for the IHT.

Case Study 8 Dairy Farm

A dairy farm of 220 acres, with husband and wife as 50:50 partners. Under the current measures, there would be no IHT liability. Post April 2026, the liability will increase to £245K, or £25K per year. This requires an additional £42K pre-tax profit per year. There is currently insufficient profit to meet the liability.

Case Study 9 Mixed Farming Sole Trade

A sole trade of mixed farming with 220 acres. They have an average break-even cash position for the last 3 years. Their IHT liability would increase from £0 to £672K or £67.2K per year, requiring an additional £116K pre-tax profit per year.

The owner is unmarried and 65 years old so there is only one £1M allowance and pension provision is minimal so they cannot afford to gift the farm. Further, life insurance is unaffordable and there would be CGT liabilities which would not qualify for holdover relief. Therefore, the likely impact is a sale of the farm.

Case Study 10 Cattle and Sheep Business

The 295-acre cattle and sheep business would have no IHT liability with the current measures. Under the new rules, it would increase to £1.36M or £136K per a year. This requires an additional £234K pre-tax profits.

The owner is widowed so only one £1M allowance. Life insurance is unaffordable and CGT liabilities would arise on a gift. Further the individual does not have income to live off outside of the business so cannot afford to make a gift.

Case Study 11 Arable and potato farm

An arable and potato farm with rental property, owning 1000 acres and renting 60 acres. A family partnership between parents and their two sons, profiting £230K per annum with a net cash deficit each year due to capital expenditure. The IHT liability increases from £0 to £3.3M or £328K per year. This requires an additional £565K pre-tax profits.

Due to bank debt property is needed for security outside of trust arrangements. Further, gifts would incur a CGT charge. The business owner is 79 years old with no pension provision or income sources away from the farm. Life insurance is unaffordable.

Case Study 12 Arable, Potato and Cattle Farm

A 1,300 acre arable, potato and cattle farm, with 300 acres owned, 200 acres on AHA and 800 acres on FBT. Their average cash surplus over the last 3 years is £80K a year. Under the current measures, they have no liability, which will increase to £682K or £68K per year post April 2026. This requires additional pre-tax profits of £118K.

Gifts could be made without a CGT liability but with no income away from the farm an income will need to be retained. Life insurance is unaffordable.

Case Study 13 Sole Trade Woodland

1,900 acres of commercial woodland, let land, farm building and rental property in a sole trade. There would be £360K IHT liability under the current rules. Post-April 2024, this will increase to £3.64M, or £328K per year, requiring an additional £619K pre-tax profits.

Case Study 14 Family Partnership

A family partnership of parents and daughter, with 293 acres. Currently there would be £450K of IHT, under the new rules this would increase to £1M, which is a difference of £550K or £55K per year. This requires an additional £94.8K of pre-tax profits.

Case Study 15 Farming Business

A farming business with 742 acres. The average farm profits over the last 3 years is £29K. The IHT pre-April 2026 rules would be £400K, which would increase post-2026 rules to £1.6M, with a difference of £1.2M or £120K per year. This requires an additional £207K per year of pre-tax profits.

Case Study 16 Beef Farm

A 135-acre beef farming business. Figures calculated on a death estate. Pre-death had sold and gifted away most of the land and buildings. Under the current rules, the IHT would be £333K, but under the new rules this would increase to £728K, which is a difference of £395K or £39.5K per year. An additional £68.1K of pre-tax profits would be required.

As the first spouse has already died there is only one allowance.

Case Study 17 Holiday Park and Farm

140-acre farm with holiday park, equestrian, solar and residential lets. The current rules would have IHT £600K, which increases by £1.2M to £1.8M, or £120K per year. This would require an additional £206K of pre-tax profits. The spouse has already died there is only one allowance.

There will be considered gifts and the cost of life insurance.

Case Study 18 Mixed and Sheep Farm

A 130-acre mixed and sheep farm, with rental properties. Under the current rules the liability would be £162K, increasing by £234K to £396K, or £23K per year. This requires an additional £40.3K of pre-tax profits.

They will be considering gifts.

Case Study 19 Farming and Hotel Business

Mr & Mrs X farm in partnership with their grandson. Mr & Mrs X are in their early 80's. The assets in the partnership include c1400 acres of farmland and 9 cottages.
Mr & Mrs X are also partners in a LLP where they run a hotel which currently qualifies for BPR.

Under current rules their joint IHT liability is c£1.75m – in their farm partnership there is 47 acres of development land and the plan was for this to be sold on their death to cover the IHT liability.
If they do nothing, the liability post April 2026 will be c£4.2m.

They could gift their partnership share to their son/grandson and hope to live another 7 years. However, if they die within 7 years the tax liability increases up to £2M.

Given their age and health the life cover quotes start at £13,000 per month. This is prohibitive – even if cancelled after 7 years.

Case Study 20 Arable Farming Company with some personally owned Land

A farmer owns 80% of a small arable farming company alongside 200 acres of personally owned land which is rented to the company. The farmer's two daughters, are both at university and own the remaining 20% of the company equally. Both daughters are likely to succeed and take on the farming operation in the future.

The farmer is 65 and without a spouse, therefore only one £1m allowance is available. He has had a recent health scare which makes lifetime gifts unattractive and risky and life insurance premiums unaffordable.

Under the existing IHT rules there would be a liability of approximately £10,000. The new IHT measures would see this IHT liability increase to £929k, £93K a year.

The pre-tax company profits range from a £19k loss to a £47k profit in the last 4 years which, would be insufficient to distribute funds to pay the IHT liability or borrowing required.

Case Study 21 Arable and Contracting Partnership with 540 owned Acres

Mother (widowed in her 80s) and 3 sons equal partners. IHT liability will increase form £nil to at least £270k each or £27k per annum. This requires additional £45k pre-tax profits per year. Profits are insufficient to fund this liability. Gifts are impractical due to age or affordability. Life insurance for mother is prohibitive.

Case Study 22 Farming and Rental Business

An 830 acre farm with commercial and residential rental units supporting the farm is owned by two brothers, one unmarried and the other widowed. Whilst gifts have already been made in lifetime, the agricultural land is still owned by the brothers who are in their 80's. As a result of the proposed measures, the business could face an IHT liability of more than £4M in the next ten years.

As a result the family are facing selling off offlying land and property to settle the liability. Further, with assets owned in a limited company, an additional tax charge will arise to obtain the cash out of the company to settle the IHT. This effectively doubles the cost to £8M, an almost 100% tax charge!

Disclaimer

This is not intended to be a technical paper, the examples and anticipated consequences of the proposed IHT changes are for illustrative purposes only.

The paper is broad in its coverage and makes high level assumptions in relation to the application of the rules which are by their nature technical, in places the application of allowances and reliefs have been simplified to prevent over complication of the concepts demonstrated. The paper should in no way be taken to constitute tax advice.

The paper also refers at a high level only to IHT and Capital Gains Tax (CGT), the RAG group are aware of wider tax implications and analysis which have not been considered at length in this paper. For example, in respect of Income Tax, Stamp Duty, Stamp Duty Land Tax and VAT, alongside the impact the proposed IHT and other budget announcements will have on National Insurance and employment in the rural sector. These have been intentionally left aside to focus on the IHT implications.