

Policy Report

The Impact of Changes to Inheritance Tax on Farm Estates

August 2025

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Published by

Centre for the Analysis of Taxation

centax.org.uk

This research was funded by the Nuffield Foundation and the abrdn Financial Fairness Trust. Further information about funding sources for CenTax is available via our website. This work contains statistical data from HM Revenue and Customs (HMRC) which are Crown Copyright. The research data sets used may not exactly reproduce HMRC aggregates. The use of HMRC statistical data in this work does not imply the endorsement of HMRC in relation to the interpretation or analysis of the information.

Executive Summary

Background

In the Autumn Budget 2024, the Government announced a reform to Inheritance Tax (IHT) that reduced the reliefs available for agricultural and business property ('APR' and 'BPR'). From April 2026, the first £1 million of combined qualifying agricultural and business property (the 'combined allowance') will continue to receive 100% relief, but above this threshold, relief will be reduced to 50%.

The new combined allowance of £1 million per estate is in addition to the Nil Rate Band (NRB) and Residential Nil Rate Band (RNRB) covering up to £1 million per couple. As a result of the reform, the value of farmland and business assets exceeding these allowances will face an effective tax rate of up to 20%, whereas previously these assets had been tax-free. The tax can be paid in interest-free instalments over ten years.

The reform has proved highly controversial, especially regarding its potential impact on farmers. This report presents the first independent, evidence-based analysis of the impact of the planned reform using HMRC Inheritance Tax data. We provide a detailed impact assessment and model potential adjustments to the reform.

Definition of 'farm estates'

Our analysis focuses on farm estates. A farm estate is not the same as a farm. It means the total wealth of an individual who died owning some farmland or other farm assets on which they claimed relief. This definition encompasses working farmers (including tenant farmers), but also investors in farmland. A farm could be split across multiple farm estates, or a farm estate could own multiple farms. All analysis is uprated to 2027 and presented as the number of estates impacted per year.

Impact of the planned reform

Our findings indicate that the planned reform would significantly reduce the concentration of relief amongst the wealthiest estates, whilst protecting family farms to a large extent. The reform is not well-targeted at reducing the use of APR and BPR for tax planning, although the Government has stated that this was not one of its objectives.

How many farm estates are impacted?

- Between 480 to 600 farm estates per year would be impacted by the reform, meaning that they would pay additional tax if there was no change in behaviour. This estimate accounts for farm estates that only claim BPR, and projected increases in the price of farmland up to 2027.
- Around 205 impacted farm estates per year (43% of all impacted farm estates) potentially comprise 'small family farms', as proxied by estates with a share of APR/BPR in the total estate above 60% and an estate value less than £5 million. These estates contribute 15% of additional tax from the reform.
- Almost a third (32%) of all farm estates currently benefiting from APR and/or BPR have a claim covering less than 20% of the estate, indicating that they were likely passive investors in farmland. The planned reform impacts only 15 of these estates per year (3% of all impacted farm estates), contributing 2% of additional tax.

Which farm estates are impacted?

- Over 80% of the additional tax from farm estates comes from the one third (34%) of impacted estates worth over £5 million. Estates over £10 million contribute 55% of all additional tax from farm estates. Less than 1% of additional tax comes from the one in ten (11%) impacted farm estates valued at less than £2 million.
- Around 10% of the additional tax comes from farm estates where the deceased had a total income under £25,000 per year over the five years prior to death. Almost half (47%) of additional tax would come from farm estates where the deceased had an income over £100,000, including 23% from those with incomes over £500,000.
- We divide farm estates into four ownership types: owner-farmers, tenant farmers, mixed tenure, and landowners. Owner-farmers represent 17% of all farm estates but 37% of impacted farm estates. Landowners are less likely to be impacted, representing 64% of all farm estates but 42% of impacted farm estates.

Would farms need to be sold to pay the tax?

- Almost half (49%) of all impacted farm estates would see a tax increase of less than 5 percentage points (pp). Amongst farm estates worth less than £2.5 million, only 15 estates per year would face an increase larger than 5pp. All of the 25 farm estates per year facing an increase larger than 15pp are valued at over £7.5 million.

- 86% of impacted farm estates could pay their entire IHT bill out of non-farm assets, leaving around 70 farm estates per year that could not. Of these, around 40 farm estates per year would face a residual bill greater than 20% of the farm's income (after tax and depreciation), if paid in ten-year annual instalments.

Alternatives and adjustments

Farm industry bodies have proposed several alternatives to the planned reform. The most prominent is 'clawback', whereby farmland and other business assets would continue to qualify for 100% relief but only if retained by the heirs for at least seven years after death. We conclude that clawback would not meet the Government's stated objective of reducing the concentration of relief and is unlikely to raise as much revenue as the planned reform. It would also not be feasible to deliver by April 2026 due to the major changes in legislative infrastructure and administrative systems required. Instead, we explore the following options:

Minimum share rule

A minimum share rule would remove relief from estates for which farm and business assets are a relatively minor share, reducing the use of these assets as a tax shelter. Restricting relief to estates whose APR/BPR claim covers at least 60% of the total estate could fund an increase in the combined allowance for 100% relief to £5 million per estate, whilst still raising at least as much revenue as planned reform overall. This adjustment would better target estates using APR and BPR for tax planning, whilst extending protection for family farms and other businesses. However, in isolation, it would slightly increase the concentration of relief compared with the planned reform. Moreover, whilst potentially deliverable by April 2026, implementation on this timescale would likely require some design compromises.

Upper limit on relief

An upper limit on relief would be the most direct means to reduce the concentration of relief, which was one of the Government's stated aims of the reform. If relief was restricted to the first £10 million of claim, with no additional relief above this limit, this could fund an increase in the combined allowance for 100% relief to £2 million per estate. The effect would be to extend protection for family farms and other small businesses, at the expense of larger landowners and businesses. This adjustment would be straightforward to deliver by April 2026, if the Government wished. However, if the response by the wealthiest estates was substantially larger than our

central estimate, then it may only be possible to increase the combined allowance to £1.5 million, whilst still raising as much revenue as the planned reform.

Transferrable allowance

Under the planned reform, the Government has said that the combined allowance will not be transferrable between couples, meaning that any unused allowance on the first death cannot be carried over to the surviving spouse. We suggest that the allowance should be made transferrable, as is already the case for the NRB and RNRB. In the long run, the revenue cost would be small and would save couples from having to engage in tax planning to fully utilise their allowances. But in the short run, if transferability was 'backdated' for individuals whose spouse had already died, it must be acknowledged that the revenue cost would be larger.

Conclusion

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 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. We think these options merit serious consideration.

1 Introduction

In the Autumn Budget 2024, the Government announced a major reform to Inheritance Tax (IHT) that reduced the relief available for agricultural and business property. Since 1992,¹ Agricultural Property Relief (APR) and Business Property Relief (BPR) have – in most cases – provided 100% relief for qualifying property. Under the planned reform, from April 2026 the first £1 million of combined qualifying agricultural and business property (the ‘combined allowance’) will continue to receive 100% relief,² but above this threshold, relief will be reduced to 50%. This equates to an effective tax rate of up to 20% on qualifying agricultural and business property in excess of the combined allowance, whereas previously such property had been completely tax free.

At the time of the Budget, the Government stated that this reform would “better target [the relief], as it is not fair or sustainable for a very small number of claimants each year to claim such a significant amount of relief.”³ In her Budget speech, the Chancellor claimed that the £1 million combined allowance “will ensure we continue to protect small family farms”.⁴ However, the reform has subsequently proved highly controversial, most of all in relation to its impact on farmers. Farm industry bodies have disputed the Government’s claims regarding the number of impacted estates,⁵ expressed concerns that a significant number of farms would need to be ‘broken up’ to pay the tax,⁶ and proposed alternative reforms, which the Government has rejected.

This debate has so far been hindered by a lack of evidence. The Government has published statistics on *how many* estates would pay more tax under the reform (assuming no behavioural change), broken down by the type of relief claimed. But this leaves many unanswered questions. For example, does the impact of the reform fall mainly on landowners and investors, or on those who farm for their livelihood? How large is the tax increase for those estates that would have to pay more? How many estates might need to sell farm assets to pay the tax bill? And could adjustments to the planned reform

¹ Prior to this, relief for agricultural and business property had been at less than 100%. For a brief history of APR and BPR, see Appendix B.

² Except for AIM shares.

³ HM Treasury, [“Summary of reforms to agricultural property relief and business property relief”](#), 30 October 2024.

⁴ HM Treasury, [Autumn Budget Speech](#), 30 October 2024.

⁵ See, e.g. CAAV, [‘Budget Confusion and Challenges’](#) 14 November 2024; NFU, [‘An impact analysis of APR reforms on commercial family farms’](#) 25 November 2024.

⁶ See, for example, the response from the Country Land and Business Association (CLA) to the Budget (available [here](#)).

better protect family farms whilst still achieving the Government's other objectives?

In April 2025, a parliamentary report published by the Environment, Food and Rural Affairs (EFRA) Committee expressed concern “that no consultation, impact assessment, or affordability assessment was conducted before the announcement of the reforms.”⁷ In July 2025, the Government published a ‘Tax Information and Impact Note’ (TIIN) with analysis of the age, sex and marital status of individuals whose estates claimed APR or BPR prior to the reform. However, this is currently the only information in the public domain regarding the specific characteristics of impacted estates.⁸ Whilst the EFRA Committee supported reform of APR and BPR to prevent investors from using these reliefs to “shelter wealth”, they added that “The lack of proper evaluation of the impact of these changes means that the scale and nature of its impact on family farms, land values, tenant farmers, food security and farmers in the devolved administrations is disputed and unclear”.

We think there is a strong public interest in providing independent evidence on the impact of the Government's planned reform on farm estates, and on potential alternatives or adjustments to the reform. To do so, we use Inheritance Tax data and other linked data sources accessed via the HMRC Datalab, a secure facility that enables accredited researchers to analyse de-identified taxpayer information.⁹ Although we rely on Government to access the data, the conduct of our research is strictly independent from government. During the course of our research, we have had discussions with both Government officials and external experts from the farming industry. However, choices over how to analyse the data and interpret the results, and how to present the policy options that we consider, are ours alone.

We start (in Section 2) by explaining the data that we use, including its strengths and limitations. In Section 3, we explain our focus on ‘farm estates’ as a subset of all estates covered by Inheritance Tax. In Section 4, we report our findings on the impact of the planned reform on farm estates. For the first time, we provide evidence not only on the *number* of impacted estates, but also their *characteristics* and *how much* extra tax they would pay if there

⁷ EFRA Committee, [‘The Government's Vision for Farming: First Report of Session 2024-25’](#), paragraph 47.

⁸ HMRC, [‘Policy Paper: Agricultural property relief and business property relief reforms’](#) 21 July 2025. This analysis includes statistics on the age, sex and marital status of individuals whose estates claimed APR or BPR prior to the reform.

⁹ For further information see HMRC, [‘About the HMRC Datalab’](#) 11 March 2025.

was no change in behaviour. We also attempt to quantify the key concern raised by farmers that farm assets may need to be sold (and so potentially, farms 'broken up') to pay the tax. In Section 5, we model two potential adjustments to the planned reform that could be used to fund an increase in the combined allowance. We explain the pros and cons of each option and analyse their impact on farm estates compared with the planned reform.

2 Data and approach

In this section, we describe the main data sources used in our analysis and some general steps in how we process the data. Additional information about data sources and methodology is discussed in subsequent sections alongside the relevant findings, with further details in Appendix A.

2.1 Inheritance Tax data

Our analysis is based primarily on data from Inheritance Tax returns. HMRC currently digitises information from all taxpaying IHT400 returns, plus a stratified random sample of non-taxpaying returns. The variables in the data are captured directly from the boxes on the tax return as reported by taxpayers. In very simple terms, the dataset is like a giant table with rows of individual estates, and columns corresponding to individual boxes on the tax return, or for some variables the sum of multiple boxes. This is the same dataset that Government analysts use for policy modelling and official IHT statistics.¹⁰ In the data we access, all directly disclosive information such as names and full addresses have been removed to protect taxpayer confidentiality.

The unit of analysis in IHT data is an ‘estate’ as defined for tax purposes. When we refer to an ‘estate’ in this report, we mean the property of an *individual* (the ‘deceased’) who died in the tax year in question, where the size of their estate is the *net value of all of their assets minus any outstanding debts*, as charged for IHT purposes.¹¹ To be clear, we never refer to an estate in the colloquial sense of ‘landed estate’, and any overlap between landed estates and ‘farm estates’ as we define them would be partial and coincidental. It is also important to emphasise that given the IHT definition of an estate, all of the data that we analyse from IHT returns relates to the circumstances of the individual who has died and the value of *their share* of the assets they owned. IHT data do not include any information about co-owners, spouses or heirs, or any of the assets that they owned.¹²

¹⁰ For certain purposes, Government analysts supplement this dataset using additional sampling of paper returns (for example in relation to AIM shares), which we are not able to do.

¹¹ Section 4(1) Inheritance Tax Act 1984. Unless otherwise stated, when we refer to ‘estate size’ we also include chargeable lifetime transfers made within seven years of death (which are charged on death, albeit not part of the deceased’s estate as such).

¹² However, as we explain below, we are able to use linked Self-Assessment tax data to obtain some information about the deceased’s business partners.

The asset values reported for IHT purposes should be the price which the asset would fetch if sold in the open market (the ‘open market value’).¹³ Under current rules, taxpayers are required to provide valuations for their qualifying agricultural and business property, even where there is no tax at stake due to 100% relief. We discuss potential sources of valuation errors in Appendix C. Our conclusion is that whilst there are likely to be errors in individual cases, we do not think that reported valuations are likely to be significantly biased upwards or downwards overall. In any case, there seems no reliable way to correct for such errors, so we do not attempt any adjustment to reported values other than uprating to 2026-27, as described below.

Where the estate claimed APR or BPR, we observe the value of relief claimed, for each type of relief. This value may be less than the full open market value of (the deceased’s share of) the qualifying agricultural or business property, for three main reasons. First, for BPR the value relieved excludes any assets that, although comprised in the relevant business property, were not used wholly or mainly for the purposes of the business (‘excepted assets’).¹⁴ Second, for APR, the value relieved is the value that the agricultural property would have if it could only ever be used for farming (the ‘agricultural value’),¹⁵ which can be lower than the open market value.¹⁶ Third, there can be circumstances under current rules (i.e. prior to the planned reform) where relief is restricted to 50%,¹⁷ although in practice almost all relief was granted at 100% for the estates that we analyse.

2.2 Uprating to 2026-27

The IHT data that we use covers all deaths that occurred during the tax years 2017-18 to 2021-22 (inclusive), for which an IHT return was filed. For brevity, hereafter we refer to tax years by the later calendar year e.g. 2021-22 is stated as 2022. For most analysis, unless otherwise specified, we report our findings as the annual average over the five-year period covered by our data. This approach helps to smooth volatility resulting from outliers or shocks in specific years. It also increases the total number of individual observations

¹³ Section 160, Inheritance Tax Act 1984. Strictly what must be valued is the *deceased’s share* of ownership, subject to various rules for valuing minority shareholdings etc.

¹⁴ Section 112, Inheritance Tax Act 1984.

¹⁵ Section 115(3), Inheritance Tax Act 1984.

¹⁶ For example, where the land has development potential (i.e. planning permission or the prospect of planning permission for non-agricultural purposes). In such cases, the excess value above the agricultural value may be (partly) relieved by BPR if the land was farmed in hand by the owner.

¹⁷ Section 104(1)(b) and Section 116(2), Inheritance Tax Act 1984.

underlying each statistic, which ensures that we can provide more detailed breakdowns of results without breaching statistical disclosure rules.

We take two steps to adjust the source data so that as far as possible it provides an accurate projection of the relevant population in 2027, the first year of the reform.¹⁸ First, we uprate for changes in asset prices. Whereas the Government's modelling used standard OBR determinants that rely on broadly defined asset classes (equity prices, house prices and household cash deposits),¹⁹ we specifically uprate the value of claims for APR using an average of industry indices for outturn and forecast changes in farmland prices up to 2027. Second, we account for projected changes in the number of deaths per year by applying weights to the observations in our study population based on ONS population projections for 2027.

2.3 Additional linked data

The statistics relating to the impact of the planned reform that have been published by the Government rely exclusively on IHT data. However, many of the questions around the reform focus on the impact on the farms that are owned by the individuals whose IHT bills would increase. Unfortunately, it is not possible to link IHT returns directly to the specific farm (or farms) listed on the return because this information is not currently captured systematically for data analysis purposes. However, we can gain some insight into the farm business(es) owned by the deceased by linking IHT data with a variety of other tax data sources.

First, we link data from the deceased's SA100 return (including supplementary pages) and PAYE records, for each of the five years preceding their death. This provides detailed information about the deceased's income over this period.²⁰ Second, we also link data from all of the partnership returns (SA800) of which the deceased was a partner. This allows us to observe the entire income of the business, not only the deceased's share. Third, we also link data from the Corporation Tax return (CT600) of any company where the deceased was a (remunerated) director. We only treated linked partnerships or companies as a 'farming business'

¹⁸ When using pooled data for 2018-2022, we uprate each year individually to 2027 prices/deaths, prior to averaging.

¹⁹ See further OBR, '[Supplementary release: Costing of changes to agricultural and business property relief](#)' 22 January 2025.

²⁰ We observe the deceased's total taxable income, which we can break down into income from employment, trading (from self-employment or partnerships), pensions, savings, property, dividends and any other investments.

when the business description is classified under ‘agriculture, forestry and fishing’ using the Standard Industrial Classification.²¹

We always use the average income (for each source) over the five full years before death, to reduce the effects of volatility in income from year to year. This is in line with the averaging rules that farmers are permitted to use for tax purposes,²² although we average even where averaging relief was not claimed. As with the IHT data, since the source data that we use to measure incomes is historical, we uprate the values observed in each year of the data to account for income growth up to 2027. We provide further details of the specific income measure that we use – for example, including or excluding pension income, pre or post tax, and including or excluding the costs of depreciation and/or capital expenditures, etc – together with each relevant finding, since the most appropriate measure to use depends on the context.

2.4 Comparison with other statistics

Using tax data has two important advantages compared with other data sources and statistics. First, notwithstanding some limitations that we have explained, IHT returns provide by far the best available data source on the value of all assets owned by the deceased at the date of death. By contrast, other administrative or survey data collected at farm level require several strong assumptions about how ownership of the farm is split, the existence of liabilities, and timing of deaths, to infer any information about the (share of) farm assets owned by an individual farm owner at death. Moreover, these data do not cover the non-farm assets held by individuals who own farms. For both of these reasons, we think that farm-level surveys – such as DEFRA’s farm business survey – are not an appropriate data source for estimating the tax implications of reforms to IHT.

Second, the IHT data that we use is at the level of *individual estates*. This means that we can split our analysis along many different dimensions such as estate size, amount of APR/BPR claimed, region where the deceased lived, their marital status, age, etc. This is a major advantage compared with using existing statistics published by HMRC that are highly aggregated and offer limited breakdowns by characteristic. However, the breakdowns that we can produce are subject to two limitations. First, we can only split by characteristics that we can observe using the IHT data and our linked data

²¹ This equates to SIC code ‘A’. For companies, this classification is obtained using information submitted to Companies House. For partnerships, it is based on HMRC’s algorithmic classification of the free text information provided in the ‘business description’ box on SA104.

²² Sections 221-225, Income Tax (Trading and Other Income) Act 2005.

sources. Second, we are subject to strict rules of 'statistical disclosure control' meaning that we cannot report very fine breakdowns where the information might identify individual estates, since this would compromise taxpayer confidentiality.

Notwithstanding these important advantages compared with other statistics, we would not claim that the data that we use are perfect. At various points in our analysis, we have to make assumptions owing to data limitations or use proxies for information that we would ideally have observed directly. We have tried to be as transparent as possible where this is the case, and to consider carefully how deficiencies in the data might affect our interpretation of the results. We strongly welcome the announcement at the Autumn Budget 2024 that the IHT system will be fully digitised by 2027-28, since this provides an opportunity to improve the information available for statistical analysis and policy evaluation in the future.²³ As part of this process, we would urge the Government to consider what information may be needed for policy evaluation purposes as well as for administration of the current system.

²³ HM Treasury, Autumn Budget 2024, paragraph 5.16. We note that an online service for IHT was previously announced in the Autumn Statement 2013 for implementation by 2015-16: HM Treasury, ['Autumn Statement 2013'](#), paragraph 2.64.

3 Our focus on farm estates

The reduction in APR and BPR under the planned reform applies to all types of business, not only farms. However, public debate has gravitated strongly towards the implications for farming, in particular. This likely reflects several factors, including the importance of farming to local communities, the role of farming in food security and environmental management, and wider concerns regarding the economics of the farming sector. Recognising the heightened public interest in the impact of the reform on farming, our report focuses on ‘farm estates’ as a subset of all the estates that are (or would be) liable to pay IHT each year.²⁴ In this section, we start by explaining the challenge of defining ‘farm estates’ and how this has been approached in existing statistics. We then outline the definition that we use throughout this report. Finally, we provide results on the total number of farm estates that filed an IHT return, applying our definition.

3.1 Background

There is no universally accepted definition of a ‘farm estate’. At its broadest, a farm estate could potentially include any estate that holds any amount of farmland or farm assets (e.g. machinery, livestock, etc). More narrowly, some might prefer to restrict the definition only to estates where the deceased was an ‘active’ farmer,²⁵ or – not necessarily equivalent – where farmland or farm assets comprise the main source of wealth. It is worth emphasising what is (and is not) at stake here. We are not attempting at this stage to determine how many farm estates are *impacted* by the reform.²⁶ Instead, the purpose is to define the scope of our *study population*, or in other words the widest set of estates that we include in our analysis. We can then further sub-divide these estates according to different characteristics and according to whether the estates would be impacted or unimpacted by the reform.

In the context of questions about the impact of the reform on farming, the Government has frequently referred to statistics on the number of impacted estates claiming APR (including those claiming APR *and* BPR).²⁷ These

²⁴ In principle, similar analysis could be reproduced for non-farm estates impacted by the reform to BPR, but this is outside our scope.

²⁵ Of course, there would then be further questions about how to define ‘active’.

²⁶ For this, see Section 4.1.2 below.

²⁷ See e.g. HM Treasury & DEFRA, [‘News Story: What are the changes to agricultural property relief?’](#) 5 November 2024: ‘The government is committed to supporting farmers and rural communities, including helping families to pass their land on to the next generation ... Reforms to agricultural property relief are expected to affect the wealthiest 500 estates

statistics have been widely interpreted as providing information about the number of impacted farm estates, although the Government has never explicitly made this link. Farm industry bodies have criticised reliance on these statistics on two main grounds.²⁸ First, it has been argued that claims for APR are *underinclusive*, because they exclude tenant farmers who do not own any farmland and therefore only claim BPR. Second, it has also been argued that the definition is – in other respects – *overinclusive*, because it encompasses investors in farmland and non-commercial farmers that claim APR.

Whilst these criticisms have some merit, they are difficult to resolve, and any alternative approach is bound to be somewhat contentious. Nevertheless, we think that it is possible to accommodate both issues, and we attempt to do so in this report. First, we address the issue of tenant farmers by extending our study population to cover *some* estates that claimed BPR only, where additional factors indicate that the deceased owned a business that engaged in farming activity. Second, we do *not* restrict our study population to ‘commercial farms’, due to difficulties in defining and measuring precisely what should count as an ‘estate that holds a commercial farm’.²⁹ However, we do develop indicators that help approximate the prevalence of commercial farms (and landowners and non-commercial farms) within impacted and unimpacted farm estates.

3.2 Definition of ‘farm estate’

The definition of ‘farm estate’ that we use throughout this report comprises the following types of estate:³⁰

- (i) **Estates claiming APR (including those claiming APR and BPR).** This is the category used in existing statistics released by the Government. All estates claiming APR must by construction have some connection to farming, even if minor as a share of the total estate. This group includes landowners that *only* claim APR, as well as owner-farmers and mixed-tenure farmers that claim both APR and BPR.
- (ii) **Estates claiming BPR only, with farm assets or farm activity.** This category seeks to capture tenant farmers who do not own any farmland and therefore only claim BPR on their farm assets. We

each year with smaller farms not affected by the changes.’ See also James Murray, Exchequer Secretary to the Treasury, Response to Parliamentary Question tabled 5 February 2025, [UIN 29334](#).

²⁸ NFU, [‘An impact analysis of APR reforms on commercial family farms’](#), 25 November 2024.

²⁹ For example, should a very large estate that holds one commercial farm representing a small share of the total estate, qualify for this purpose?

³⁰ For further details on how we define each of these categories, see Appendix Section A2.

cannot include all estates claiming BPR, since most of these will relate to businesses that have nothing to do with farming. We therefore restrict this category to estates that claimed BPR *and*: (1) the estate reports farm assets; *or* (2) the deceased received income from farming within the past five years.

- (iii) **Estates with no APR/BPR claim, with farmland and/or farm assets and claiming spouse exemption.** This category aims to cover estates that would likely have been eligible for APR or BPR but did not claim it because the estate was already covered by other available reliefs. We restrict this category to first deaths where the estate reports farmland and/or farm assets *and* the estate was fully covered by a claim for spouse exemption.

This definition encompasses a broader range of estates than just those comprising (what might be regarded as) ‘commercial farms’, which has been the focus of analysis by the National Farmers Union (NFU) to date.³¹ We recognise that using a broader definition will tend to reduce the *share* of farm estates that are impacted by the reform, by including estates that have relatively minor interests in farming and are fully covered by the combined allowance for APR/BPR. However, we would emphasise that starting with an overly narrow definition of our study population could lead us to underestimate the *number* of impacted farm estates including some that could be thought of as commercial farms. Our aim is to fairly balance these risks in both directions.

To this end, we adopt a conservative approach to defining the scope of the third category, because – by construction – these estates cannot be directly impacted by the reform given that they did not claim APR or BPR.³² In these circumstances, we do not face any risk from underestimating the number of impacted farm estates, but overinclusion in this category could lead us to underestimate the *share* of farm estates impacted by the reform. Consequently, we think it is safer here to adopt a narrow definition. For the same reason, we do not include any other estates that report farmland and/or farm assets without claiming either APR or BPR, even though these could include (for example) estates with farmland that has not been held long enough to qualify for APR, but which are nevertheless (newly owned) commercial farms.

³¹ NFU, [‘An impact analysis of APR reforms on commercial family farms’](#), 25 November 2024.

³² Although it is possible that such estates may now choose to use APR/BPR to make bequests to non-spouses as part of tax planning on the first death, so in this respect could be considered indirectly impacted even though there would be no additional payment of tax.

3.3 Number of farm estates

Based on our definition, we identify an average of 1,570 farm estates per year over the five-year period from 2018-2022, representing less than 1% of all estates that filed an Inheritance Tax return. Table 1 breaks down these estates into the three categories described above, with a further breakdown of the first category into estates that only claimed APR and those that claimed both APR and BPR.

Table 1: Farm estates by claim type in 2027

Estates claiming	Number of farm estates per year		Total APR and BPR claimed	
	<i>Number</i>	<i>Share of farm estates</i>	<i>£m</i>	<i>Share of farm estates</i>
APR, of which:	1,430	91%	2,139	93%
- APR only	810	52%	516	22%
- APR and BPR	610	39%	1,623	71%
BPR only	140	9%	163	7%
No APR/BPR	10	1%	-	0%
Total	1,570	100%	2,302	100%

Notes: The annual population of farm estates and the total value of relief are obtained by taking the five-year average over 2018-2022 in each claim type category. All data are uprated to 2027 (for details, see Appendix Section A1). The counts are rounded to the nearest ten so totals may not sum due to rounding. 'Total APR and BPR claimed' means the value on which relief was claimed, not the amount of tax relieved. BPR only claims refer to those with farm assets or farm activity (for details, see Appendix Section A2). No APR/BPR claims are those where the estate has farm assets and is entirely covered by spouse exemption.

Source: Authors' calculations based on HMRC administrative datasets.

Perhaps unsurprisingly, by far the majority of estates that we define as farm estates (91%) claim APR. Around half (52%) of all farm estates only claim APR, indicating that they may be landowners who let the land rather than farming it themselves. These landowner estates represent a much smaller (22%) share of relief claimed, which indicates that there are a large number of estates claiming APR with relatively small claims for relief. By amount of relief claimed, most APR and BPR (71%) goes to farm estates that claimed both types of relief, indicating owner-farmers or mixed-tenure farmers who own farmland (qualifying for APR) and other farm assets (qualifying for BPR). It is also possible that some BPR claims are unconnected with farming, even when claimed by a farm estate, and we are unable to observe the specific assets on which BPR was claimed.

Turning to our two novel categories of farm estate, we find that BPR-only claims – which we treat as the best available proxy for tenant farmers – comprise only 9% of all farm estates (7% by amount of relief claimed). It is important to emphasise that our data excludes estates valued at less than the nil rate band (£325,000), some of which may be estates owned by tenant farmers, although by construction these would not be impacted by the planned reform. Finally, our category of farm estates with no APR/BPR claim turns out to be trivially small: only around 10 estates per year (based on pooled data from 2018-2022), representing less than 1% of all farm estates. This provides some reassurance that we are not missing a large class of farm estates that would be eligible for APR or BPR but which did not make a claim due to the availability of spouse exemption.

4 Impact analysis

The Government has published statistics on the number of impacted estates broken down by type of relief claimed. However, there remains a lack of statistical evidence on the characteristics of these estates, how much they would be impacted, and whether – as farm groups have claimed – they would need to sell farm assets in order to pay the tax. This void has instead been filled by anecdotes which – even when informed by expert opinion – make it difficult to get a sense of scale for each of the concerns that have been raised. In this section, we aim to address these gaps in evidence. Whilst data limitations and space constraints mean that unfortunately we cannot supply answers to every question that might be asked about the reform, we have attempted to focus our analysis as far as possible on the key issues that have animated the public debate to date.

4.1 How many farm estates would be impacted?

In this section, we provide independent analysis of the number of impacted farm estates, using the definition of ‘farm estate’ that we adopted in Section 3. We start by explaining how we define and model an ‘*impacted*’ farm estate. We then provide our results and discuss how we think these should be interpreted. As well as providing the number of impacted farm estates, we also provide estimates of the share of all additional revenue from the planned reform that comes from these estates. Finally, we discuss how tax planning on the first death within a couple – as one likely behavioural response to the planned reform – might affect how many impacted farm estates would actually end up paying additional tax as a result of the reform.

4.1.1 Definition of ‘impacted’

We define an estate as ‘impacted’ where it would pay additional Inheritance Tax as a result of the reduction in APR/BPR to 50% relief above the £1 million combined allowance (the ‘planned reform’), if there was no change in behaviour.

This definition encompasses two important elements. First, like the Government’s estimates,³³ it is based on ‘static’ impact meaning the additional tax liability if there was no change in behaviour. Some estates that are classified as impacted under this definition may not actually pay any additional tax in practice, if individuals who would be liable manage to negate their liability by responding in anticipation (for example via

³³ HM Treasury, [“Summary of reforms to agricultural property relief and business property relief”](#), 30 October 2024; HM Treasury, [Letter from the Chancellor to the Chair of the Treasury Select Committee](#), November 2024.

increased tax planning). In line with the standard economic approach to assessing the distributional effects of tax policy changes, we think it is still right to treat these estates as impacted, because the deceased (during their life) is still ‘worse off’ as a result of taking action that they would otherwise have preferred not to take.

Second, unlike the Government’s estimates, we model the impact of the reduction in APR/BPR to 50% relief above the £1 million combined allowance independently of the reform to BPR on AIM shares.³⁴ In the data available to us, we are unable to observe AIM shares distinct from other assets on which BPR was claimed and we do not have access to the bespoke sampling of IHT returns that Government analysts used to model the revenue effects of this aspect of the reform. In any case, to model the *distributional* effects of both reforms together, it would be necessary to have detailed information about how AIM shareholdings vary according to all of the characteristics used in the analysis. As far as we are aware, the Government also currently lacks this information.³⁵

To implement our modelling, we use data covering all estates between 2018–2022, but with asset values and deaths uprated to 2027.³⁶ ‘Farm estates’ are defined as in Section 3. We proceed in three steps to model the impact on each estate: (1) model the IHT liability applying the tax calculation under status quo;³⁷ (2) model the IHT liability applying the tax calculation under the planned reform (APR/BPR reduced to 50% above £1 million combined claim); (3) define the estate as ‘impacted’ if the IHT liability under (2) is greater than under (1). This determines our population of impacted farm estates, which we use for the other impact analysis in this section.

4.1.2 Number of impacted farm estates

We present our estimates of the number of impacted farm estates using source data for a five-year period (2018–2022) and for the most recent available year (2022), in both cases uprated to 2027.³⁸ This is because it is not obvious which is the most appropriate source data to use when projecting

³⁴ In other words, the reform to AIM shares is not included in the counterfactual policy that we model.

³⁵ Information on AIM shareholdings was obtained via a random sample of 300 BPR claims in 2021–22: OBR, [‘Supplementary release: Costing of changes to agricultural and business property relief’](#) 22 January 2025. This sample would not be large enough to analyse the joint distribution of AIM shareholdings with other characteristics.

³⁶ See further Section 2.2.

³⁷ This will differ from the outturn liability for the estate in the source data, as a result of uprating asset values to 2027. We also account for any additional tapering of the Residential Nil Rate Band (RNRB) as a result of this uprating. See further Appendix Section A1.1.2.

³⁸ See further Section 2.2.

the number of farm estates impacted in 2027. On the one hand, using a five-year average helps to smooth out volatility in the number of APR/BPR claims from year to year. On the other hand, there has been an increasing (albeit volatile) trend in IHT liabilities over the past decade.³⁹ In this case, in the absence of cohort effects,⁴⁰ the best approach would be to take the most recent available year as the baseline for estimating the number of impacted farm estates in 2027. We think that either approach is valid methodologically, since it is not clear whether volatility or the trend growth in IHT revenues is more important.

Table 2 provides summary statistics on the number of impacted farm estates under both approaches. Using source data for a five-year period (2018-2022), we estimate that 480 farm estates per year would be impacted by the reform in the first year of the reform (2027), representing 31% of our population of farm estates. Using data from the most recent available year only (2022), we estimate that 600 farm estates per year would be impacted in 2027, representing 30% of all farm estates. The share of all farm estates impacted by the planned reform is similar under both approaches even though the absolute number of impacted estates is larger under the latter, because using the most recent year results in an increase in the total size of the farm estate population as well as the number of impacted farm estates.

To summarise, we estimate that the number of impacted farm estates is between 480 and 600 estates per year, depending on whether source data from a five-year period or the most recent available year is used, respectively. We also estimate that just under one third (30% or 31%) of all farm estates would be impacted by the reform, and this holds whichever period of data is used.

³⁹ The same trend is not present in the number of taxpaying estates. Since 2015, the number of taxpaying estates has been fairly stable, ranging from 22,000 to 28,000 (around 3.5% - 4.5% of all UK deaths).

⁴⁰ For the population at large, current generations of older households are significantly wealthier than those that went before them, even when compared at the same point in their lifecycle, largely because of increased homeownership and private pension wealth. See Advani & Sturrock (2023), 'Reforming Inheritance Tax', IFS Green Budget 2023 for details on cohort effects in IHT receipts. There is no quantitative evidence on this for farm estates specifically, but it is likely that these cohort effects are less relevant for owners of farm estates than for other estates, given the relatively fixed supply of farmland.

Table 2: Estimated number and share of impacted farm estates in 2027

Estates claiming	2018–2022 average			2022		
	<i>Total impacted farm estates</i>	<i>Share impacted out of claim type</i>	<i>Share impacted out of farm estates</i>	<i>Total impacted farm estates</i>	<i>Share impacted out of claim type</i>	<i>Share impacted out of farm estates</i>
APR, of which	450	31%	28%	550	31%	28%
- APR only	110	14%	7%	130	13%	6%
- APR and BPR	330	54%	21%	420	53%	21%
BPR only	30	25%	2%	50	20%	2%
Total	480	31%	31%	600	30%	30%

Notes: ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. Two impact estimates are provided: based on a five-year average over 2018–2022 and on 2022 (with uprating to 2027). All counts are rounded to the nearest ten. ‘Share impacted out of claim type’ is the number of impacted estates as a share of all farm estates in that category of claim type. ‘Share impacted out of farm estates’ is the number of impacted farm estates as a share of all farm estates. BPR only claims refer to those with farm assets or farm activity (for details, see Appendix Section A2). Cases of farm estates with no APR/BPR claims (i.e. where the estate has farm assets and is entirely covered by spouse exemption) are excluded from this table as they are not impacted by the reform by definition.

Source: Authors’ calculations based on HMRC administrative datasets.

In the policy paper published alongside the Autumn 2024 Budget, the Government estimated that ‘The reforms are expected to only affect around 2,000 estates each year from 2026 to 2027, with around 500 of these claiming agricultural property relief’.⁴¹ In a subsequent letter to the Treasury Committee published in November 2024, the Chancellor provided further information and a more precise estimate of 520 impacted estates with a claim for APR.⁴² This estimate was based on data from 2022, uprated to 2027 in line with OBR projections for asset price inflation and deaths.

Using the same source data (2022) and restricting our definition of farm estates to estates that claimed APR, we obtain a very similar estimate of 550 impacted estates. Our slightly higher estimate is likely attributable to the fact that we adopt a different method for uprating the value of farmland.⁴³ Perhaps more significantly, our analysis indicates that the Government’s use of 2022 data (uprated to 2027) happens to result in a *larger* number of impacted farm estates than if a five-year annualised average had been used

⁴¹ HM Treasury, [“Summary of reforms to agricultural property relief and business property relief”](#), 30 October 2024.

⁴² HM Treasury, [Letter from the Chancellor to the Chair of the Treasury Select Committee](#), November 2024.

⁴³ See further Section 2.2.

instead, since the equivalent estimate based on data from 2018-2022 was 450 estates.⁴⁴

For the remainder of our analysis (after Section 4.1.4), we use five-year annualised averages (based on source data from 2018-2022) rather than the most recent year only. This *not* because we strictly prefer this approach to estimating the number of impacted farm estates. Instead, it is purely because this approach provides us with a much larger dataset, which has two key advantages. First, it reduces our sensitivity to outliers. This is important since we are working with a relatively small and highly skewed population, and even more important when breaking down this population according to multiple characteristics. Second, using five years of data helps reduce the risk of breaching statistical disclosure controls, which are safeguards that prevent our results from being used to identify individual estates. For ease of comparison with other statistics we always present our results as the *annualised average*, but the underlying number of estates is five times this amount.

4.1.3 Interpretation of results

Since the methodology and data that we use to obtain our estimate of the number of impacted farm estates is very similar to the Government's, it is perhaps unsurprising that we reach similar results. One advantage of this similarity in approach is that the additional impact analysis we present in the remainder of this section can be understood as starting from a very similar baseline to the one that the Government has adopted. In turn, this means that the results of our impact analysis should be largely comparable to those that the Government would produce internally, given that it would be starting from very nearly the same definition and modelling of impacted estates. On the other hand, the similarities in approach mean that our analysis will be subject to many of the same criticisms or caveats that have already been levelled against the Government's statistics. For the purpose of clarification, we discuss the most important of these below.

First, our estimate of the number of impacted *farm estates* should not be taken as the number of impacted *farms*. A farm estate refers to the share of all assets net of any outstanding debts owned by the deceased (comprising both farm and non-farm assets), where the estate meets the criteria that we set out in Section 3.2. The farm estate of a wealthy individual might comprise

⁴⁴ This does not imply that the Government was wrong to use 2022 source data (uprated to 2027) for the purpose of estimating revenue from the reform: as we note above, either approach is methodologically valid, and using the most recent available year of data is the standard approach for OBR costings.

multiple farms, while the assets of a farm may be part of multiple farm estates, for example where ownership is shared between family members, or the farm is owned by a partnership or company with multiple partners/shareholders. Moreover, different parts of the same farm might also be owned by different individuals: for example, the land may belong to one (landowner) estate, while the machinery and livestock belong to another (tenant farmer) estate.

Second, our analysis starts from a relatively broad definition of ‘farm estate’. As we explained in Section 3.1, this increases the *number* of impacted farm estates but will also tend to decrease the *share* of impacted farm estates. We think that this trade-off is justified, and the downsides can be addressed by further breaking down the population of impacted and unimpacted farm estates, as we do in Section 4.2 below. Nevertheless, we emphasise that our estimate of the share of all farm estates that would be impacted by the planned reform should *not* be interpreted as the share of estates comprising commercial farms (let alone the share of commercial farms) that would be impacted. We attempt to provide some tentative evidence on the latter question in our analysis of the share of farm income in total income of the deceased, in Section 4.2.4.

Third, our analysis always refers to the number of estates (or revenue, etc) *per year*. This is standard in most analysis of tax policy. However, we acknowledge that there is a legitimate interest in the number of farm estates that would be impacted ‘over a generation’, or (which is different) the total number of individuals alive today who would face an additional tax liability as a result of the planned reform *if* they died in the first year of the reform. It would of course be possible to multiply our annual estimates by (say) 30, to provide a very rough approximation of the impact of the reform over a generation. However, this requires strong assumptions about how the size and ownership structure of farm estates evolves over time, amongst other factors. We prefer to limit the number of assumptions applied to the data in order to be as transparent as possible, especially since this does not preclude others from transforming our results to estimates over longer time periods.

Fourth, our analysis is of the *direct financial impact* of the planned reform on farm estates. We acknowledge that concerns have also been raised about the non-financial impacts of the reform on mental health and the wider economic impacts on investment and employment in the farming sector. We agree that these effects matter, and we think that it would be valuable to have further evidence on them. Unfortunately, we are unable to analyse

the non-financial impacts or wider economic impacts of the planned reform using the data available to us. We note, without condoning, that impact assessments of tax reforms almost never directly account for these types of factor, so the omission is not unique to this reform of Inheritance Tax.

4.1.4 Share of revenue from impacted farm estates

The planned reform potentially affects all claims for APR or BPR, not only claims by farm estates. This raises the question of what share of total additional revenue from the reform would come from farm estates, versus other ('non-farm') estates that claim only BPR and do not have any connection to farming. The OBR's estimate of the revenue effects of the planned reform, published alongside the Autumn 2024 Budget, does not include any breakdown by type of estate. The statistics subsequently published by the Government in its letter to the Treasury Committee included estimates of the amount of relief claimed by different types of estate based on the size and type of claim, but these cannot be used directly to infer the share of revenue from the reform.

On a static basis (i.e. not accounting for behavioural responses), we estimate that around half (47%) of the total revenue from the planned reform would come from farm estates.⁴⁵ The remaining revenue would come from estates that (as far as we can observe) are unconnected to farming. Table 3 shows how the revenue from farm estates breaks down by type of claim and depending on the source data used.⁴⁶ Most of the revenue (81–82%) comes from estates claiming both APR and BPR, with an additional 9–11% from estates claiming only APR. Farm estates claiming only BPR – which we interpret as tenant farmers – contribute around 7–10% of static revenue from farm estates, which is broadly similar to their share of impacted farm estates (6–8%).

⁴⁵ This estimate excludes the impact of the simultaneous reform to AIM shares, which could impact both farm and non-farm estates even though (by construction) it only affects claims for BPR. The OBR reports that AIM shares represent 13% of all APR/BPR claimed: OBR, ['Supplementary release: Costing of changes to agricultural and business property relief'](#) 22 January 2025.

⁴⁶ We use percentages rather than absolute numbers to avoid confusion with the OBR's estimates, which differ for various reasons that we explain in Section 5.4.2.

Table 3: Estimated share of revenue from impacted farm estates in 2027

Estates claiming	Using 2018–2022 data (post-uprating)	Using 2022 data only (post-uprating)
APR, of which	93%	90%
- APR only	11%	9%
- APR and BPR	82%	81%
BPR only	7%	10%
Total	100%	100%

Notes: ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. Two impact estimates are provided: based on a five-year average over 2018–2022 and on 2022 (with uprating to 2027). Revenue estimate for each claim type is expressed as a share of the total revenue from all farm estates. We do not provide any absolute values because methodological differences and data limitations make our revenue estimation differ somewhat from the OBR’s (see Sections 5.4.2 for details). BPR only claims refer to those with farm assets or farm activity (for details, see Appendix Section A2). Cases of farm estates with no APR/BPR claims (i.e. where the estate has farm assets and is entirely covered by spouse exemption) are excluded from this table as they are not impacted by the reform by definition.

Source: Authors’ calculations based on HMRC administrative datasets.

4.1.5 Implications of tax planning on first death

Some of the farm estates that we classify as impacted by the planned reform would take steps to plan around the additional tax. This is particularly relevant for married couples and civil partners, where behavioural responses could significantly reduce the number of ‘first death’ estates that would end up paying additional IHT, compared with our static estimate. The OBR assumed that between 80% to 95% of the additional static revenue generated from married estates (i.e. first deaths) would be lost due to tax planning, specifically from greater use of the spouse exemption.⁴⁷ If correct, this implies that many of the married estates that we classify as impacted by the reform would not actually pay any additional tax, although their change in behaviour is indicative of the fact that they would be, in some sense, made worse off.⁴⁸

In this section, we explore the implications of tax planning on the first death when thinking about the effects of the planned reform on couples. We start by providing a breakdown of impacted farm estates according to the marital status of the deceased i.e. whether they were married (or civilly partnered), widowed, or single. Next, we outline two relatively simple tax planning strategies available to married or civilly partnered couples on the first death:

⁴⁷ OBR, [‘Supplementary release: Costing of changes to agricultural and business property relief’](#) 22 January 2025. The OBR assumed an 80% reduction in the first year of the reform, rising to 95% in the final year of the five-year scorecard window.

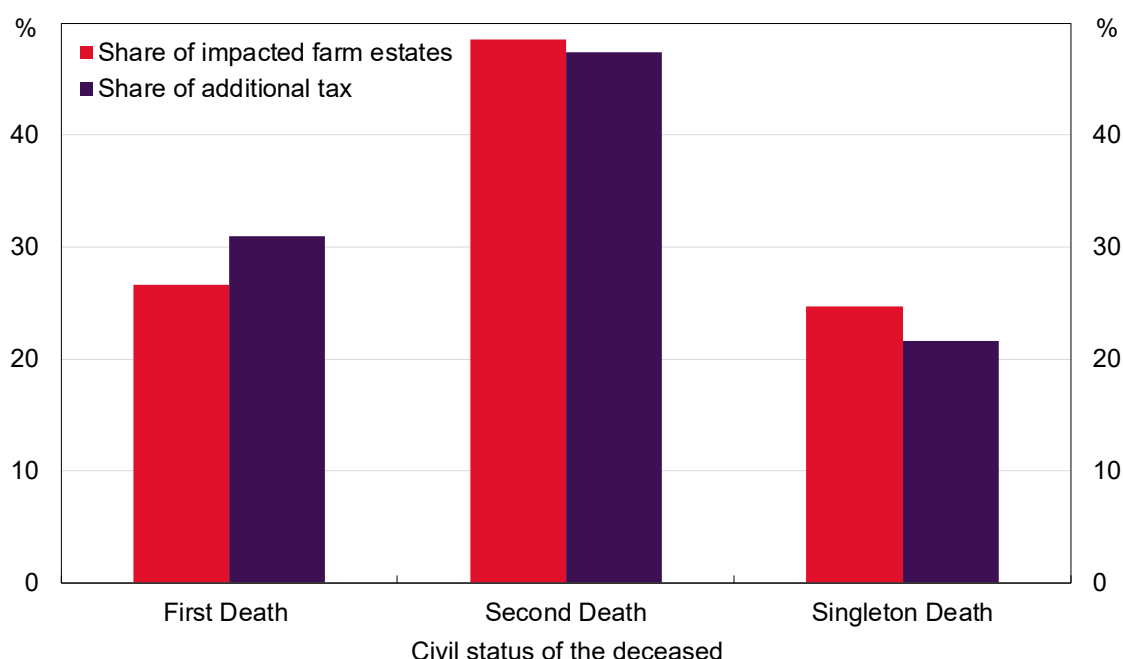
⁴⁸ For further discussion of this point, see Section 4.1.1.

use of the spouse exemption; and maximising use of the combined allowance via bequests to non-spouses. The second of these strategies reflects the fact that under current plans announced by the Government, the combined allowance would not be transferable between spouses. We conclude by considering the case for making the allowance transferable.

4.1.5.1 Breakdown of impacted farm estates by marital status of deceased

Given the OBR's assumption about tax planning by married estates, the composition of impacted farm estates by marital status of the deceased is an important factor affecting post-behavioural revenue from the reform. Figure 1 shows a breakdown of impacted farm estates (by number of estates and share of additional tax) into three categories: 'first deaths' within married (or civilly partnered) couples; 'second deaths' from such couples; and 'singleton deaths' where either the deceased was never married (or civilly partnered) or they were divorced at the time of death. The OBR refers to the first of these categories as 'married estates', and the second and third categories together as 'unmarried estates'. Second deaths are also sometimes referred to as 'widowers' or 'surviving spouses'.

Figure 1: Impacted farm estates by marital status of the deceased



Notes: Figure shows averages over the period 2018–2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets.

We find that just over a quarter (27%) of farm estates that we define as impacted by the planned reform (i.e. would pay additional tax if there was no change in behaviours) were first deaths within a couple. This is significant because these married estates, although classified as impacted by the reform on a static basis, could avoid paying any additional IHT if all of the assets were passed to the spouse. By contrast, unmarried estates have fewer tax planning opportunities because they are unable to make use of the spouse exemption. Around three-quarters (73%) of all impacted farm estates are in this position, where the deceased was either the second death within a couple (49%) or a singleton death (25%).⁴⁹

Our analysis also shows that 31% of the additional static revenue from farm estates comes from first deaths.⁵⁰ The fact that married farm estates would be liable to pay substantial additional tax under the planned reform unless they changed their behaviour indicates that under the status quo, at least some of these estates were making large bequests of qualifying agricultural and business property to non-spouses exceeding the value of the combined allowance, rather than passing all of their assets to their spouse. There may be a variety of non-tax factors driving the decision to make bequests to non-spouses, for example a desire to ensure succession to specific children. The reform will now require such estates to trade-off these factors against the immediate tax costs that would be incurred if bequests of qualifying agricultural or business property to non-spouses exceed the combined allowance.

4.1.5.2 Tax planning strategies on first death

The most obvious strategy for first deaths within a couple would be to make greater use of the spouse exemption. Although this would directly reduce revenue from married estates, the overall impact on IHT revenues is more nuanced. If the assets transferred to the surviving spouse end up being taxed on their death, then increased use of the spouse exemption simply shifts the occasion on which tax is paid. However, in practice some of the assets transferred to the surviving spouse may escape IHT entirely. For example, if the surviving spouse gifts some of the assets that they have received to their children, these may end up being tax-free provided that the spouse survives seven years. The overall impact of increased use of the spouse exemption on post-behavioural revenues from the planned reform therefore depends on the extent to which the assets transferred remain

⁴⁹ Figures may not sum due to rounding.

⁵⁰ This share is slightly higher than the 25% estimated by the OBR across all (farm and non-farm) married estates impacted by the reforms to APR/BPR: OBR, [‘Supplementary release: Costing of changes to agricultural and business property relief’](#) 22 January 2025.

within the surviving spouse's estate or are dissipated through further tax planning.

A further strategy results from the fact that, under current plans, the combined allowance for APR/BPR would not be transferable between spouses. This 'use it or lose it' aspect of the combined allowance means that there will be a strong incentive for individuals to leave up to £1 million worth of qualifying agricultural or business property to non-spouses (directly, or by settlement into trust) on the first death. Of course, this strategy will not always be feasible or desirable, for various non-tax reasons. However, the implied tax cost of 'wasting' the combined allowance by leaving it unused on the first death could be up to £200,000 (20% tax on £1 million of assets) on the second death, if all assets are instead passed to the spouse. Where the deceased has more than £1 million worth of qualifying agricultural or business property, it may often be most tax efficient overall to leave (approximately) £1 million of this property to non-spouses, and the rest to the spouse.

The overall tax planning strategy we have described would not result in any reduction in additional static revenue from married estates that would previously have used the spouse exemption instead, since either way there would be no IHT payable on the first death. However, this strategy could result in a loss of revenue from second deaths compared with the status quo, via a reversal of the mechanism described above in the context of increased use of the spouse exemption. In other words, just as increased use of the spouse exemption could increase the value of the surviving spouse's estate (subject to further tax planning by the surviving spouse), an increase in bequests to non-spouses aimed at maximising use of the combined allowance could decrease the value of the surviving spouse's estate, relative to the status quo. The net effect of these two tax planning strategies on revenues from *second deaths* would be difficult to quantify and was not explicitly accounted for by the OBR.

4.1.5.3 Should the combined allowance be made transferrable?

As we have already noted, under current plans, the combined allowance for APR/BPR would not be transferable between spouses. This is in contrast to the Nil Rate Band (NRB) and Residential Nil Rate Band (RNRB) where – broadly – any part of the allowance that is not used on the first death is available for the surviving spouse for claim on the second death. We note that in the weeks following the Autumn 2024 Budget, the Government provided examples of the impact of the planned reform for a 'farm owned by two people' that effectively assumed that the combined allowance would

be fully utilised on both deaths.⁵¹ However, under current plans, this would only be possible using the tax planning strategy described above. If instead all of the assets were passed to the surviving spouse on the first death,⁵² then effectively a couple would only benefit from one combined allowance of £1 million between them.

We think that there is a strong case for making the combined allowance transferrable between spouses, for three main reasons:

First, there is likely to be a significant deadweight cost from non-transferability. This is because if the allowance is non-transferrable then the tax planning strategy described above is likely to become widespread in the future. In that case, in the long run, non-transferability will not raise much additional revenue overall compared with if the allowance was transferrable, but it will distort behaviours by incentivising individuals to make bequests to non-spouses (and/or transfers into trust) on the first death even though they would ideally have preferred to pass the assets to their spouse. However, in the short run, as we explain below, many of the estates that would benefit from transferability (if backdated) would have been unable to undertake alternative planning.⁵³

Second, although tax planning to fully utilise the combined allowance on the first death would likely become widespread, it would not be ubiquitous. Some couples, because of their specific circumstances or simply because they were poorly advised, may not be able to deploy efficient tax planning on the first death. This could result in horizontal inequities whereby arbitrary differences between individuals lead to large differences in tax treatment. We note that this concern, along with the deadweight cost described above, contributed to the decision to make the NRB transferrable between spouses (where previously it had not been) in 2007.

Third, non-transferability would result in an additional administrative burden for both taxpayers and HMRC. This is because if individuals are incentivised to make bequests of qualifying agricultural or business property to non-spouses on the first death, this increases the number of occasions on which such property needs to be valued, compared with if all

⁵¹ HM Treasury & DEFRA, [‘News Story: What are the changes to agricultural property relief?’](#) 5 November 2024. This example was also cited by the Chancellor on ‘Sunday with Laura Kuenssberg’, 3 November 2024.

⁵² Or if the first death within a couple has already occurred and so it is too late to adopt the tax planning strategy described.

⁵³ In particular, where the first death has already occurred and it is too late to execute a deed of variation. There can be no deadweight loss in relation to these estates since it is already too late to change behaviour.

of the assets were passed to the spouse.⁵⁴ In particular, there is generally no need to provide professional valuations of assets that are covered by the spouse exemption. By contrast, if these assets are now passed to non-spouses in order to utilise the combined allowance, they would need to be professionally valued to ensure that the allowance has not been exceeded and no tax is due.

The reason that the Government has given for not making the combined allowance transferrable is that it ‘would carry an Exchequer [revenue] cost’.⁵⁵ This argument is the flip side of the broad objective of the reform to ‘raise revenue’. However, as we discuss further in Section 5.1 below, the revenue argument alone cannot explain why some policy changes are rejected and others taken forwards. We think that when the Government is seeking to justify specific inaction, as in this case, the justification should be policy-specific so that it is clear why potential reductions in revenue are acceptable in some cases but not in others.⁵⁶

In the long run, as we have noted above, we think that the revenue cost of transferability would be significantly reduced by behavioural change – or to put this the other way around, the revenue *raised* from non-transferability will be significantly eroded by tax planning. However, in the short run, the revenue cost would crucially depend on whether or not transferability was ‘backdated’ for first deaths occurring prior to the implementation date (for second deaths occurring after that date).⁵⁷ Assuming that that it would be hard to resist calls for backdating, it must be acknowledged that in the short run the revenue cost relative to the planned reform would be significantly larger than in the long-run, and could not be justified as required to avoid distorting behaviours. Of course, this point can reasonably be put the other way around: farming groups have argued that it is unfair to impose additional tax on the estates of those whose spouses happen to have already

⁵⁴ For a sense of scale, there are currently around 380 first death estates claiming APR/BPR per year. Another 60 first death estates do not claim any APR/BPR but have farming assets and make either partial (85%) or full (15%) use of the spouse exemption on the entire value of their estate. This gives an estimate of 440 estates per year that would face this distortion.

⁵⁵ HMRC, [‘Consultation outcome: Reforms to Inheritance Tax agricultural property relief and business property relief: application in relation to trusts – Summary of responses’](#) 21 July 2025.

⁵⁶ We note that other policy changes *have* been adopted since the Autumn 2025 Budget that are highly likely to reduce revenue compared with the reform as originally announced, for example the post-Budget changes to the territorial rules for the taxation of carried interest: HMRC, [‘Policy paper: Revised tax regime for carried interest’](#) 21 July 2025.

⁵⁷ A similar issue arose in relation to the NRB in 2007, and the Government decided to backdate transferability on grounds of fairness towards individuals whose spouse had already died.

died, compared with those whose spouse is still alive and has an opportunity to engage in planning.

We have not produced our own estimate of the revenue effects of making the combined allowance transferrable, and there would be several challenges in doing so. First, the lack of a reliable link between spouses (in the data available to us) means that estimating the unused allowance available to 'second death' impacted estates would require some assumptions, even to produce a static estimate. Second, there is also uncertainty regarding the behavioural response. We think it is reasonable to assume that if the allowance remains non-transferrable (i.e. the baseline for the cost of transferability) then most couples will engage in tax planning on the first death if both spouses are currently still alive.⁵⁸ However, again, without a link between spouses, it is difficult to estimate how many second deaths in each year after the reform will have been able to engage in such planning, and hence how many estates to apply this behavioural adjustment to.

4.2 What are their characteristics?

The planned reform has generated significant uncertainty and intense debate over the types of farm estate and deceased individuals that are likely to be impacted. Until now, there has been no reliable evidence on, for example, the proportion of impacted individuals that rely on farm income for their livelihood, their level of income during life, the size of their estate, or where in the UK they live. This void has led to speculation and anecdotes about the impact of the planned reform that may not be representative. In this section, we aim to address this deficit by providing the first statistical analysis of the characteristics of impacted farm estates. Although we are somewhat limited by the range of information that is currently collected via tax returns and processed for statistical analysis, we have nevertheless endeavoured to make our analysis as comprehensive as possible using the available data.

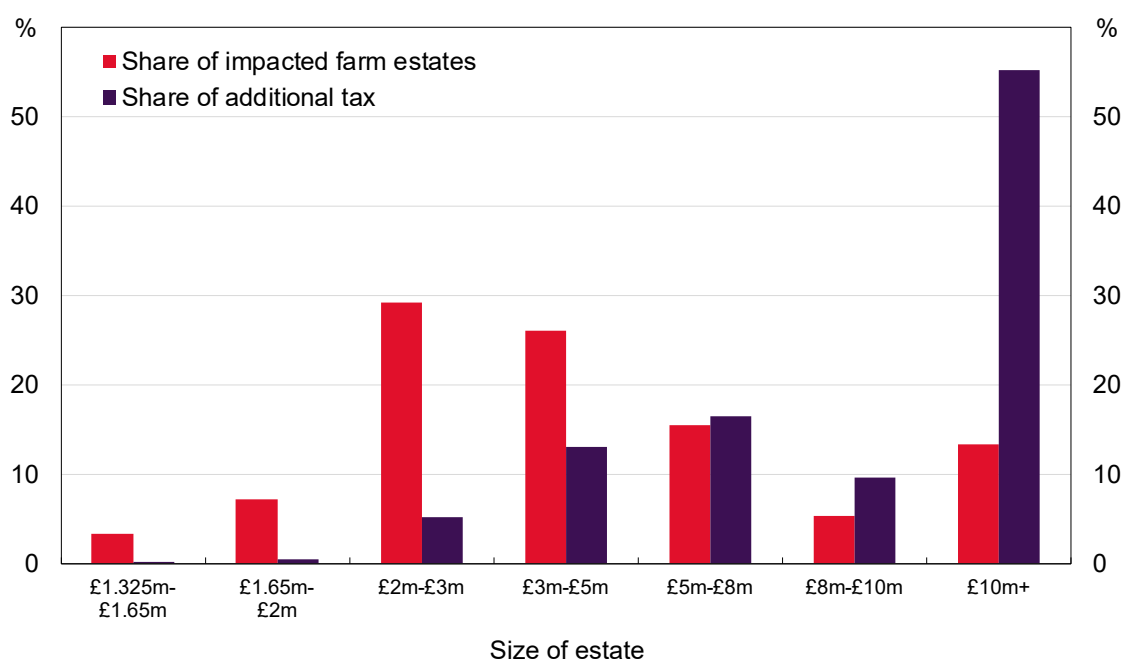
⁵⁸ Or the first death occurred within the past two years such that a deed of variation remains possible. By 'most', we mean literally 'more than half but less than all', and we acknowledge substantial uncertainty within this range.

4.2.1 Size of estate

There has been considerable focus on whether the reform would impact ‘small and medium-sized family farms’.⁵⁹ Although, as we have already emphasised, we cannot observe farms directly in the data, we can assess how the impact of the reform varies by size of the estate of the deceased. Figure 2 shows the distribution of impacted farm estates by estate size, which is measured as the net value of the deceased’s estate on death (including both farm and non-farm assets) prior to the application of any exemptions, reliefs or allowances, plus the chargeable value of any lifetime transfers made within the seven years before death.

More than half (55%) of all impacted farm estates are between £2–5 million in value, making up 18% of the revenue share. A minority (11%) of the farm estates impacted by the reform are valued at less than £2 million, contributing less than 1% of the total additional tax paid by farm estates. Larger estates (more than £5 million) form around a third (34%) of impacted

Figure 2: Impacted farm estates by size of estate



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. ‘Size of estate’ is the total chargeable value of the estate, i.e. the sum of all chargeable assets on death minus all liabilities on death (where funeral expenses are not counted as a liability) plus all gifts given in the seven years prior to death. ‘Share of impacted farm estates’ is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. ‘Share of additional tax’ is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors’ calculations based on HMRC administrative datasets.

⁵⁹ HL Deb 21 November 2024, c. 383.

estates and contribute a majority (81%) of the revenue, with farm estates valued at over £10 million (13% of all impacted farm estates) paying more than half (55%) of all additional tax from farm estates on a static basis.

Given the interaction between the NRB and 50% relief above the combined allowance, estates can potentially pass up to £1.65 million of qualifying agricultural or business property entirely free of IHT. This is because the £650,000 of qualifying property above the allowance is reduced to £325,000 by the 50% relief, which could then be fully covered by the NRB. However, this does not imply that estates valued at less than £1.65 million can never be impacted by the reform, because this requires all of the estate's assets to be covered by APR and/or BPR. Consistently with this, we find around 15 farm estates per year (3% of all impacted farm estates) valued at less than £1.65 million.

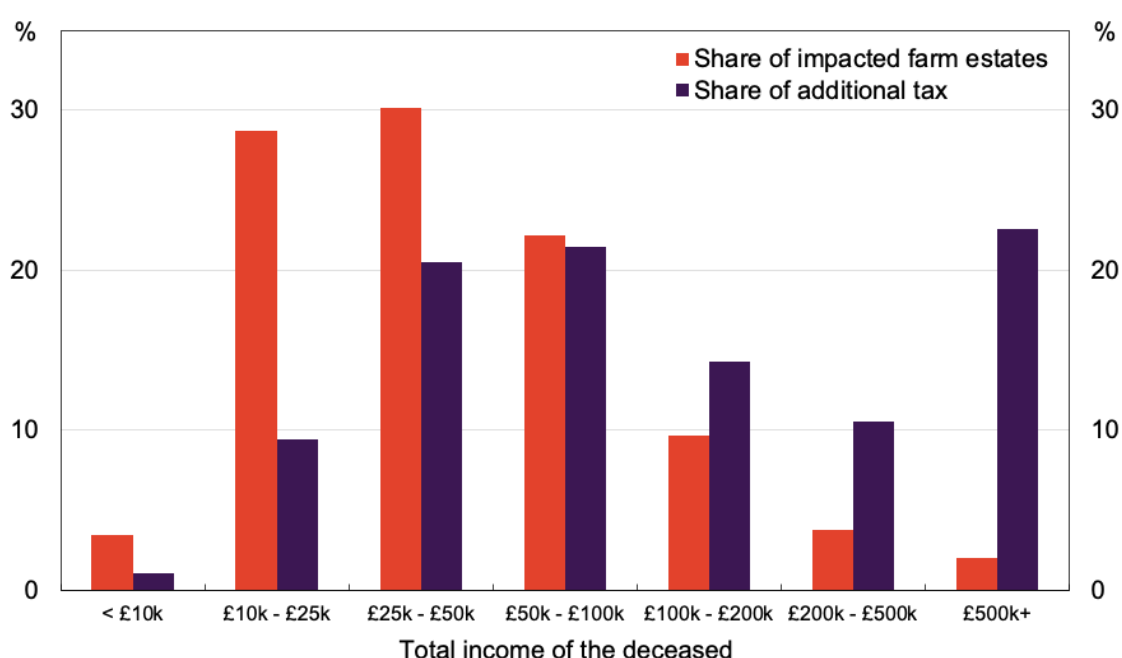
4.2.2 Income level

Farm industry bodies have emphasised that owners of family farms may be 'asset-rich but cash-poor',⁶⁰ such that they would be especially unable to pay a tax which is levied on the capital value of their assets (such as IHT). We assess this concern empirically by looking at the distribution of impacted farm estates according to the in-life income of the deceased. To do so, we link each impacted farm estate with the self-assessment and/or PAYE records of the deceased for the five full tax years prior to their death. We then calculate the average taxable income of the deceased over this period and show the impacts of the reform along this dimension.

When interpreting these results, we caution that income in the years running up to death will not necessarily represent the lifetime income level of the deceased. Individuals may reduce or cease work altogether and therefore have lower earned income in the latter years of their lives compared with earlier in their careers, which may not be fully offset by any pension income that they receive. The deceased may have also been drawing on savings during this period, in which case they would have had access to more financial resources than implied by our analysis. With these caveats in mind, we think that the income of the deceased in the five years before death is likely on average to underestimate their lifetime income level, but nevertheless provides a useful indication of their financial wellbeing in later life.

⁶⁰ HL Deb 21 November 2024, c. 383.

Figure 3: Impacted farm estates by total income of the deceased



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. 'Total income of the deceased' is the average income in the last five years before death. It includes earned income and investment income. 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets.

The concern about the low incomes of some farmers is reflected in our results, as almost a third (32%) of impacted farm estates belonged to individuals with less than £25,000 of income per year over the five years prior to death. However, as we note above, we caution against interpreting this statistic as evidence of low *lifetime* levels of income. At the same time, we find that many impacted farm estates belonged to individuals with relatively high levels of income, even with the caveats about potential underestimation of lifetime income levels as outlined above. For example, for 15% of the impacted farm estates the deceased had more than £100,000 of income, and almost a quarter (22%) belonged to those with income between £50,000 and £100,000.

In terms of additional tax revenue, the impact of the reform is concentrated among estates where the deceased had high levels of income in the run-up to death. While the impacted farm estates belonging to individuals with income above £100,000 would pay (on a static basis) almost half of the additional tax (47%), the small (2%) group of impacted farm estates where the deceased had income above £500,000 would contribute almost a

quarter (23%) of additional revenue. In contrast, the 32% of impacted farm estates where the deceased had less than £25,000 of income only account for 10% of the additional tax owed by farm estates.

4.2.3 Ownership type

Another recurrent question since the Budget has been how widely the reform impacts estates with different kinds of connection to farming, for example whether it affects mainly active farmers or landowners. To try to shed some light on this debate, we classify 'farm estates' into four ownership types. The first are owner-farmers (i.e. individuals who own the land that they farm), the second are tenant farmers (i.e. those who rent the land that they farm), the third are mixed-tenure farmers (i.e. those who farm both land that they own and land they rent), and the last are landowners (i.e. those owning agricultural land that they let out to farmers).

There is no neat division of farm estates into these categories. However, to give a broad sense of the kinds of farm estate that are impacted, we construct proxies for each ownership type, as follows:

- (i) **Owner-farmers:** this category captures estates where the APR/BPR claim represents more than 50% of the overall estate and the APR claim is more than 50% of the total APR plus BPR claim. The rationale for the proxy is that the first test (APR/BPR > 50% of estate value) would exclude estates that have farming only as a secondary activity or that engage in farming on a non-commercial basis. The second test (APR > 50% APR+BPR) tries to exclude farmers where they only own a small part of the land that they farm (we would classify them as mixed-tenured).
- (ii) **Tenant farmers:** this category includes estates that only claim BPR (which also have a link to farming activity, as detailed in Section 3.2 above). This reflects the fact that tenant farmers would not normally own farmland or farm buildings on which to claim APR but would be claiming BPR on farm machinery, livestock, etc.
- (iii) **Mixed tenure farmers:** this is a residual category, as it contains all the estates that claim both APR and BPR (linked to agriculture) but do not meet the thresholds for being classified as 'owner-farmers'. The idea is that someone who owns only part of the overall land that they farm would usually not meet the test of APR being more than 50% of APR plus BPR. If they own most of the land they farm they would likely meet the 50% threshold, but in this case we would be satisfied with considering them as an owner-farmer (i.e. we do

not want to reclassify an owner-farmer as mixed tenured when they expand their farming by renting out some — relatively small — land, or when they sell and lease back a small portion of their farmland for finance purposes).

- (iv) **Landowners:** this category covers estates when they claim APR only, or when they claim both APR and BPR *but* the latter has no connection to farming. In this sense, we are capturing estates that own farmland but do not have a connection to a farm business, which strongly suggest they are renting that farmland to farmers (this is one of the requirements for farmland to be eligible for APR if not used for agriculture by the owner).

There is inevitably some artificial line-drawing between these categories, resulting from the attempt to classify farm estates that vary in many respects into four discrete categories. Even with perfect information about the relevant characteristics of farm estates, there would always be some disagreement on where to draw the lines for the purpose of this categorisation.⁶¹ Data limitations also add to this challenge as we must rely on proxies for the characteristics we are trying to identify.⁶² It is important to emphasise that the categories are for illustrative purposes only and do not feed into any of our subsequent analysis of the planned reform or other reform options.

Notwithstanding these caveats, Table 4 shows the distribution of all farm estates and all impacted farm estates by ownership type. For impacted farm estates, we also present the additional tax arising from each ownership category.

⁶¹ For example, whether owning 1% or 10% of the land that is farmed makes an estate a mixed-tenure farm.

⁶² For example, some owner-farmers using very expensive machinery would not meet the second test (APR > 50% of APR/BPR). The same classification error might arise for farming activities that use small land areas, but which are investment intensive (e.g. pig or poultry farms), unless they are part of a larger farm. Similarly, there could be a tenant farmer who owns a very small plot of agricultural land that they rent out (and so would have an APR claim, making them appear as a mixed-tenure).

Table 4: Farm estates (all and impacted) by ownership type

Ownership type	All farm estates		Impacted farm estates			
			Count and share impacted			Additional tax
	<i>Count per year</i>	<i>Share of all farm estates</i>	<i>Count per year</i>	<i>Share of ownership type impacted</i>	<i>Share of impacted farm estates</i>	<i>Share of additional tax</i>
Owner-farmer	260	17%	180	67%	37%	35%
Tenant farmer	140	9%	30	25%	7%	7%
Mixed tenure	160	10%	70	45%	14%	26%
Landowner	1,010	64%	200	20%	42%	32%
Total	1,560	99%	480	100%	100%	100%

Notes: Table shows averages over the period 2018-2022 (with uprating to 2027). For all farm estates, count and share of each ownership type in all farm estates is provided. The ten cases of farm estates with no APR/BPR claims (i.e. where the estate has farm assets and is entirely covered by spouse exemption) are excluded as categorisation of ownership type is informed by the type (APR or BPR) and share of claim which does not apply to these cases. 'Share of all farm estates' is the percentage of farm estates out of all farm estates. On average, there are 1,570 farm estates per year. 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. 'Share of ownership type impacted' is the percentage of farm estates impacted in each ownership type. 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets.

Based on our classification, almost two thirds (64%) of farm estates are landowners. They are also the largest shares of impacted farm estates (42%), although they represent only a third (32%) of the additional tax. Owner farmers are the second largest category among both farm estates (17%) and impacted farm estates (37%), but they represent the largest share of additional tax (35%). Tenant and mixed-tenure farmers are the smallest group, representing 19% of all farm estates and 21% of impacted farm estates, although they also represent around a third of the additional revenue.

Owner-farmers are the group that is most over-represented among impacted farm estates, as they represent 37% of impacted farm estates despite only accounting for 17% of all farm estates. Landowners, on the other hand, are under-represented, representing 42% of impacted farm estates yet 64% of all farm estates.

4.2.4 Share of farm income in total income

Specific concerns have been raised about the impact of the planned reform on farms that provide a livelihood for their owners.⁶³ There is no separate category for these estates in the IHT data, and even with perfect information this categorisation would likely be contested. Nevertheless, to provide a sense for how many impacted and unimpacted farm estates were economically reliant on farming, Figure 4 shows the share of farming income in the total income of the deceased, over the five full tax years prior to death. 'Farming income' here includes any trading (via partnership or self-employment) or employment income linked to the farming industry.⁶⁴ 'Total income' includes all taxable income of the deceased except for pension income. We omit pension income as it is uncertain whether this was originally derived from farming or another type of activity.⁶⁵

Figure 4 shows that amongst both farm estates and impacted farm estates, there is broadly a 'U-shape' in the share of farm income in total income, although with significantly more estates with very low shares than very high shares. Within each income group, the share among impacted farm estates is roughly equivalent to the share among all farming estates, with the notable exception of farm estates that do not have any farming income (i.e. landowners). These estates represent almost 40% of all farm estates but account for 22% of impacted estates. Conversely, farm estates with very high shares of farming income (i.e. more than 90% of total non-pension income), contribute 7% of additional revenue but represent 12% of impacted farm estates.

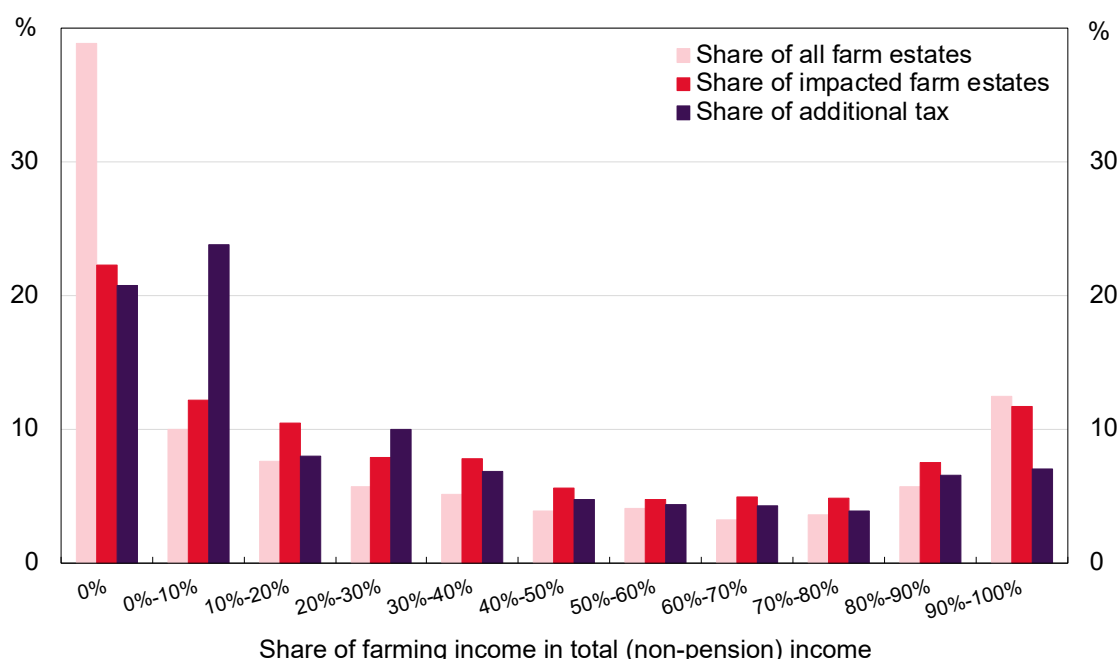
Figure 5 shows that for almost half (45%) of impacted farm estates farming income comprises less than 20% of the deceased's non-pension income. These estates would pay the majority (53%) of additional tax under the planned reform. Some estates with low levels of relative farming income are likely to be cases where farming forms a small part of a broader portfolio of diversified activities. Others will represent landowners receiving rental income, which we do not include in the definition of farming income as explained above. These findings are consistent with the results from Section 4.2.3 on ownership type, where landowners were shown to constitute a third (32%) of the additional tax revenue while making up 42% of impacted farm estates.

⁶³ HC, Deb, Vol. 762, c. 23WH and c.41WH (available [here](#)).

⁶⁴ Specifically, any industry with Standard Industrial Classification (SIC) code 'A'. This category includes some activities (such as fishing) that would not qualify as agricultural for IHT purposes.

⁶⁵ For more details on the definition of farming income, see Appendix Section A3.1.1

Figure 4: Farm estates (all and impacted) by share of farming income in total (non-pension) income

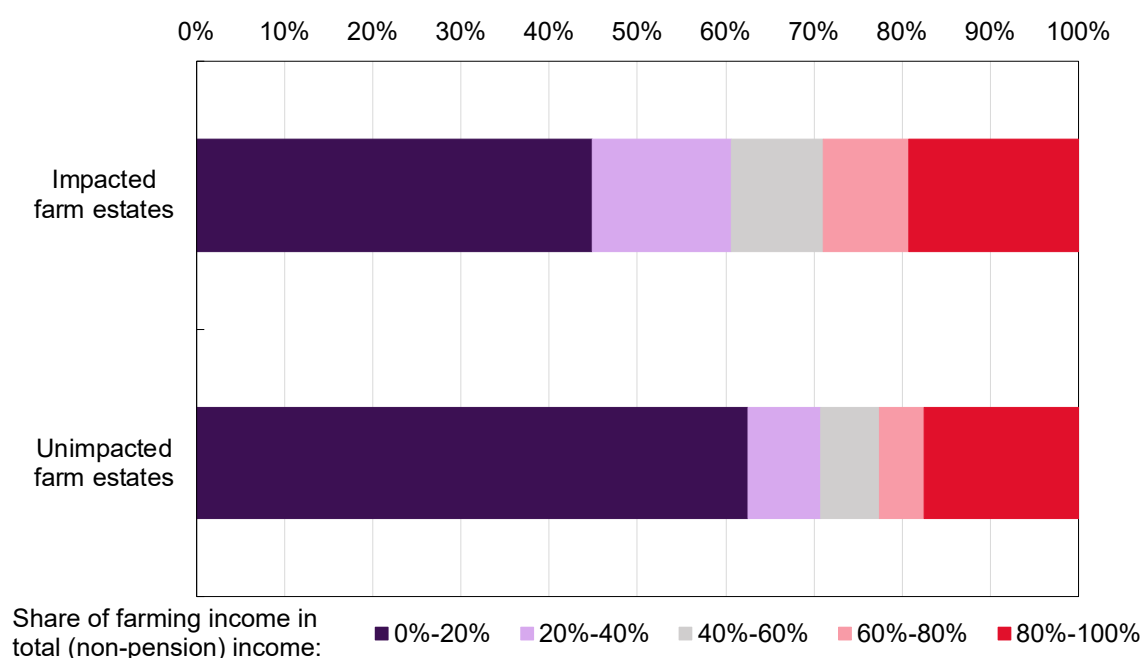


Notes: Figure shows averages over the period 2018–2022 (with uprating to 2027). ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. ‘Share of farming income in total (non-pension) income’ is the ratio of average farming income to average (non-pension) income, where averages are taken over the last five years before death. Farming income includes any trading or employment income linked to farming. ‘Share of all farm estates’ is the percentage of farm estates out of all farm estates. On average, there are 1,570 farm estates per year. ‘Share of impacted farm estates’ is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. ‘Share of additional tax’ is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors’ calculations based on HMRC administrative datasets.

Around two-thirds (63%) of farm estates that would be left unimpacted by the reform are cases where the farming income represents under 20% of the deceased’s non-pension income. The £1 million combined allowance therefore seems to provide a disproportionate benefit to landowners and diversified estates that engage in agriculture as a peripheral activity. Whilst we are unable to assess directly the extent to which these estates may be using agricultural property as a tax shelter, these findings suggest that there would be scope to improve the targeting of 100% relief such that more of the benefit goes to farm estates where farming is the primary economic activity. We develop this suggestion further in Section 5 below.

Figure 5: Impacted and unimpacted farm estates by share of farming income in total (non-pension) income



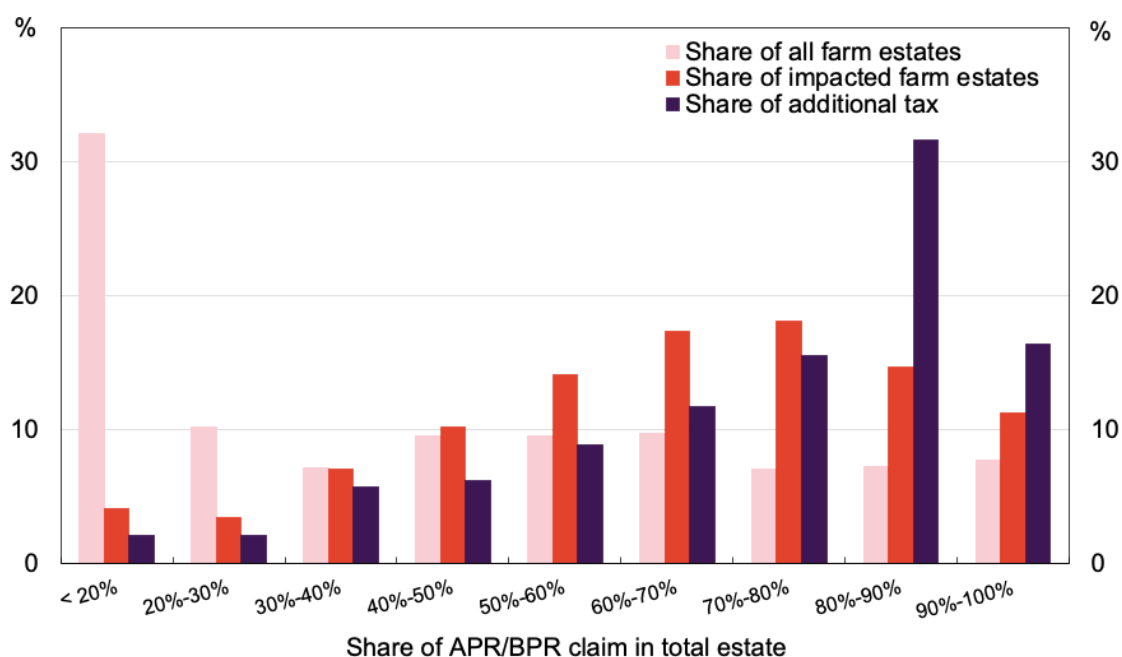
Notes: Figure shows averages over the period 2018–2022 (with uprating to 2027). ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. ‘Share of farming income in total (non-pension) income’ is the ratio of average farming income to average (non-pension) income, where averages are taken over the last five years before death. Farming income includes any trading or employment income linked to farming. Horizontal bars are scaled to a 100% and show the share of (un)impacted farm estates belonging to each band of ‘share of farming income in total (non-pension) income’. On average, (1,090) 480 farm estates are (un)impacted per year.

Source: Authors’ calculations based on HMRC administrative datasets.

4.2.5 Share of APR/BPR in total estate

The value of the APR/BPR claim as a share of the estate size provides another potential way of distinguishing between farm estates where the main economic activity is farming and those that engage in farming only as a peripheral activity, or on a non-commercial basis. Additionally, whilst it is not possible directly to observe which farm estates were holding farmland for tax planning purposes, it seems reasonable to suppose that where an estate is comprised almost entirely of assets qualifying for APR or BPR, this is unlikely to have been motivated mainly by tax. Conversely, whilst there can be entirely legitimate non-tax reasons for an estate to hold only a small share of assets qualifying for APR or BPR, it is widely known that investment managers often recommend holding some qualifying agricultural or business property as part of a wider investment strategy for the purpose of IHT planning.

Figure 6: Farm estates (all and impacted) by share of APR/BPR in total estate



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. ‘Share of APR/BPR claim in total estate’ is the amount of APR/BPR claimed as a percentage of the total chargeable estate (before any exemptions, deductions or reliefs). ‘Share of all farm estates’ is the percentage of farm estates out of all farm estates. On average, there are 1,570 farm estates per year. ‘Share of impacted farm estates’ is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. ‘Share of additional tax’ is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors’ calculations based on HMRC administrative datasets.

Figure 6 above shows the distribution of the share of APR/BPR in the total estate, amongst all farm estates and amongst impacted farm estates. Specifically, we compute the total value of the claim for APR and BPR, as a share of the estate size measured as the net value of the deceased’s estate on death prior to the application of any exemptions, reliefs or allowances, plus the chargeable value of any lifetime transfers made within the seven years before death.

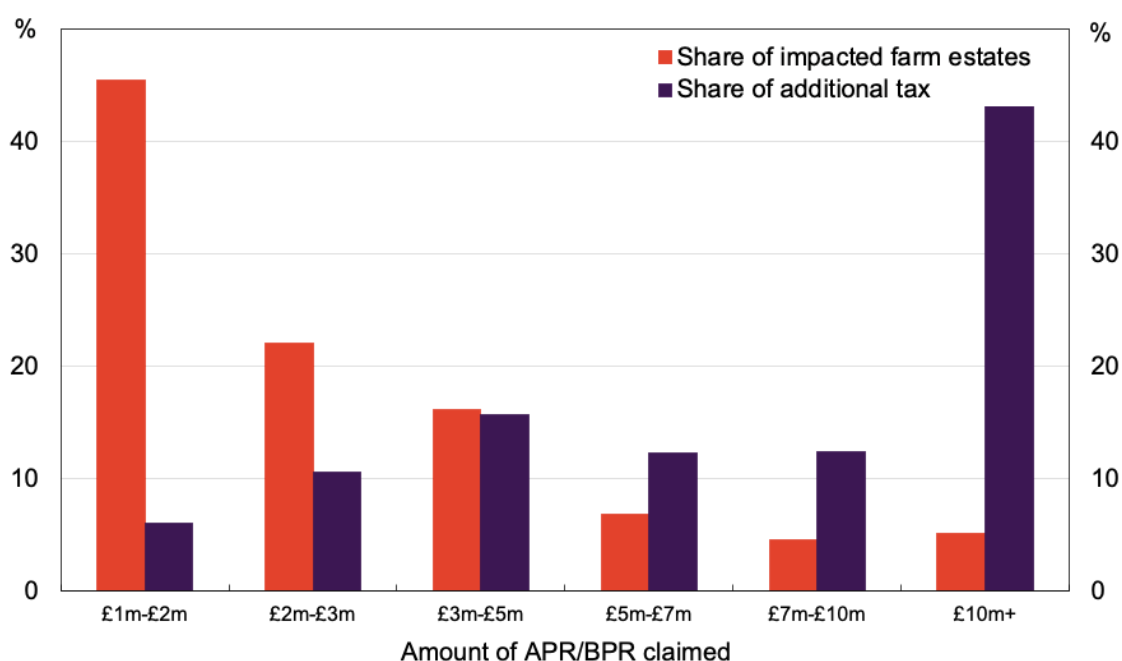
Although estates with APR/BPR shares below 20% are around a third (32%) of all farm estates, they represent less than 5% of impacted farm estates and contribute only 2.1% of the additional revenue. In other words, these estates are disproportionately likely to be left unimpacted by the planned reform. At the other end of the spectrum, estates with an APR/BPR share of at least 80% comprise roughly 15% of all farm estates, yet they account for 26% of all impacted farm estates and almost half (48%) of the additional tax from farm estates under the planned reform. We explore the implications of this finding further in Section 5.

4.2.6 Amount of APR/BPR claimed

One of the Government's stated policy objectives when announcing the reform was to address the unfairness of 'a very small number of claimants...[claiming] such significant amount of relief'.⁶⁶ To assess whether the planned reform would achieve this goal, it is important to understand how the value of APR/BPR claims is distributed across farm estates, as well as the share of additional tax that would arise from estates with the largest APR/BPR claims.

Figure 7 shows that close to half (45%) of impacted farm estates have claims below £2 million in value, representing around 6% of additional revenue. Conversely, the 5.1% of impacted farm estates with claims exceeding £10 million account for 43% of the additional tax. The planned reform would therefore help mitigate concerns regarding the concentration of the relief's benefits among a small number of wealthy claimants. At the same time, estates with the largest APR/BPR claims would continue to benefit from

Figure 7: Impacted farm estates by amount of APR/BPR claimed



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets.

⁶⁶ HM Treasury & DEFRA, '[News Story: What are the changes to agricultural property relief?](#)' 5 November 2024.

50% relief on any amount exceeding the £1 million combined allowance. In Section 5, we consider potential adjustments to the planned reform that could further limit the concentration of relief.

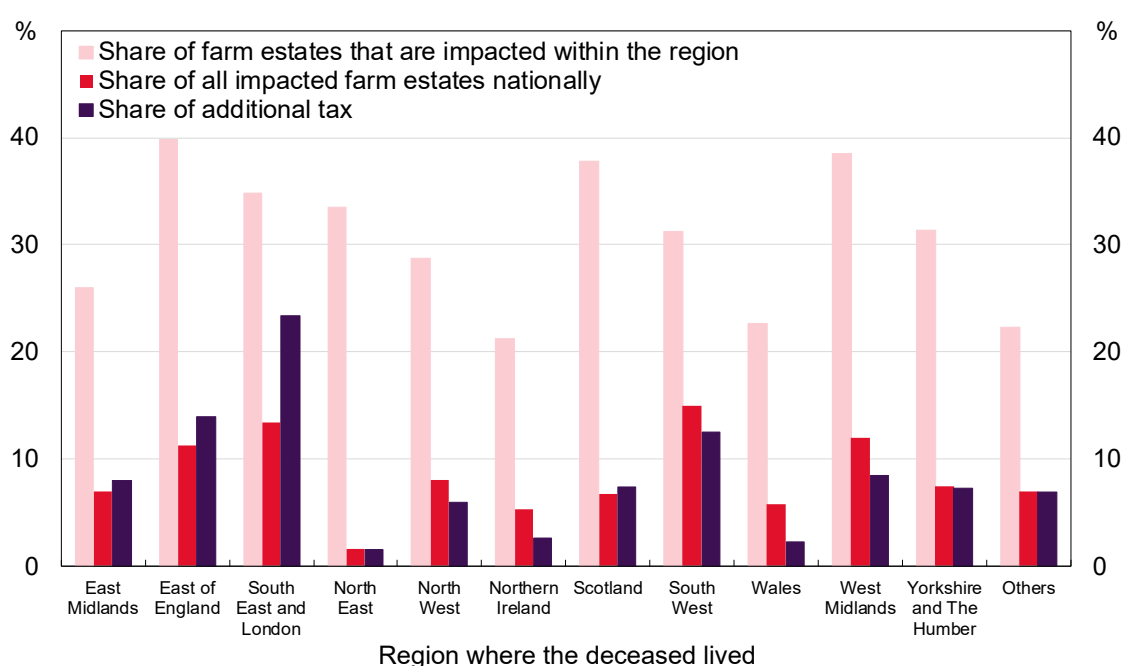
4.2.7 Region where the deceased lived

There has been significant interest in the regional impacts of the planned reform. It is not possible to provide a breakdown of impacted farms by region as these data are not collected for IHT purposes in a format suitable for analysis.⁶⁷ Instead, we use the location of the deceased's main residence (as reported on their IHT return) to produce a regional breakdown of impacted farm estates based on *where the deceased lived*. We strongly caution that this should *not* be interpreted as the regional impact of the reform on farms. This is because there will be cases (especially but not only amongst landowners) where the deceased lived in a different region from the location of the farm(s) that they owned. For example, an individual who lived in London could own agricultural land in Scotland and a farm business in the South West. In this case, we would assign their estate to London.

Figure 8 shows that over half (51%) of impacted estates belong to taxpayers who lived in four regions: the East of England (11%), the South East and London (13%), the South West (15%), and the West Midlands (12%). These estates together contribute 58% of the additional revenue, with the largest share (23%) coming from estates where the deceased lived in the South East or London. The concentration (by value) of estates assigned to the South East or London tends to highlight the importance of the distinction between where the deceased lived and the region where the farm(s) they owned are located. The figure also shows the share of deceased individuals with farm estates in each region that are impacted by the reform. Between 20–40% of farm estates are impacted in each region, with the highest shares in the East of England (40%), Scotland (38%) and the West Midlands (38%). As we have already emphasised, this finding should *not* be interpreted as the share of *farms* that are impacted in each region.

⁶⁷ James Murray, Exchequer Secretary to the Treasury, Response to Parliamentary Question tabled 21 May 2025, [UIN 54033](#).

Figure 8: Impacted farm estates by region where the deceased lived



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. The x-axis represents region of the reported main residence of the deceased, which could be different from the location of the farm(s) that they owned. South East and London are reported as one region for reasons of statistical disclosure control. 'Others' includes Channel Islands and estates with a reported main residence that is overseas or with no reported location in the data. 'Share of farm estates impacted in the region' is the percentage of farm estates impacted in a region out of all farm estates in the region. 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

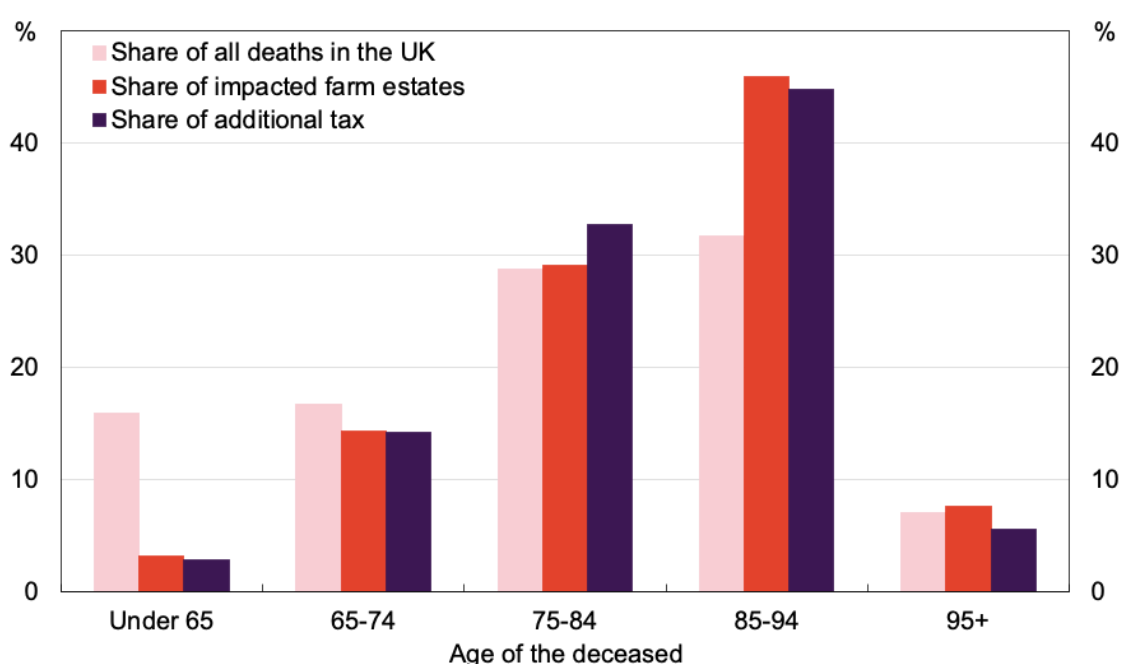
Source: Authors' calculations based on HMRC administrative datasets.

4.2.8 Age

Since the Autumn 2024 Budget, there have been several proposals to implement transitional rules that would exempt gifts made by older farmers from IHT after a shorter period than seven years.⁶⁸ The idea behind such proposals would be to deliberately provide a window during which elderly individuals (who are the most likely to be affected in the earliest years of the reform) could reorganise their affairs by giving away assets to avoid the tax. Whilst we do not endorse this kind of transitional regime, we are able to provide evidence about the projected age of the deceased for impacted farm estates (based on historic data for 2018-2022), to indicate the potential revenue implications of adopting age-based transitional rules.

⁶⁸ See ['Farmers aged 80 and above could get exemption from inheritance tax'](#), The Guardian, 21 November 2024, and the [TFA's suggestion on this transitional measure](#).

Figure 9: Impacted farm estates by age of the deceased



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. 'Share of all deaths in the UK' is the percentage of all deaths in the UK population in each age bin. 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets and estimated number of deaths in the UK (ONS, NRS and NISRA).

Figure 9 shows the age of the deceased for impacted farm estates. It is unsurprising that the reform tends to impact older individuals, given that Inheritance Tax is a tax that applies on death. The age at death amongst impacted farm estates is higher than for the UK population as a whole. More than four-fifths (83%) of impacted farm estates belong to those aged 75 and above (compared with 68% of deaths in the UK population), and 54% belong to those aged 85 or older (compared with 39% of deaths in the UK population). This finding may partly be explained by the fact that on average, wealthier individuals have longer life expectancies than the general population. An additional factor may be that prior to the planned reform, the standard advice given to those with agricultural and/or business property has been to hold these assets until death to benefit from both IHT relief and uplift of the base cost for Capital Gains Tax (CGT) purposes.

The share of impacted estates within each age group is roughly proportional to the contribution of additional tax from the reform, with estates from taxpayers aged 85+ (75+) contributing approximately 50% (83%) of the

additional revenue. If transitional measures were introduced that allowed individuals currently aged over 85 to make exempt gifts without needing to survive seven years, a majority of impacted estates would stand to benefit, and half of the additional revenue would be at stake. With a lower threshold of 75 years, more than four in five impacted farm estates could benefit and more than 80% of the additional revenue would be at stake.⁶⁹

4.3 How large is the financial impact?

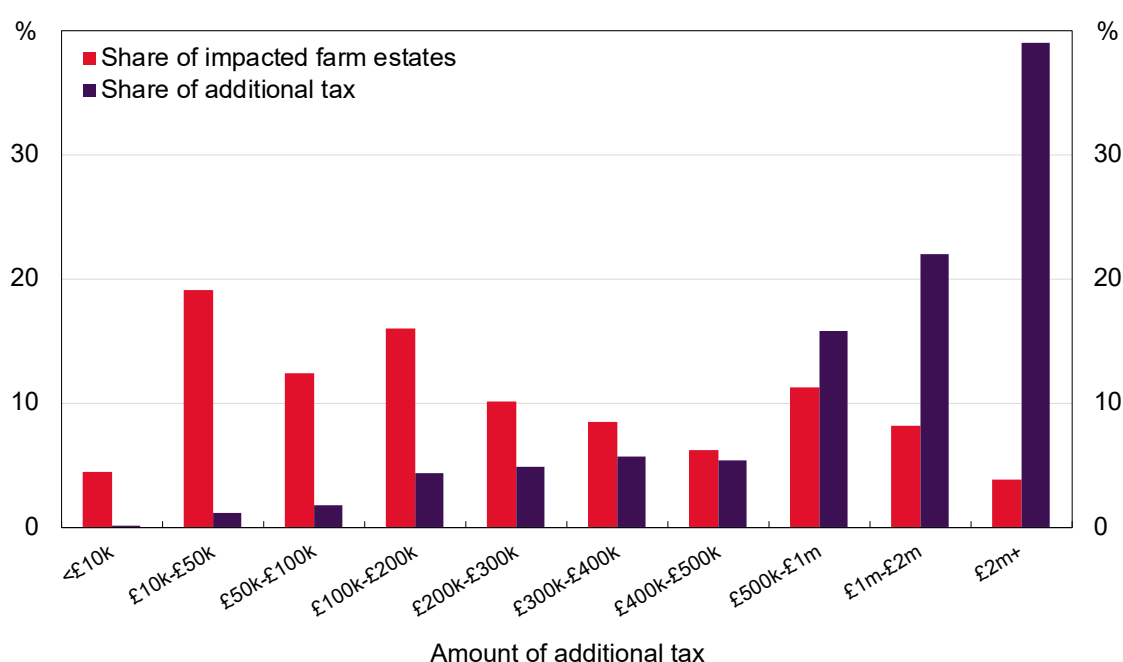
The public debate around the reform has thus far focused on the *number* of estates that would be impacted, since no other statistics were available. However, this metric gives the same weight to estates whose tax bills would rise by a tiny amount as to those facing significantly more tax. It is important to understand not only how many farm estates are impacted, but also *how much* they would be impacted. To answer this question, we use the same modelling approach as in Section 4.1 but now focus on the exact size of the tax bill pre- and post-reform, rather than just on whether it has changed. We compute the additional tax that each estate would pay as a result of the planned reform, both in absolute terms and as a percentage point increase in their effective tax rate. We also compare the effective average tax rates of impacted farm estates after the reform with other estates of equivalent size that do not claim any APR or BPR.

4.3.1 Additional tax liability

Figure 10 shows the amount of the additional tax liability among impacted farm estates. Almost one quarter (24%) of impacted farm estates would pay less than £50,000 in total additional tax as a result of the planned reform. Since the tax can be paid in interest-free instalments over ten years if needed, this equates to less than £5,000 per year. For almost four out of five impacted farm estates (77%), the total additional tax would not exceed £500,000, or £50,000 per year. Only around 12% of impacted farm estates (around 60 estates per year) would face an additional tax liability of over £1 million as a result of the planned reform. However, these estates account for well over half (61%) of the total additional revenue from impacted farm estates.

⁶⁹ These figures provide upper bounds on the potential revenue loss from transitional measures. We would not, however, expect losses to be this large, as this would require all taxpayers above the cutoff to gift all their APR/BPR assets above the £1 million allowance before death.

Figure 10: Impacted farm estates by amount of additional tax



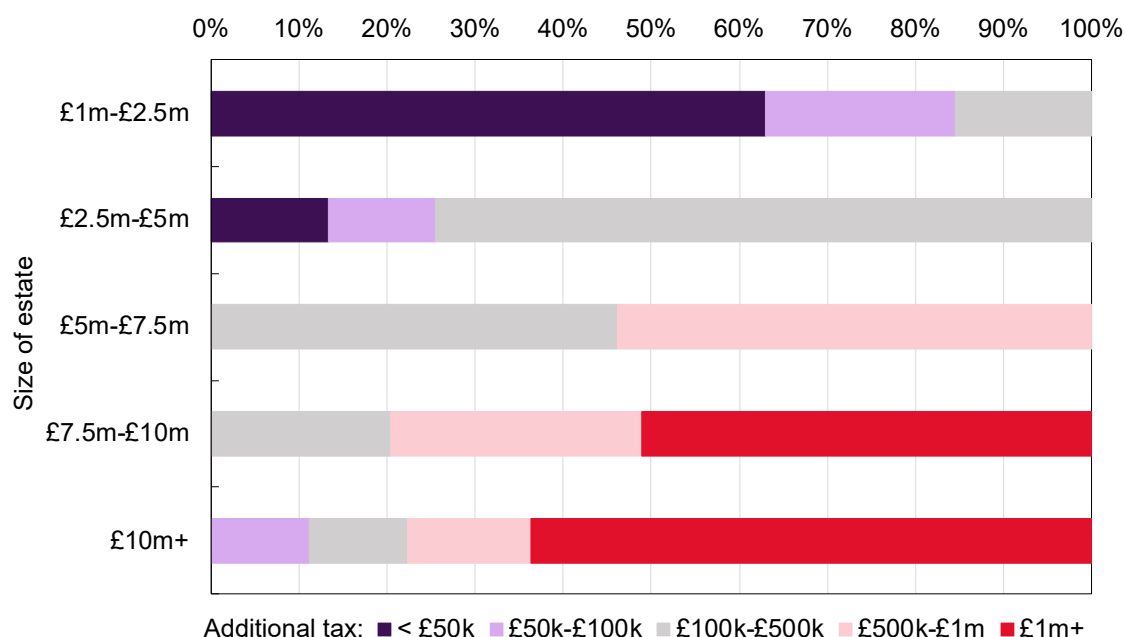
Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. ‘Share of impacted farm estates’ is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. ‘Share of additional tax’ is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors’ calculations based on HMRC administrative datasets.

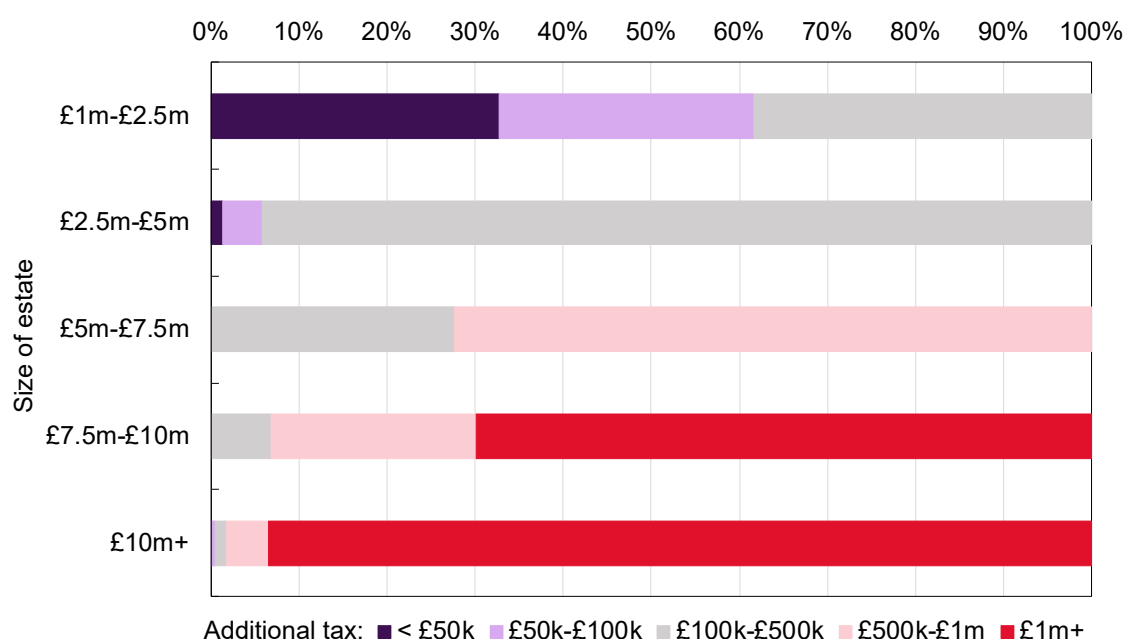
Figure 11 breaks down the results by estate size. Amongst impacted farm estates valued at less than £2.5 million, six in ten (63%) would face total additional tax liabilities of less than £50,000 (equivalent to £5,000 per year over ten years). However, around three in 20 (15%) of these estates would see an increase in their IHT liability of over £100,000, making up more than one third (38%) of revenue from this group. Almost no farm estates valued at less than £5 million would pay more than £500,000 in additional tax, whereas over half (54%) of impacted farm estates valued between £5 million and £7.5 million would pay at least this amount. Amongst the wealthiest impacted farm estates — valued at £10 million or more — around two-thirds (64%) would face a tax increase of at least £1 million, making up more than 90% of the additional revenue from this group.

Figure 11: Impacted farm estates by additional tax and estate size

(a) *Share of impacted farm estates*



(b) *Share of additional tax*



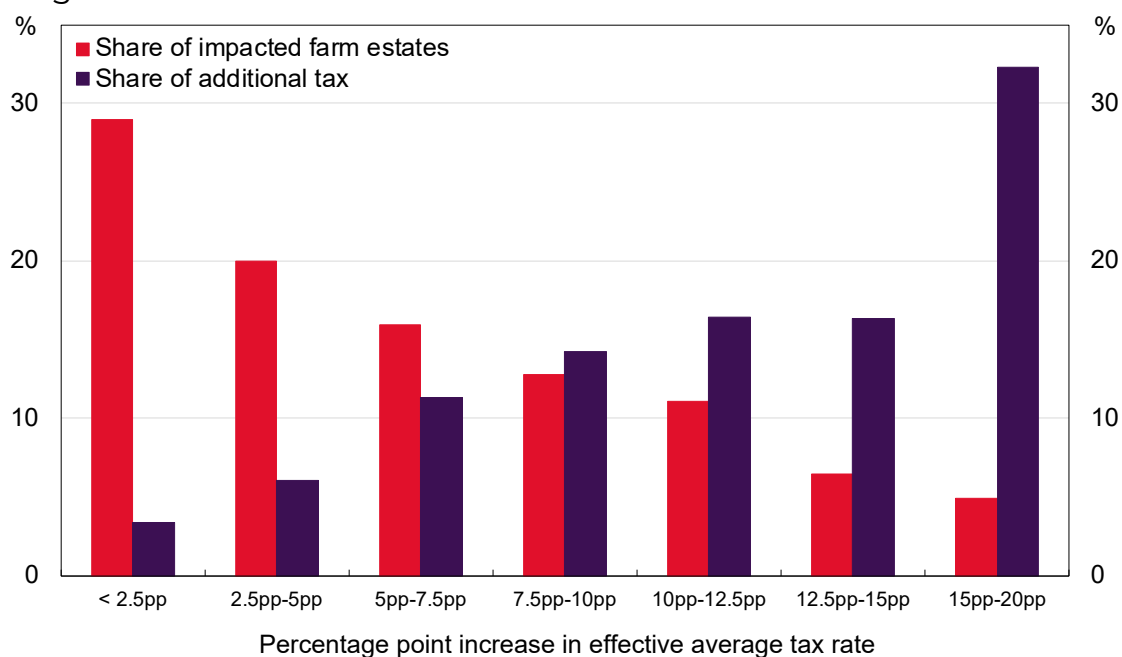
Notes: Figures show averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. In both figures, the y-axis shows bins of different size of estate i.e. total chargeable estate (before any exemptions, deductions or reliefs). In Figure (a), 'share of impacted farm estates' by amount of additional tax is shown for each estate size bin. Figure (b) is similar but instead shows percentage share of an 'additional tax' bin in total additional tax raised from all impacted estates in the estate size bin.

Source: Authors' calculations based on HMRC administrative datasets.

4.3.2 Increase in tax rate

Another way to assess how much farm estates are impacted by the reform is to compute the increase in their effective average tax rate (EATR) as a result of the changes. This metric gives a better sense of scale than focusing exclusively on how much extra tax would be due in absolute terms, because the same amount of additional tax would have more financial impact for small estates than for large ones. By construction, the most that any farm estate's effective tax rate could increase as a result of the planned reform is 20 percentage points,⁷⁰ given the headline IHT rate of 40% and continuation of 50% relief above the combined allowance. However, some farm estates could face much smaller increases, if they are mostly covered by the combined allowance or if APR/BPR assets make up a relatively small share of the total estate.

Figure 12: Impacted farm estates by percentage point increase in effective average tax rate



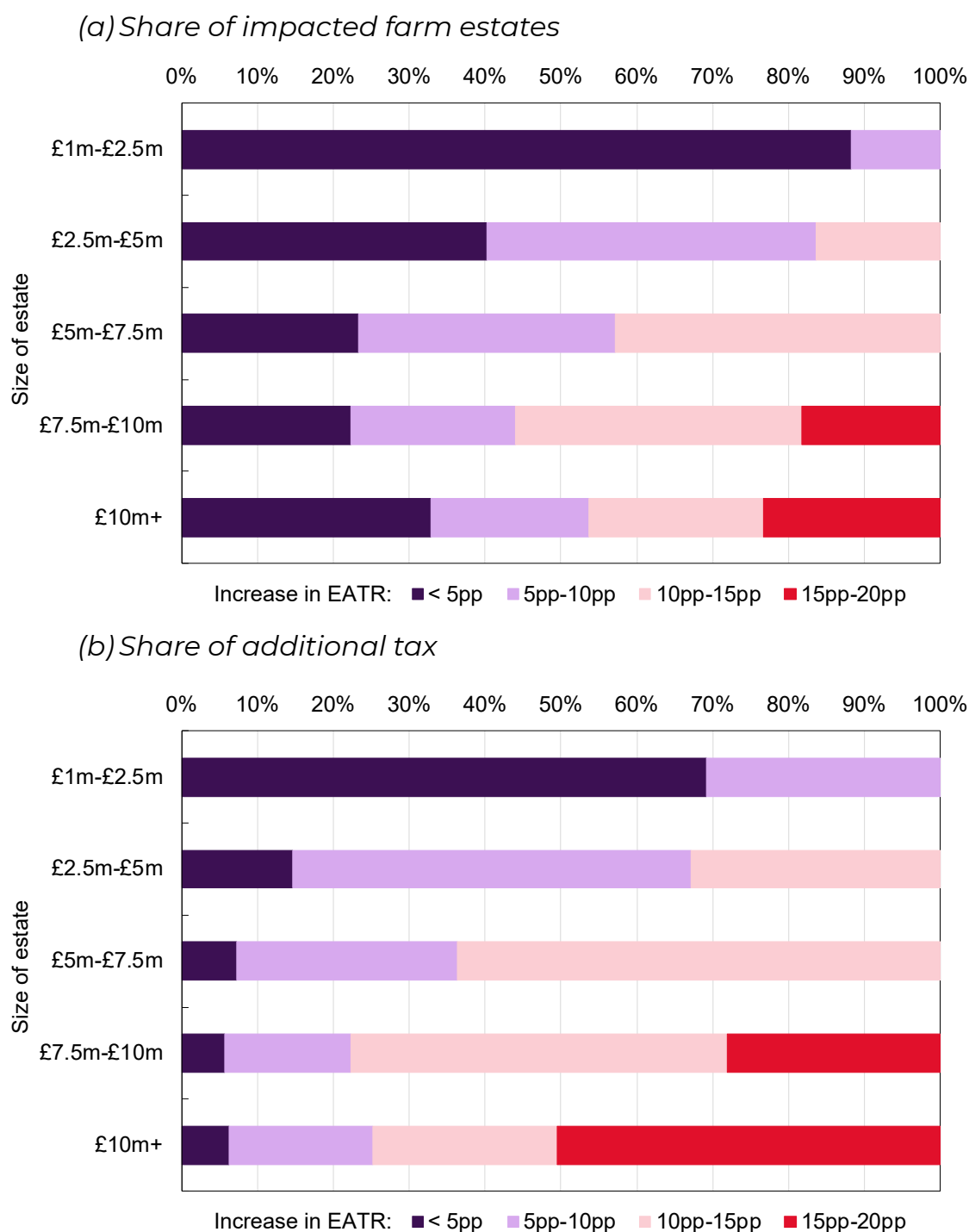
Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. 'Effective average tax rate' is the amount of inheritance tax as a percentage of the total chargeable estate (before any exemptions, deductions or reliefs). 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets.

⁷⁰ Strictly, the increase in effective tax rate could never reach exactly 20pp due to the availability of the NRB.

Figure 12 shows the distribution of the (percentage point) increase in EATRs amongst impacted farm estates. Almost half (49%) of all impacted farm estates would see a tax increase of less than 5pp, or in other words 5% of the total value of the estate. When spread over ten years, this would equate to an additional annual tax bill equal to at most 0.5% of the total value of assets owned. At the other end of the spectrum, around 5% of all impacted farm estates (25 estates per year) would face close to the maximum tax increase of 20 percentage points (between 15-20pp). Figure 13 shows that these estates facing the largest impact all have total estate values of over £7.5 million. Amongst impacted farm estates valued at less than £2.5 million, only around one in ten (12%, 15 estates) would face a tax increase of more than 5pp.

Figure 13: Impacted farm estates by percentage point increase in effective average tax rate and estate size



Notes: Figures show averages over the period 2018-2022 (with uprating to 2027). ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. In both figures, the y-axis shows bins of different size of estate i.e. total chargeable estate (before any exemptions, deductions or reliefs). In Figure (a), ‘share of impacted farm estates’ by (percentage point) increase in EATR is shown for each estate size bin. Figure (b) is similar but instead shows percentage share of an ‘increase in EATR’ bin in total additional tax across all impacted estates in the estate size bin.

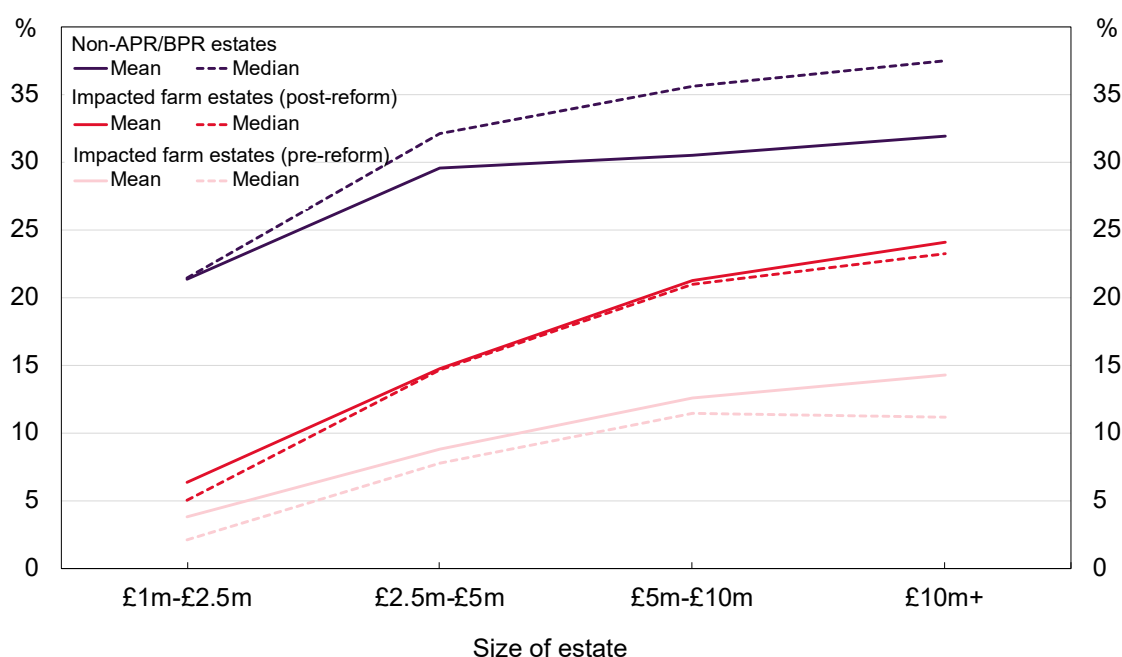
Source: Authors’ calculations based on HMRC administrative datasets.

4.3.3 Comparison with other estates

One of the Government's expressed rationales for the planned reform was to address a perceived unfairness of Inheritance Tax that estates of similar total value pay very different effective average tax rates (EATRs) depending on the types of assets they hold. The reform addresses this disparity by reducing the extent of the tax advantage for qualifying agricultural and business property relative to the status quo. However, the difference in tax treatment according to the types of asset held would remain to some extent, because — unlike other assets — qualifying agricultural and business property would still receive 100% relief up to the combined allowance, and 50% relief above that.

Figure 14 quantifies the extent to which the planned reform equalises the tax treatment of impacted farm estates relative to other estates that do not claim either APR or BPR. Whilst the reform does significantly reduce the difference in EATRs between these groups (on average) a substantial gap remains. The gap in median EATRs is reduced by 3pp for estates valued between £1 million and £2.5 million, and by 12pp for estates above £10 million. However, median EATRs remain at least 14pp lower for impacted farm estates compared with other estates that do not claim either APR or BPR, across all estate sizes. Of course, some would argue that this difference can be justified, but it is important to acknowledge that impacted farm estates would continue to receive a significant tax advantage compared with estates that do not hold any qualifying agricultural or business property.

Figure 14: EATRs of impacted farm estates (pre- and post-reform) and non-APR/BPR estates, by size of estate



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). ‘Impacted’ farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. EATR is the amount of inheritance tax as a percentage of the total chargeable estate (before any exemptions, deductions or reliefs). Comparison of mean and median EATRs of non-APR/BPR estates with impacted estates (pre- and post-reform) is shown by size of estate. Purple lines represent EATRs of non-APR/BPR estates which do not change with the reform. Light and dark red lines respectively represent impacted farm estates pre- and post-reform. For all estates first deaths are excluded because of their use of spouse exemption, which can reduce their EATRs to zero and skew the results.

Source: Authors’ calculations based on HMRC administrative datasets.

4.4 Would impacted farm estates be able to pay the IHT bill?

The primary concern raised by the farming industry is that the descendants of farmers impacted by the planned reform may be unable to pay the tax bill without selling part of the farm.⁷¹ Where this is the case, there is a risk (although not an inevitability) that the farm would need to be broken up, with implications for the viability of the business.⁷² The NFU has argued, citing government statistics, that farming has very low returns to capital compared with other industries, such that the IHT bill could constitute a large share of the farm’s business income.⁷³ Whilst in theory farm owners

⁷¹ NFU, [‘An impact analysis of APR reforms on commercial family farms’](#) 25 November 2024.

⁷² Breakup is not an inevitable consequence of sale, because sometimes it may be possible to sell land on lease-back terms, or the farm may be sold in its entirety.

⁷³ NFU, [‘An impact analysis of APR reforms on commercial family farms’](#) 25 November 2024, citing DEFRA statistics on return on capital employed.

could borrow to pay the tax providing that the underlying business was profitable, in practice this may not be feasible due to credit constraints, especially for small farms.

To shed light on how widespread the risk of farm breakup might be, we estimate the number of impacted farm estates that would be unable to pay their IHT bill out of non-farm assets and/or the income generated by the farm business. We start by estimating the *total* IHT liability (not just the additional liability) of each impacted farm estate. We then compute whether this liability could be paid entirely out of the estate's non-farm assets. If not, we estimate whether the residual IHT bill could be paid out of farm income, assuming that the bill would be paid in interest-free instalments over ten years, as permitted by HMRC. We do not take any view on what is an acceptable minimum level of income for farm owners to be left with after tax, so instead we express the residual IHT bill as a share of farm income after all taxes except IHT.

One concern about our approach might be that the same farm could be affected by multiple deaths and hence multiple IHT bills. However, successive deaths by spouses would only result in multiple IHT bills if there was tax payable on the first death, which is (and will continue to be) rare. Indeed, our approach is likely to *overestimate* cases of inability to pay because we include all married estates in our analysis on a static basis even though many of these estates would not pay any IHT under the planned reform after changing their behaviour. Successive deaths by descendants would only rarely occur within ten years of the first death (i.e. before the initial IHT bill had been fully paid). This leaves only successive deaths by siblings or other non-spousal beneficiaries of the same generation as the deceased. Quick succession relief would mitigate the compounding effect of IHT for where these deaths occur less than five years apart.⁷⁴ The residual cases seem unlikely to be frequent enough to materially affect our results.

4.4.1 Payment out of non-farm assets

We define non-farm assets as the value of the estate that is not covered by the claim for APR/BPR. This would include the main residence except where it was a farmhouse qualifying for APR, in which case it is treated as a farm asset and we also make an adjustment to account for the fact that its value

⁷⁴ IHTA 1984, s141. The relief is 100% when the prior transfer took place within 1 year before death, and then is reduced by 20% per year, so that transfer between 4 and 5 years before death only gets 20% relief.

may not have been fully covered by relief.⁷⁵ Where the deceased held a main residence or other property that was not used for agriculture (i.e. not reflected in any claim for APR), we treat it as available to pay the IHT bill because this is the position for all other estates affected by IHT.⁷⁶ Our measure of non-farm assets does not include pension wealth since this is not reported in historic IHT data. To this extent, we will underestimate the true value of non-farm assets available to pay the IHT bill where the deceased had a pension that they are able to pass to their heirs.

Figure 15 below shows that more than eight out of ten impacted farm estates (86%) have a total IHT liability that is less than the value of the non-farm assets in the estate. In these cases, the entire IHT bill could be paid out of the estate's non-farm assets, without needing to sell any of the assets covered by an APR or BPR claim or pay out of the farm's income.⁷⁷ Out of the remaining 14% of impacted farm estates that could not pay the entire bill out of non-farm assets, around half would be able to pay at least two-thirds of the bill this way. When interpreting these shares, we caution that our definition of 'farm estate' includes all estates holding farmland whether or not these are commercial farms.⁷⁸ However, in absolute terms, around 70 farm estates per year would be unable to pay out of non-farm assets, and this provides an indication of the *maximum* number of commercial farms that may face this situation.

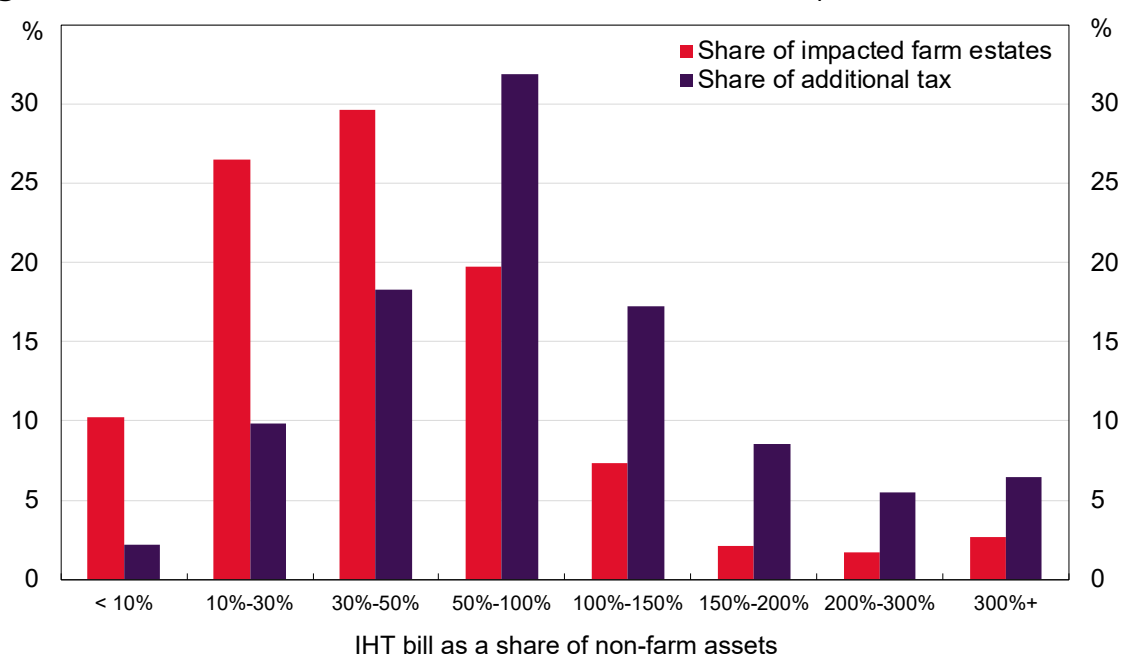
⁷⁵ See Appendix Section A3.2.1.1 for details. For the same reason, the development value of agricultural land would be treated as part of non-farm assets under our definition, unless the land also qualified for BPR. We think that this is reasonable given that in such cases it would usually be possible to borrow against the land to pay the IHT bill.

⁷⁶ To put this another way: to the extent that it is objectionable that descendants may need to sell the main residence or other property to pay the IHT bill, this is a concern about IHT *generally*, not to IHT on farm estates specifically.

⁷⁷ We cannot rule out cases where the APR/BPR claim did not cover the full value of the asset on which relief was claimed, but this could only occur where the asset only qualified for 50% relief (pre-reform), or where farmland had development value that was not fully covered by APR and BPR.

⁷⁸ See further Section 3.2.

Figure 15: IHT bill as a share of non-farm assets for impacted farm estates

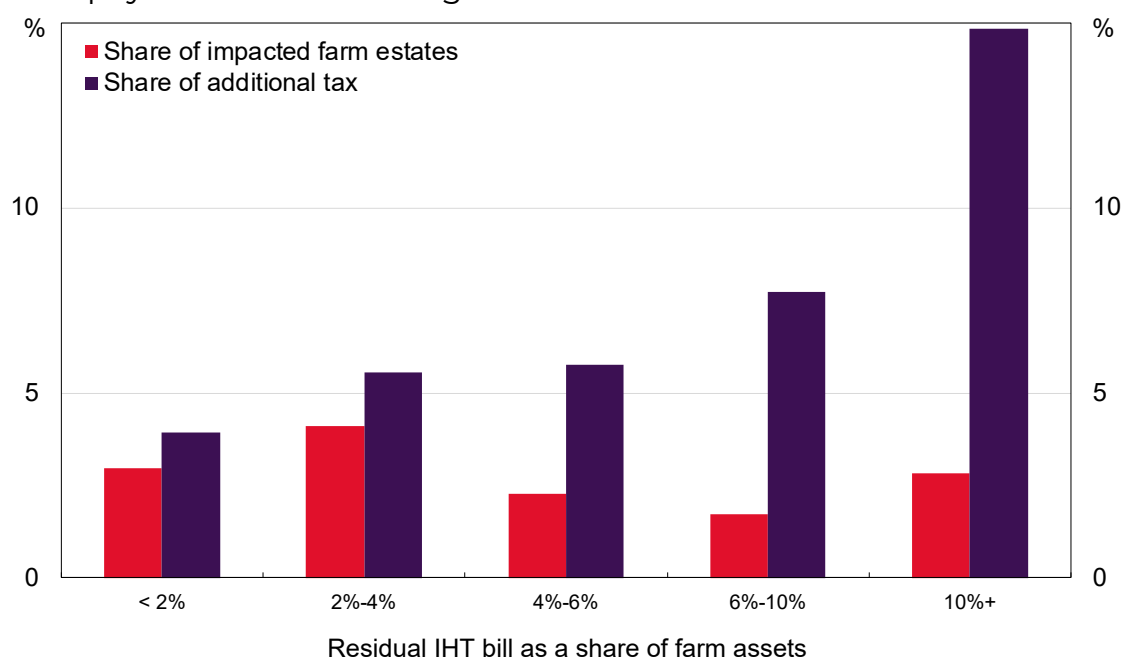


Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. A value of more than 100% on the x-axis implies that the IHT bill exceeds the amount of non-farm assets which are defined by excluding the amount of APR/BPR claim and main residence if it is an APR-qualifying farmhouse (see Appendix Section A3.2.1.1 for details), from the total chargeable value of the estate. 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets.

For impacted farm estates that cannot pay their entire IHT bill out of non-farm assets (i.e. around 70 farm estates), Figure 16 shows the size of the residual IHT bill relative to the value of farm assets in the estate. For around two-thirds of these estates (around 45 farm estates), the residual IHT bill represents less than 6% of the value of their farm assets. However, for around 15 farm estates per year, the residual IHT bill would be more than 10% of the value of their farm assets.

Figure 16: Residual IHT bill as a share of farm assets for farm estates that cannot pay the entire bill using non-farm assets



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. 'Farm assets' include the amount of APR/BPR claim and main residence if it is an APR-qualifying farmhouse (see Appendix Section A3.2.1.1 for details). 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets.

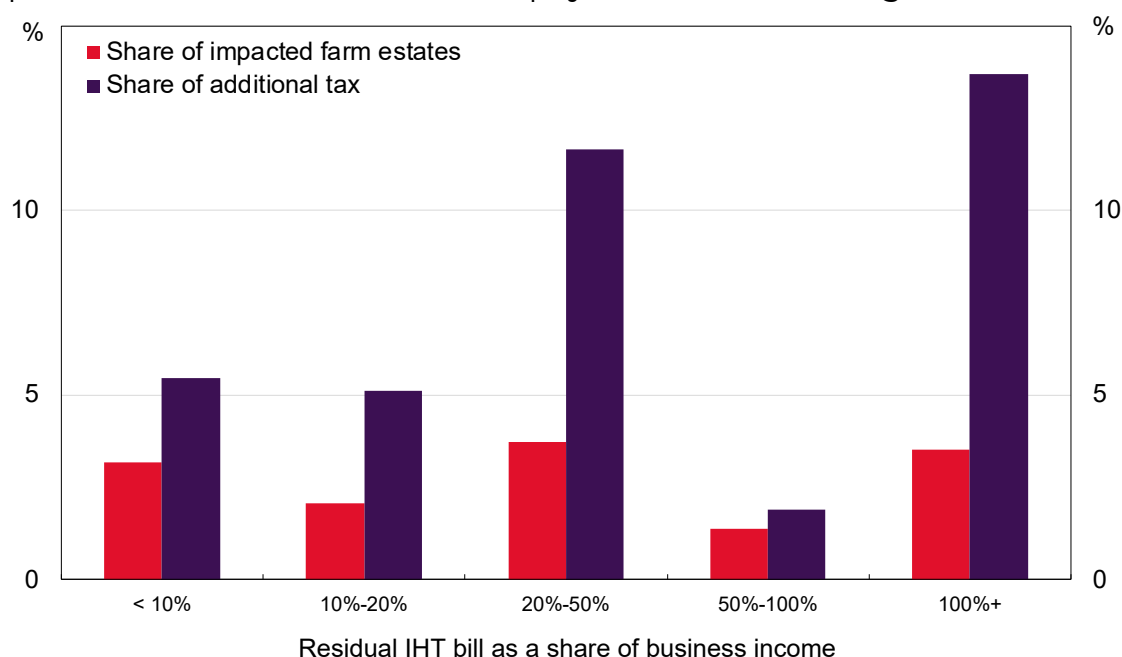
4.4.2 Payment out of farm income

We next analyse whether impacted farm estates that could not pay their entire IHT bill out of non-farm assets could pay their residual bill out of the business income generated by the farm ('farm income'). In line with the payment terms under the planned reform, we treat the residual IHT bill as payable in ten interest-free annual instalments.⁷⁹ We then estimate the income of the farm business (or businesses) associated with the deceased, to assess whether this would be sufficient to fund these annual instalments. We use the average post-tax income of the farm business for the past five years prior to death as the best available proxy for the future income of the farm from which the IHT instalments could be paid.⁸⁰

⁷⁹ Unlike payment in instalments for illiquid assets (i.e. HMRC's '*things that may take time to sell*') which is charged interest, no interest will be charged on the IHT bill attributable to assets qualifying for APR or BPR, provided that the instalments are paid on schedule.

⁸⁰ See Appendix Section A3.2.3 for details.

Figure 17: Residual IHT bill as a share of business income of the farm for impacted farm estates that cannot pay the entire bill using non-farm assets



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. The x-axis shows the residual IHT bill after payment from non-farm assets (divided by ten to represent annual instalments) as a share of annual business income of the farm. A value greater than 100% thus implies that the annual instalment exceeds the annual business income. 'Business income of the farm' is proxied using average income of the farm business for the past five years before death (for details, see Appendix Section A3.2.3). 'Share of impacted farm estates' is the percentage of farm estates out of all impacted farm estates. On average, 480 farm estates are impacted per year. 'Share of additional tax' is the percentage of additional IHT out of the total additional IHT across all impacted farm estates.

Source: Authors' calculations based on HMRC administrative datasets.

Figure 17 shows that out of the 70 impacted farm estates that would still have an outstanding IHT bill after selling their non-farm assets, around 15 estates per year would have an annual IHT instalment that exceeds the total farm income. Of course, it is not reasonable to expect that descendants could devote all of the farm income to paying off the IHT bill. For around 40 farm estates per year, the annual IHT instalment after payment out of non-farm assets would represent over 20% of the farm's post-tax income.

We do not take any position on what would be an 'acceptable' minimum level of income for farm owners to retain after paying the IHT bill. We would ideally show results for a range of possible income levels so that readers could select their own reference point. However, because the number of farm estates remaining at this stage of the analysis is small, showing results broken down for multiple income levels would breach statistical disclosure

rules. Consequently, just by way of illustrative example – and whilst reiterating that we do not endorse this (or any other specific level) as an acceptable minimum – we estimate that around 10 estates per year would fall below £30,000 post-tax income per partner in the farm business as a result of paying the required annual IHT instalment.⁸¹

⁸¹ 25 of the 70 impacted farm estates that would be unable to pay the entire IHT bill out of non-farm assets, would already be below £30,000 post-tax income per partner even without any IHT bill.

5 Alternatives and adjustments

In the previous section, we sought to address the lack of existing evidence on the impact of the Government's planned reform. But an equivalent deficit has also afflicted debates about what the Government could do instead. In this section, we develop and model two potential adjustments to the planned reform, together with a further option that combines both adjustments. We recognise that these options will not please everyone: there would still be some 'losers' relative to the status quo, and indeed some new losers – as well as winners – compared with the planned reform. Our aim is to provide the evidence needed to inform choices about these trade-offs and thereby facilitate an informed debate.

This section is structured as follows. In Section 5.1, we outline the principles that motivate and constrain the options that we have considered. We explicitly restrict ourselves to policies that (in our view) would be deliverable by April 2026, would raise at least as much revenue as the planned reform, and would not increase economic distortions. In Section 5.2, we assess the Government's planned reform against its objectives and evaluate the main alternative endorsed by farm industry bodies, known as 'clawback'. In Section 5.3, we outline two potential adjustments to the planned reform and assess the pros and cons of their design by reference to the Government's objectives and constraints. In Section 5.4, we model the revenue effects of each of these options under specific thresholds. Finally, in Section 5.5, we analyse the impact of each main option on farm estates, compared with the planned reform.

5.1 Principles

Our analysis proceeds from the policy objectives that the Government has already set out, together with a realistic set of constraints facing any alternative or adjustment to the planned reform. A different approach would be to start from first principles of Inheritance Tax design, and this is broadly the approach that we have taken in previous research.⁸² However, it seems more constructive at this relatively late stage in the policy process to search for incremental adjustments that could extend protection of family farms whilst still achieving the Government's other objectives. This pragmatic approach helps us to narrow down the range of policy options that we consider.

⁸² Advani, Disslbacher, Forrester & Summers, '[Inheritance Tax reliefs: time for reform?](#)', CenTax Policy Report (2024); Advani & Sturrock (2023), '[Reforming Inheritance Tax](#)', IFS Green Budget 2023.

5.1.1 Policy objectives

The Government has stated that ‘The purpose of the reforms is to raise revenue to ensure the sustainability of the public finances and to fund public services, whilst continuing to support farms and businesses by targeting the reliefs to make them fairer.’⁸³ When questioned about these objectives, the Prime Minister has emphasised that the ‘driving purpose’ was to raise revenue.⁸⁴ On its own, this objective does not explain why the Government adopted the specific changes announced at the Autumn 2024 Budget in preference to other reforms, or indeed why it chose to reform APR and BPR at all rather than raise revenue from other sources. To identify more specific objectives underlying the planned reform, we look to the official documents published by the Government at the Budget and other subsequent ministerial statements relating to APR and BPR.⁸⁵

At the Budget, the Government put forward two main objectives. First, the policy paper released on Budget day stated that ‘it is not fair or sustainable for a very small number of claimants each year to claim such a significant amount of relief.’⁸⁶ The paper also highlighted a distributional concern that APR and BPR ‘contributes to the very largest estates paying lower average effective inheritance tax rates than smaller estates.’⁸⁷ Along similar lines, the Budget Report described the changes as ‘restricting the generosity of agricultural property relief and business property relief for the wealthiest estates.’⁸⁸ The Government has also highlighted statistics showing that prior to the reform, ‘the top 7% (the largest 117 claims) account for 40% of the total value of agricultural property relief.’⁸⁹ We interpret these statements as an objective to reduce the concentration of claims for relief amongst the wealthiest estates.

Second, in her Budget speech, the Chancellor emphasised that the planned reform will ‘continue to protect small family farms’,⁹⁰ and the Prime Minister has subsequently stated that the Government ‘recognise that family farms

⁸³ HMRC, [‘Policy Paper: Agricultural property relief and business property relief reforms’](#) 21 July 2025.

⁸⁴ Liaison Committee, [‘Evidence from the Prime Minister’](#), HC 530 (Q39), 19 December 2024.

⁸⁵ See also a similar analysis published by the Institute for Government: Tetlow, [‘The agricultural property relief row is a warning to the Treasury’](#), 18 December 2024.

⁸⁶ HM Treasury, ‘Summary of reforms to agricultural property relief and business property relief’, 30 October 2024.

⁸⁷ HM Treasury, ‘Summary of reforms to agricultural property relief and business property relief’, 30 October 2024. See also Baroness Hayman [Hansard](#) HL Deb. (21 November 2024). Vol 841, col 396.

⁸⁸ HM Treasury, ‘Autumn Budget 2024: Budget Report’, 30 October 2024.

⁸⁹ HM Treasury & DEFRA, [‘News Story: What are the changes to agricultural property relief?’](#) 5 November 2024.

⁹⁰ HM Treasury, [Autumn Budget Speech](#), 30 October 2024.

need to be protected'.⁹¹ Whilst the Government has not said explicitly what it means by '*protecting*' family farms, we interpret this a continuation of the previously stated objective of APR 'to ensure agricultural businesses or farms do not have to be sold or broken up following the death of the owner.'⁹² Accordingly, this objective would not entail a guarantee that family farms will pay no additional tax as a result of the reform, only that the reform should not require these farms to be sold or broken up. Implicitly, the Government has taken the view that the £1 million combined allowance is sufficient to achieve this, in addition to the Nil Rate Band and other existing allowances, reliefs and exemptions.

Since the Budget, many observers have attributed to the Government the further aim of reducing the use of agricultural land as a tax shelter. For example, a parliamentary report published by the EFRA Committee in April 2025 endorsed 'the Government's objective of reforming Agricultural Property Relief (APR) and Business Property Relief (BPR) to close the loophole that encourages wealthy investors to buy agricultural land to avoid inheritance tax.'⁹³ However, the Prime Minister has indicated that this was *not* one of the objectives of the reform. When asked by the Chair of the EFRA Committee 'Are you comfortable with the super-rich sheltering their wealth by buying land?', the Prime Minister stated: 'We were not aiming at a particular group ... What the very wealthy do with their money, within the rules, is a matter for them'.⁹⁴

Government ministers have indicated that reducing the use of farmland as a tax shelter would be a positive side-effect of the reform. The Secretary of State for Environment, Food and Rural Affairs, Steve Reed, has stated that 'Buying agricultural land has become the most efficient way for wealthy individuals from non-farming backgrounds to shield that wealth from inheritance tax. This is not what APR was designed for, and it's also pricing farmers out of farming.'⁹⁵ Similar statements have been made by other

⁹¹ Liaison Committee, '[Evidence from the Prime Minister](#)' Q39, 19 December 2024.

⁹² HMRC, '[Non-structural tax reliefs and objectives](#)' 30 November 2021.

⁹³ EFRA Committee, '[The Government's Vision for Farming: First Report of Session 2024-25](#)', HC 906, 16 May 2025, paragraph 46.

⁹⁴ Liaison Committee, '[Evidence from the Prime Minister](#)', HC 530 (Q39), 19 December 2024. The Prime Minister also stated that 'What we tried to do was to get the balance right and to protect the family farm'.

⁹⁵ Department for Environment, Food and Rural Affairs, '[Steve Reed speech at the 2024 CLA Conference](#)', 21 November 2024. See also Steve Reed's [oral evidence to the EFRA Committee](#), HC 415, 19 November 2024: "One of the best ways to shield a large amount of money from inheritance tax is to buy agricultural land. That is not because they are interested in farming or in food security or food production; it is because they are interested in avoiding the liability that they would otherwise incur. That cannot have been the intention of APR, when it was introduced, so I think we do need to look at that"

DEFRA ministers.⁹⁶ The Exchequer Secretary to the Treasury, James Murray, has noted that ‘There certainly is evidence that the current inheritance tax system has caused people to use these reliefs for tax planning and to avoid inheritance tax bills.’⁹⁷ We conclude that whilst reducing the use of APR and BPR for tax planning is not an objective of the reform, it is an aim that the Government could plausibly choose to advance in future.

5.1.2 Policy constraints

In addition to achieving the Government’s policy objectives at least as well as the planned reform, we think that any alternatives or adjustments must also satisfy some constraints if they are to be treated as plausible. To this end, we anticipate three key constraints on the range of options that the Government could realistically consider. These are that the reform: (1) remains feasible to deliver by April 2026, which is the Government’s intended timescale for implementation; (2) would raise at least as much revenue as the planned reform; and (3) does not increase economic distortions, again relative to the planned reform.

5.1.2.1 Deliverable by April 2026

The Government has consistently reiterated its commitment to implementing its reform of APR and BPR with effect from April 2026. This entails that legislation needs to be included in the next Finance Bill (for enactment in Spring 2026) and that administrative systems would need to be in place to deliver the policy by early 2026. If there was a change in policy that could materially affect the revenue raised, then it would also need to be ‘scored’ by the Office for Budget Responsibility (OBR). In practice, this is unlikely to occur outside a fiscal event, meaning in effect that the policy would need to be capable of being scored by the OBR as part of the Autumn 2025 Budget process.

This process implies three feasibility constraints that we think must be taken into account when seeking – at this stage of the policy process – to intervene with new policy options. The first is legislative: significant changes in ‘legislative infrastructure’ (i.e. new concepts or definitions) are unlikely to be feasible for inclusion in the next Finance Bill. The second is administrative: any option that requires major new systems for reporting or enforcement is

⁹⁶ See e.g. Minister for Food Security and Rural Affairs, Daniel Zeichner, [Hansard HC Deb. \(4 November 2024\) Vol 756, Col 23](#); Baroness Hayman [Hansard](#) HL Deb. (21 November 2024). Vol 841, col 396.

⁹⁷ [Hansard HC Deb \(23 January 2025\), vol 760, col 1107](#).

not now going to be deliverable by early 2026.⁹⁸ The third constraint is fiscal: if the data do not currently exist to model the revenue effects of the policy convincingly, then the OBR is likely to insist on a significant degree of caution, which in practice will weigh heavily on the revenue that could be scored from the policy.

Concretely, we think that these requirements indicate that any feasible alternative option must satisfy three conditions. First, it must apply to all estates, including non-farm estates. Although we have sought to define ‘farm estates’ for statistical analysis purposes, imposing a definition for policy purposes would be extremely difficult legislatively and administratively. Second, the reform should not require significant changes to the existing qualifying criteria for agricultural and business property, since these are likely to be prohibitively difficult to legislate and deliver on the timescale required, as well as being more difficult to model. Third, for reasons that we explain further below, we think that the concept of a combined allowance – as developed under the planned reform – is essential to prevent additional distortions from APR and BPR, which as well as being economically damaging would create a new set of legislative and administrative difficulties.

These three conditions point strongly in favour of incremental adjustments to the planned reform, rather than a wholesale rethink.

5.1.2.2 At least revenue neutral

As already noted above, the Prime Minister has emphasised that the ‘driving purpose’ of the planned reform was to raise revenue.⁹⁹ The Government has also repeatedly stated that reforms to APR and BPR are needed as part of its plan for ‘fixing the public finances’.¹⁰⁰ The revenue expected to be raised from the planned reform is £0.5 billion per year.¹⁰¹ It seems inconceivable that the Government would adopt an alternative that was expected to raise less revenue than the planned reform. The need for revenue-neutrality compared with the planned reform has also been recognised and endorsed by the NFU.¹⁰²

⁹⁸ We recognise that in practice, delivery timescales depend to a significant degree on political will and commensurate prioritisation and resourcing. Major new administrative systems can sometimes be designed and delivered within a short timeframe: see e.g. the new mechanism for recouping the Winter Fuel Payment from ineligible recipients.

⁹⁹ Liaison Committee, [‘Evidence from the Prime Minister’](#), HC 530 (Q39), 19 December 2024.

¹⁰⁰ James Murray, Exchequer Secretary to the Treasury, Response to Parliamentary Question tabled 9 June 2025, [UIN 58288](#). See also Department for Environment and Rural Affairs, [Statement on farming and agricultural property relief](#), 19 November 2024.

¹⁰¹ Based on the OBR’s estimate of receipts in 2029-30, which includes the reduction in relief on AIM shares as well as the £1 million combined allowance.

¹⁰² NFU, [‘APR and BPR reform alternative – a clawback’](#), 19 February 2025.

The reform as announced at the Autumn 2024 Budget is now included in the OBR's baseline for future fiscal events, even though it has not yet been implemented. Accordingly, in this report we refer to 'revenue neutrality' (or additional revenue raised) relative to the *planned reform*, since that is now the relevant calculation both politically and fiscally. As we explain further below in Section 5.4.3, this also means that when we estimate the revenue effects of the alternatives that we model, we take the OBR's behavioural assumptions for the planned reform as our starting point and then apply adjustments (if needed) to account for the fact that our alternative would affect a different population. This is because our aim is not to assess the correctness of the original costing of the planned reform,¹⁰³ but to take a pragmatic view of how the OBR might approach any change to the planned policy at this stage.

As we have already noted, we think it is infeasible to design a policy that only applies (by definition) to 'farm estates'. It follows that any assessment of revenue-neutrality must take account of the effect of the alternative option on the *full population* of estates claiming APR and/or BPR, which will also include non-farm estates claiming BPR only. A reform that raised the same amount of revenue from farm estates but led to a net loss of revenue from non-farm estates would plainly not be revenue neutral from a public finance perspective. As we explain further in Section 5.5.1, the requirement of revenue-neutrality across all estates implies that alternative reforms may shift the distribution of revenue between farm and non-farm estates as well as amongst farm estates, relative to the planned reform.

Finally, our constraint is that any alternative options must raise *at least* as much revenue as the planned reform. We are not actively seeking options that would raise additional revenue. On the other hand, some of the policies that we consider in Section 5.3 have the 'side-effect' of going beyond mere revenue-neutrality. Where the policy parameters that would achieve strict revenue-neutrality would run contrary to the Government's policy objectives – for example, overextending the availability of 100% relief for some estates that do not need it – we allow the policy to be revenue-raising. There is then a separate question about how any extra revenue should be spent.¹⁰⁴

¹⁰³ The OBR has classified the costing as subject to 'high' uncertainty. However, having reviewed the methodology based on published information, we agree that the estimate is 'reasonable and central'.

¹⁰⁴ See further Section 5.4.4 below.

5.1.2.3 *Does not increase distortions*

The final policy constraint that we impose is that alternative options should not increase economic distortions relative to the planned policy. There are two main distortions to consider in the context of reform to APR and BPR: (1) distortions over investment portfolio choice; and (2) distortions over the occupation of farms. We treat the relevant benchmark for assessing distortions as the net effect compared with the planned policy, not perfect neutrality.

We think that this constraint points strongly towards the reform retaining a combined allowance for APR/BPR, as under the planned reform. Any option that extends APR without doing the same for BPR would distort occupation of farms by favouring owner-occupiers over tenant farmers. Separate allowances for APR and BPR would also distort portfolio choices by creating an incentive to invest in both APR- and BPR-qualifying assets to maximise the value of the reliefs. A combined APR/BPR allowance has the merit of treating owner-farmers and tenant farmers equally and avoiding the creation of a new incentive to diversify investment portfolios across agricultural and business property. We think that these features of the planned reform should be preserved.

5.2 **Assessment of existing options**

Before outlining the new options that we consider, we assess the Government's planned reform and the main alternative endorsed by farm industry bodies ('clawback'), against the policy objectives and constraints that we have identified in the previous section. This analysis provides an important benchmark against which to assess the relative merits of the options for adjusting the planned reform that we consider in Section 5.3.

5.2.1 **The Government's planned reform**

The planned reform would significantly reduce the concentration of claims for relief relative to the status quo, but the concentration would remain high. Since the largest claims would obtain only 50% rather than 100% relief on most of their claim, whereas 100% relief would be retained up to the £1 million combined allowance, the effect is to reduce the overall concentration of relief. Figure 7 shows that impacted farm estates with APR/BPR claims exceeding £10 million account for 43% of the additional tax from the planned reform. However, the distribution of qualifying agricultural and business property is so skewed towards the very top that, even at 50% relief, a substantial share of all relief would still go to a relatively small number of claimants.

The planned reform protects family farms to a large extent, depending on one's definitions of 'protect' and 'family farm'. The Government has highlighted that the £1 million allowance 'means that two people with farmland, depending on their circumstances, can pass on up to £3 million without paying any inheritance tax.'¹⁰⁵ However, this depends on tax planning on the first death, which may not always be practicable.¹⁰⁶ Figure 2 shows that 40% of farm estates that would pay additional tax if there was no change in behaviour are valued at less than £3 million. Figure 17 shows that a total of around 70 farm estates per year would still have an outstanding IHT bill after selling all of their non-farm assets. For around 40 of these estates, the annual IHT instalment after payment out of non-farm assets would represent over 20% of the farm's post-tax income.

Finally, the planned reform also reduces the use of APR and BPR for tax planning, relative to the status quo, by restricting relief to 50% for the largest claims. However, the retention of 100% relief up to £1 million means that the use of agricultural and business property as a tax shelter remains as attractive as ever for those with claims below this amount.¹⁰⁷ Moreover, even after the reform, wealthy individuals will still stand to save an amount of tax equivalent to (at least) 20% of the value of their investable wealth by buying farmland.¹⁰⁸ Consequently, the planned reform is not well-targeted at reducing the use of APR and BPR for tax planning, although as we noted in Section 5.1.1, the Government has stated that this was not one of its objectives.

Since all of the policy constraints that we have identified are relative to the planned reform, there are no additional criteria to assess here.

5.2.2 The clawback alternative

Following the Budget, several alternatives to the Government's planned reform have been proposed by a variety of farm industry bodies, think tanks, and others.¹⁰⁹ Some proposals concern purely transitional measures,¹¹⁰ but others are direct 'alternatives' in that they advocate a different permanent reform to the one announced by the Government. By far the most

¹⁰⁵ HMT and DEFRA, '[What are the changes to agricultural property relief?](#)', 5 November 2024.

¹⁰⁶ See Section 4.1.5.3.

¹⁰⁷ Bringing pensions within IHT provides an incentive for a large additional class of less wealthy individuals to invest in farmland, compared with the pre-reform period.

¹⁰⁸ Moreover, the removal of IHT advantages for non-doms means that there will now be a large additional class of very wealthy individuals who may wish to invest in farmland.

¹⁰⁹ For an overview, see EFRA Committee, '[The Government's Vision for Farming: First Report of Session 2024-25](#)', HOC 906, paragraph 44, 16 May 2025.

¹¹⁰ See e.g. the proposal by the Tenant Farmers Association (available [here](#)).

prominent alternative is the ‘clawback’ proposal, initially put forward by Tax Policy Associates and subsequently adopted by the NFU.¹¹¹ Under this proposal (in the form adopted by the NFU),¹¹² estates would retain 100% relief for agricultural and business property provided that the property was retained by the heirs for at least seven years following the death but would receive no relief otherwise.

The primary objective of the clawback proposal, understandably from the perspective of farm industry bodies, is to ‘protect family farms’ (whether ‘small’ or not). Clawback would achieve this aim more comprehensively than the planned reform almost by construction. This is because under the proposal, all farm estates would qualify for 100% relief on all of their agricultural and business property provided that the heirs retained the property. Relief would be lost if the heirs disposed of the farm within the prescribed period, but in such cases, it would be difficult to argue that the farm was (any longer) a *family* farm. We can therefore see the logic underpinning this aspect of the proposal.

However, in our view, clawback would perform worse than the planned reform when assessed against the Government’s objective of reducing the concentration of relief.¹¹³ On the contrary, clawback would likely result in a *higher* concentration of claims for relief by a small number of estates, compared with the planned reform. This is because under the planned reform, relief is reduced to 50% for the largest claims. Under the NFU’s clawback proposal, 100% relief would continue to be available for the wealthiest estates provided that the heirs retained the property, and irrespective of whether the heirs were active farmers. The original proposal by Tax Policy Associates included an upper limit of £20 million on relief even for heirs who passed the clawback test, which offsets some of this effect on concentration. However, this element of the TPA proposal was not carried forward by farm industry bodies.

Moreover, clawback would prevent some uses of agricultural land as a tax shelter but it would exacerbate others, compared with the planned reform. It would make such purchases less appealing for investors whose heirs may

¹¹¹ Tax Policy Associates, ‘[How to stop IHT avoidance but protect farmers](#)’ 24 November 2024; NFU, ‘[APR and BPR reform alternative – a clawback](#)’ 19 February 2025.

¹¹² The original proposal by Tax Policy Associates only applied to farm estates and included an upper limit on relief of £20 million. These aspects of the policy appear to have been dropped in the NFU’s proposal.

¹¹³ The Government has highlighted that clawback ‘could mean some of the wealthiest estates pay less inheritance tax compared to the proposed reforms’: James Murray, Exchequer Secretary to the Treasury, Response to Parliamentary Question tabled 24 February 2025, UIN [33135](#).

need to sell the property within the prescribed period. But it would make it *more* appealing for investors whose heirs were willing and able to retain the property, by offering them 100% relief instead of 50% relief (above the combined allowance) under the planned reform. The net effect on the price of agricultural land would depend on whether – by value of land purchased, not the number of purchasers – the former or the latter effect dominated. As we explain further below, we think that wealthy heirs would often be willing to retain the land for long periods. If so, the use of agricultural land as a tax shelter may well be worse overall under clawback than the planned reform.

In addition to these shortcomings, the clawback proposal also fails all of the constraints that we have identified. Taking each of these in turn:

First, clawback is not deliverable by April 2026, and we have doubts about its feasibility even with a substantial delay. We acknowledge that several other countries already use some version of clawback – although as far as we are aware it always operates as an *additional* condition for relief, rather than the sole condition. Even so, implementing clawback in the UK would require major legislative changes and new administrative systems. Complex rules would be required to prevent avoidance using arrangements that could allow heirs to realise the value of the farmland without actually triggering a disposal of the asset. The administrative mechanisms required to monitor disposals *and* these avoidance arrangements many years after death, would also not be straightforward to design and implement.

Second, the revenue effects of clawback are extremely uncertain. It would be difficult to produce even a credible *static* estimate of the yield because – so far as we are aware – no data source currently exists to estimate the value of qualifying assets that are currently retained or sold by heirs in the years following death. On top of this, the behavioural response is very uncertain. Plausibly the ‘retention response’ (i.e. increased retention of qualifying property by heirs as a result of the policy) could be very large, given that the tax saving would equate to 40% of the value of the asset. Unless sale of the asset was required to fund the heir’s consumption *and* it was not possible to borrow against the asset, we think that many heirs would choose to hold on to the asset for tax purposes even if they were not active farmers.¹¹⁴

Consequently, we are sceptical of claims that clawback would be revenue-neutral compared with the planned reform. The estimate originally

¹¹⁴ Such a large tax saving would often make retention worthwhile even if the asset yielded lower returns (over the prescribed period) than other asset classes.

produced by Tax Policy Associates was acknowledged to be a “‘back-of-a-napkin’ calculation”.¹¹⁵ Moreover, TPA’s estimate was based on a policy that only applied to farm estates and included an upper limit on relief of £20 million per estate, whereas these restrictions appear to have been dropped in the NFU’s proposal. The Government has asserted that clawback would raise ‘much less’ revenue than its planned reform.¹¹⁶ As a matter of principle, we think that when making assertions of this kind, the Government should publish the modelling underlying its conclusion. Nevertheless, we think that the OBR is unlikely to have confidence that clawback would be revenue neutral, at least under the seven-year holding period as proposed by the NFU.

Finally, clawback would significantly worsen economic distortions compared with the planned reform. Although the Government has not expressed this as a decisive factor, we think it is a sufficient reason to reject the policy. As already outlined above, from the perspective of (potential) investors, clawback would decrease the incentive to buy farmland for some but increase it for others. In relation to heirs, the distortion is much worse, because it would strongly increase the incentive to retain qualifying property rather than sell it. This would induce some heirs who would otherwise have sold their farmland to keep it, even in circumstances where (without the tax implications) they would have preferred to sell and others could have used the land more efficiently. This would have a negative impact on farming productivity and could also be to the detriment of active farmers wishing to buy land.

5.3 Additional options

Whilst the Government’s planned reform has faced criticism, the main alternative that has so far been proposed is not viable. This has resulted in a policy impasse. Nevertheless, *if* it were possible to identify changes that could extend protection of family farms whilst still achieving the Government’s other objectives (and also meeting its constraints), we think these would merit serious consideration. In this spirit, we develop two potential adjustments to the planned reform: a ‘minimum share’ rule and an ‘upper limit’ on relief. Either option could be used to fund an increase in the combined allowance for APR/BPR above £1 million. A further option would be to combine both adjustments, which would allow for a larger increase in the combined allowance and/or raise additional revenue.

¹¹⁵ Tax Policy Associates, ‘[How to stop IHT avoidance but protect farmers](#)’, 24 November 2024.

¹¹⁶ James Murray, Exchequer Secretary to the Treasury, Response to Parliamentary Question tabled 9 June 2025, [UIN 58288](#).

We frame these options as ‘adjustments’ rather than alternatives because in each case they retain and build upon the key structural innovation of the planned reform, namely the combined allowance for APR and BPR. Accordingly, they represent incremental changes to the planned reform instead of (as with clawback) a wholesale alternative. We recognise that any change to the planned reform now faces a high bar for adoption, but by focusing on incremental adjustments we increase the chance that changes could be delivered by April 2026, if the Government wished. Moreover, we have costed each option and estimated thresholds that could be set to ensure (at minimum) revenue-neutrality compared with the planned reform, thereby removing a further barrier to adoption.

5.3.1 ‘Minimum share’ rule

The first option that we consider is what we call the ‘minimum share’ rule. Under this policy, only estates that meet a minimum claim for APR/BPR as a share of the estate (including gifts made within the previous seven years) would qualify for relief. A similar rule already operates in Ireland.¹¹⁷ The revenue raised by this additional restriction on relief could then fund an extension of the combined allowance beyond the planned level of £1 million, giving a larger band of 100% relief for estates that meet the minimum share. The rule would be similar in spirit to clawback, in the sense that it seeks to target relief on active farmers (and other active business owners) at the expense of passive investors in agricultural and business property. However, compared with clawback, we think that it has fewer downsides and would be more feasible to implement.

In simple terms, the application of the minimum share rule would involve calculating the percentage of the estate that would qualify for APR/BPR apart from the rule and then denying relief if the estate was below the required threshold. As an example, if the minimum share was set at 60% and a £5 million estate had less than £3 million of value qualifying for APR/BPR, then it would fail the minimum share test and would not be eligible for any relief. But if the value qualifying for APR/BPR was £3 million (60%) or greater, 100% relief would be available up to the new (higher) combined allowance. In the following sub-section, we provide further technical information on how to define the denominator and numerator for the purpose of determining the relevant share. In order to be feasible to implement by April 2026, the rule would need to rely exclusively on existing legislative

¹¹⁷ Capital Acquisitions Tax Consolidation Act 2003, s89 restricts relief to beneficiaries who hold at least 80% of their estate (including the gift or inheritance of agricultural property) in agricultural property. Ireland uses a donee-based tax, so the test applies at the level of beneficiaries rather than the deceased's estate, but the principle is the same.

definitions and reporting mechanisms. This results in some trade-offs – especially in relation to the risk of avoidance – which we also discuss below.

5.3.1.1 *Technical information*

The numerator for the minimum share should be the value qualifying for APR/BPR under existing qualifying rules.¹¹⁸ These rules – distinct from the provisions determining the rates of relief – are unaffected by the planned reform. They include, for example, minimum holding periods for agricultural property and relevant business property,¹¹⁹ the requirement that the farmhouse is ‘of a character appropriate to the [agricultural] property’,¹²⁰ the restriction of APR to agricultural value,¹²¹ the exclusion of BPR on assets that were not used wholly or mainly for the purpose of the qualifying business (‘excepted assets’),¹²² and so on. An exception is the value attributable to unquoted shares traded on a recognised stock exchange (‘AIM shares’), which we suggest should be excluded from the numerator even though they remain relevant business property under the planned reform, since these shares are typically divisible and more easily traded, so do not give rise to the same liquidity concerns as other types of business asset.

The relevant value for the numerator should be the *full* value qualifying for relief (apart from the minimum share rule), even where the applicable rate of the relief is set at less than 100%. In most cases, the numerator would therefore be equal to the value of the assets on which APR/BPR was claimed (‘APR/BPR assets’). However, there would be some cases in which the relevant value was less than the full open market value of the assets, in particular where agricultural property has ‘excess value’ beyond its agricultural value *and* the excess does not qualify for BPR. The most important example of this is where farmland has development value (which is not covered by APR) *and* the land has been let out rather than farmed in hand (so is typically not covered by BPR).¹²³ In such cases it would usually be possible to borrow against the land, and in any case it seems hard to argue for an absolute guarantee that the land will never need to be sold to pay the IHT bill.

¹¹⁸ Section 116(1) (APR); Section 104(1) (BPR). This would include the value qualifying for APR/BPR on both assets within the estate and any chargeable lifetime transfers but not exempt lifetime transfers.

¹¹⁹ Section 117(b) (APR); Section 106 (BPR).

¹²⁰ Section 115(2).

¹²¹ Section 115(3).

¹²² Section 112.

¹²³ Another example is excess residential value of the farmhouse, although this could be (partially) covered by the residential nil rate band.

The denominator would be the chargeable value of the estate *plus* the value of any gifts made within the previous seven years. The estate would be calculated prior to any exemptions, reliefs or allowances. The inclusion of gifts made within the previous seven years is necessary because otherwise the minimum share rule could be gamed by giving away assets that would not qualify for APR/BPR ('non-APR/BPR assets') shortly before death (or other chargeable event) in order to drive up the residual share of APR/BPR assets in the estate. The minimum holding periods for APR and BPR mean that buying agricultural or business property using non-APR/BPR assets would not succeed in avoiding the minimum share rule if the purchase was made within two years prior to death,¹²⁴ because such assets would be included in the denominator but would not yet be included in the numerator. However, unless gifts were added to the estate for the purpose of calculating the relevant share, giving away non-APR/BPR assets shortly before death would reduce the denominator without affecting the numerator.

HMRC already requires that most types of gift made within seven years of death are reported on IHT403. This includes not only chargeable gifts (such as potentially exempt transfers and chargeable transfers into trust) but also any exempt gifts (such as gifts to charity) *except* for gifts that are covered by the annual, small gifts, or spouse exemption. Ignoring small gifts and annually exempt gifts is unproblematic because these exemptions are capped at low amounts. However, for reasons explained below, ignoring all spousal gifts regardless of their amount and time before death could pose a risk of avoidance. This results in a trade-off between preventing avoidance of the minimum share rule and increasing the administrative complexity of the rule.

To illustrate the risk from ignoring all spousal transfers when applying the minimum share rule, consider the following example. A and B are married, and between them own £1 million in APR/BPR assets and £9 million in non-APR/BPR assets. If A and B own these assets jointly or in equal shares, then both of them would fail the minimum share rule, whoever dies first. However, if instead they reorganise their holdings using spousal transfers so that A holds all of the APR/BPR assets and B holds all of the non-APR/BPR assets, then A would meet the minimum share on their death if they die first. Under current rules, the transfer of agricultural or business property from B to A would not restart the minimum holding period so they would

¹²⁴ Section 117 (APR); Section 106 (BPR).

qualify for APR/BPR immediately.¹²⁵ This planning would not be effective if B pre-deceases A, but there would be a strong incentive to adopt it in circumstances where A's death is anticipated.

There are various approaches that could be taken to address this problem but they all have some drawbacks. First, doing nothing is an option, but would result in some loss of revenue from avoidance, in particular from granting relief to couples on the first death whether neither spouse would have qualified if they had not reorganised their holdings. Second, this avoidance could be eliminated if both estates were valued together for the purpose of applying the minimum share rule on the first death. However, this would entail a fundamental change to the IHT system, which seems infeasible to implement by April 2026. Third, targeted anti-avoidance rules could be used to include certain spousal gifts within the scope of the rule and also deny cumulation of holding periods for certain receipts of assets from spouses. We suggest that this would be the most proportionate response to the risk of avoidance but recognise that it would still introduce some additional complexity.

In relation to trusts, the minimum share rule should apply to determine the availability of APR/BPR for immediately chargeable transfers, as well as on death. In such cases, it would similarly be necessary to value the transferor's estate as well as any other gifts made within the previous seven years, for the purpose of applying the rule. We have already noted that any chargeable transfers into a relevant property trust made within the previous seven years should be included in both the numerator and denominator for the purpose of applying the minimum share rule on death. Given this 'look back' for gifts into trust, we do not think that it would be essential to aggregate the deceased's estate with all of the trust property settled by the deceased (i.e. including transfers more than seven years previously), provided they had been excluded from benefit. However, if aggregation was thought to be necessary, the 'anti-fragmentation' rules created for the purpose of the combined allowance could provide an adaptable mechanism.¹²⁶

We note that a minimum share rule would increase the incentive to engage in existing tax planning strategies designed to obtain APR/BPR, especially for individuals whose relevant share was close to the threshold. To take one example, 'Balfour structuring' seeks to obtain BPR on investment assets by holding them as part of a hybrid trading and investment business that

¹²⁵ Section 121 (APR); Section 109 (BPR).

¹²⁶ HMRC, '[Reforms to Inheritance Tax agricultural property relief and business property relief: application in relation to trusts](#)' 27 February 2025, Section 4.

passes the ‘wholly or mainly’ test.¹²⁷ We think there is a strong case for revisiting the scope of BPR in relation to investment assets, and more generally for reviewing whether the qualifying conditions for APR and BPR remain appropriate in light of their policy objectives. This review should be undertaken irrespective of the implementation of a minimum share rule. It would not be essential to implement these ancillary changes by April 2026, since a minimum share rule could still work reasonably effectively without them, but in the longer run they may be needed to ensure that the rule is robust to avoidance.

Finally, the relevant share should be set at a single threshold, with full relief for estates that meet the threshold and no relief for estates that are below. We consider that a ‘cliff-edge’ is preferable to a taper for three reasons. First, whilst a taper would reduce the magnitude of behavioural responses for estates closest to the threshold, it would also result in distortion for a larger number of individuals because there would be more estates whose IHT treatment would be affected by a small change in their share of APR/BPR assets. Second, in this specific context, a cliff-edge would be much harder to game than a taper, given that assets may be difficult to value precisely (or their value may fluctuate) prior to death, so anyone attempting to boost their share of APR/BPR assets for tax planning purposes would need to clear the relevant threshold by a significant margin to be sure of getting the relief. By contrast, under a taper, there would always be an incentive to marginally increase ones APR/BPR share within the region of the taper. Third, a cliff-edge is easier to understand and administer than a taper.

5.3.1.2 Assessment against objectives

A minimum share rule would enable the Government to extend protection for family farms via an increase in the combined allowance. The minimum share could be set at a threshold that would ensure that all ‘family farms’ – i.e. estates of those whose primary economic activity was farming – would qualify. These estates would be ‘winners’ from a minimum share rule compared with the Government’s planned reform, because they would benefit from a higher combined allowance for 100% relief, funded by the extra revenue from estates whose APR/BPR assets were below the minimum share. Moreover, any farm estate that failed to meet the minimum share would, by definition, be less financially vulnerable to an increase in tax, as they would have substantial non-farm assets that could be used to pay the additional tax.

¹²⁷ Section 105(3) Inheritance Tax Act 1984. The term ‘Balfour structuring’ refers to the decision in *HMRC v Brander* [2010] UKUT 300 (TCC).

A drawback of the minimum share rule – if implemented in isolation – is that it would leave a somewhat higher concentration of relief than under the planned reform. The Government could therefore legitimately claim that a minimum share rule would not satisfy this policy objective as well as the planned reform. In particular, as we show in Figure 21, the planned reform would raise 55% of additional revenue from the wealthiest farm estates (valued at over £10 million), whereas a minimum share rule would ‘only’ raise between 42-44% (depending on the level of the combined allowance) from these estates. A minimum share rule would also significantly reduce the total number of estates benefiting from relief compared with both the status quo and the planned reform, although this is a direct corollary of the reform being more targeted in favour of active farmers and other active business owners.

The minimum share rule would eliminate the incentive to use agricultural and business property as a tax shelter for any investors who would (despite such purchases) fall below the relevant minimum share. The rule would therefore put a stop to marketed investment schemes that encourage the use of APR and BPR for tax planning,¹²⁸ since most passive investors would be unable or unwilling to increase their share of APR/BPR assets sufficiently to meet the threshold.¹²⁹ On the other hand, in the absence of any upper limit on relief (discussed further below), a minimum share rule would not prevent the use of farmland as a tax shelter by large business owners and other large landowners whose APR/BPR share was high enough to meet the test. Even so, if relief was limited 50% above the new (higher) combined allowance, the scope for tax-motivated purposes of farmland by wealthy estates would be no worse than under the planned reform.

5.3.1.3 Assessment against constraints

A minimum share rule should be feasible to deliver by April 2026, but only with some trade-offs. For the most part, the calculation could rely on existing legislative definitions and information that is already reported on IHT returns. Minor administrative adjustments such as changes to the tax calculation should be possible with sufficient political will. However, as we discuss in Section 5.3.1.1, spousal transfers pose a challenge that may require new legislative infrastructure and/or reporting in order to adequately safeguard against avoidance. Consequently, either implementation may need to be delayed beyond April 2026, or the Government would need to

¹²⁸ This was implicitly the purpose of the Government’s reform to BPR on AIM shares, but under a minimum share rule most such investments would get no relief.

¹²⁹ See Figure 18 showing that over half of estates claiming relief have very low (<20%) shares of APR/BPR in the total estate, indicative of passive investments.

tolerate some degree of avoidance, at least in the short term. Neither of these options is ideal. Notwithstanding these challenges, we think that a minimum share rule is much more feasible than clawback whilst achieving very similar objectives, so merits serious consideration on this basis.

Importantly, a minimum share rule could be scored by the OBR with much higher certainty than clawback. The policy is smoothly adaptable to ensure that when costed it achieves at least the same amount of revenue as the planned reform, by varying the size of the combined allowance for qualifying estates. As we have modelled in Section 5.4, the revenue raised from estates below the minimum share determines the extent to which the combined allowance can be increased for those estates that qualify. It is worth emphasising that it is in the nature of a revenue-neutral alternative that there would be both winners and losers relative to the planned reform. This is also true of the clawback proposal, if it was actually revenue neutral. It is just that the extreme modelling uncertainty associated with clawback makes it more difficult to identify who the losers would be, in terms of estate size and other characteristics.

Lastly, a minimum share rule should overall reduce distortions to investment portfolio choices relative to the planned reform, although this depends on where the threshold is set. There are two opposing forces here. First, a minimum share rule would greatly increase distortions to investment decisions for estates that are close to the relevant threshold. This is because there would be a very large tax incentive for individuals with an APR/BPR share slightly below the threshold to replace non-APR/BPR assets with qualifying agricultural and business property to meet the threshold.¹³⁰ Conversely, those with an APR/BPR share slightly above the threshold would have a very large incentive to retain qualifying assets and/or not acquire more non-qualifying assets. Clearly this distortion is undesirable, although it may be offset by a reduction in other distortions that are present under the planned reform.

In particular, a minimum share rule would greatly reduce distortions for estates that were far below the relevant threshold. This is because – unless such estates were willing to very significantly increase the share of APR/BPR qualifying property in their total estate to meet the threshold – there would no longer be any IHT incentive to buy agricultural and business property relative to other investments. For most passive investors in agricultural and business property – as distinct from active farmers and other business

¹³⁰ The threshold would represent a ‘notch’ whereby a continuous change in the share of APR/BPR assets in the total estate would result in a discrete change in the average IHT rate.

owners – it would simply not be feasible for them to invest a sufficient share of their total wealth in qualifying property, assuming that the relevant threshold was set reasonably high. By contrast, under the planned reform, such investors still stand to save 40% or 20% of the value of their investment in tax, depending on the size of their investment at the margin (whether at 100% or 50% relief).

The net effect of these opposing forces on the overall economic distortions generated by IHT under a minimum share rule depends on the empirical distribution of estates according to their share of qualifying agricultural and business property in the total estate. The more estates that are significantly below the relevant threshold, compared with those close to it (either above or below), the more economically efficient a minimum share rule is likely to be. As we show in Figure 18, both by number and by share of relief claimed, the distribution of estates by the share of APR/BPR assets in the total estate is highly skewed towards low shares, with a slight U-shape indicating some estates with high shares, and relatively low density in between. This indicates that if set at around 60%, a minimum share rule ought to reduce distortions to investment decisions overall, relative to the planned reform.¹³¹

5.3.2 'Upper limit' on relief

The second option that we consider is an upper limit on relief, again funding an increase in the combined allowance for 100% relief. Estates with claims in excess of the upper limit would still receive relief as under the planned reform on the amount below the limit, but no relief would be available on the amount above the limit.¹³² The limit would be computed on same basis as the new combined allowance, taking account of the total amount of APR and BPR claimed. The policy would therefore simply involve adjusting the rates and thresholds of relief under the planned reform, with no fundamental change in legislative infrastructure. As an example, if the upper limit was set at £10 million, then 100% relief would be available up to the new combined allowance, then 50% relief up to £10 million, and then (in effect) 0% on the amount above £10 million.

¹³¹ Of course, this rule would still be more distorting than an IHT regime that did not provide relief for agricultural and business property at all. But as outlined above, our aim in this report is to suggest strict improvements on the planned reform, rather than to design an IHT regime from first principles.

¹³² Estates with claims only slightly above the upper limit would therefore still receive more relief in total than under the planned reform, because the effect of a larger 100% relief combined allowance would be worth more than the loss of the 50% relief above the upper limit.

The effect of this adjustment to the planned reform would be to redistribute relief from estates with large APR/BPR claims (above the upper limit) to estates with smaller claims (larger than the planned £1 million allowance but below the upper limit). A frequently expressed concern is that smaller farms and businesses do not have access to external capital, and so paying tax out of their profits may limit their ability to invest using these profits in the future. The upper limit adjustment concentrates more of the relief on these smaller farms and businesses by raising the allowance.¹³³ Conversely, the 'losers' from an upper limit would be estates with the largest APR/BPR claims, which are necessarily amongst the wealthiest estates that should have access to external credit to fund investment provided that the underlying business is profitable, even if some of the profits were required to pay the IHT annual instalments.

5.3.2.1 Assessment against objectives

An upper limit on relief would enable the Government to extend protection for family farms via an increase in the combined allowance. The extent to which the combined allowance could be increased beyond its planned level of £1 million would depend on the level at which the upper limit on relief was set. The lower the upper limit, the larger the increase in the combined allowance that could be afforded within the constraint of revenue-neutrality. However, an upper limit would be a less efficient way of funding additional protection of small family farms and other small businesses than a minimum share rule. This is because, in the absence of a minimum share rule, some of the benefit from increasing the combined allowance would go to estates which could fully pay the IHT bill out of non-APR/BPR assets and so would not have to be 'broken up' even they received no relief.

An upper limit would also clearly be the most direct way to achieve the Government's objective of reducing the concentration of relief. Although the planned reform *reduces* the tax benefit of APR and BPR for estates with the largest claims, these estates would still benefit from 50% relief. Under the planned reform, estates with the largest APR/BPR claims – which necessarily are amongst the wealthiest estates – would continue to face substantially lower effective average tax rates (EATRs) than estates of a similar size without qualifying agricultural or business property, and indeed many smaller estates. An upper limit on relief would narrow this gap in EATRs for the largest estates, and ensure a wider distribution of claims for

¹³³ To give a sense of scale, under the planned reform, the effective annual tax rate on an estate comprised of only APR/BPR assets would exceed 1% only once the estate is worth more than £3.3 million, potentially higher if there is a farmhouse. Doubling the planned allowance to £2 million would increase this to £5.3 million.

relief, compared with the planned reform. Figure 21 shows that under an upper limit on relief, 75% of additional revenue (relative to the status quo) would come from the wealthiest estates (valued at over £10 million), compared with 55% under the planned reform.

Finally, an upper limit on relief would further reduce instances of large-scale use of agricultural land as a tax shelter compared with the planned reform. In particular, it would completely remove this incentive – at the margin – for any individuals who already hold qualifying agricultural and business property with a claim value exceeding the upper limit. By contrast, the planned reform only reduces the benefit of acquiring farmland for these individuals; it does not remove it altogether. On the other hand, in isolation an upper limit would do nothing to prevent the use of APR and BPR for tax planning by smaller-scale investors currently holding qualifying agricultural and business property exceeding £1 million (the planned allowance) but less than the level of the new increased allowance. For those investors, a minimum share rule would be needed to remove this incentive.

5.3.2.2 Assessment against constraints

The introduction of an upper limit on relief is straightforwardly deliverable by April 2026. It would not require any additional legislative infrastructure or substantial changes to administrative systems, only an adjustment to the schedule of rates and thresholds (and resulting tax calculation) compared with the planned reform. All of the information needed to model the revenue effects is already reported to HMRC and captured in IHT data. As we discuss in Section 5.4.3, there is some uncertainty over the net effect on behavioural responses resulting from concentrating more of the overall tax increase on the wealthiest estates, compared with the planned reform. However, the nature of this uncertainty is no different from that faced by the OBR when scoring the reform announced at the October 2024 Budget.

Revenue-neutrality could be ensured by adjusting the levels at which the upper limit and combined allowance were set. We model the interaction between these two thresholds and their effect on revenue, accounting for the net change in behavioural response, in Section 5.4.4 below. Logically there are multiple options that would achieve revenue-neutrality, ranging from a high upper limit with only a small increase in the combined allowance, to a lower upper limit with a larger increase in allowance. The maximum that the combined allowance could be increased is the point at which it fully converges with the upper limit, such that there would no longer be any band giving 50% relief. In principle we could model the level at which this convergence would occur, given the constraint of revenue-

neutrality, but instead we have chosen to fix the upper limit and then determine what level of combined allowance is affordable on this basis.

Finally, as already outlined above, relative to the planned reform an increase in the combined allowance and introduction of an upper limit on relief would reduce distortions to investment portfolio allocation for large-scale investors, whilst increasing them for some medium-scale investors benefiting from the increased allowance. The net effect of these changes would be very difficult to estimate empirically because it depends not only on the magnitude of the tax change for each group but also their relative responsiveness with respect to investment portfolio choices, on which there is a lack of existing quantitative evidence. There is existing evidence that the migration response of wealthy individuals is larger than for less wealthy individuals, and we discuss this issue further in Section 5.4.3.3.

5.4 Revenue modelling

In this section, we model the revenue effects of each of the adjustments that we have put forward. We begin by explaining our choice of key policy parameters. We then estimate the revenue that would be obtained under each of the adjustment options that we consider, relative to the planned reform. Our approach to revenue estimation seeks to replicate the methodology adopted by the OBR for the planned reform, with appropriate changes to behavioural assumptions to account for the different populations affected by each main adjustment option. Of course, this does not ensure that the OBR would certify our estimates if the Government adopted the same policy.¹³⁴ The most we can do externally is try to follow the OBR's recent practice based on their published information.

5.4.1 Policy parameters

To make our modelling tractable and avoid having too many variations to consider, it is necessary for us to fix some of the relevant policy parameters. We have decided to specify thresholds for the minimum share and upper limit, leaving the level of the combined allowance as the policy parameter that can be varied and thereby determine the amount of revenue raised. In this section, we explain why we have specified a minimum share of 60% and an upper limit of £10 million, and the range of options that we model for the combined allowance. Whilst we do not claim scientific precision for these exact thresholds, we think there are principled reasons for adopting thresholds at approximately these levels.

¹³⁴ Since the OBR is prohibited from commenting on measures that are not Government policy, there is no way to be sure what their view would be in advance.

5.4.1.1 *Minimum share*

The threshold for the minimum share rule determines the percentage of APR/BPR assets in the total estate that would be required for estates to qualify for relief.¹³⁵ Estates falling below this threshold would not qualify for any APR or BPR. Estates meeting or exceeding the threshold would receive APR and BPR on all qualifying property, according to the standard schedule: 100% up to the combined allowance, and 50% above that. We provide further technical information on how the minimum share rule would work in Section 5.3.1.1 above.

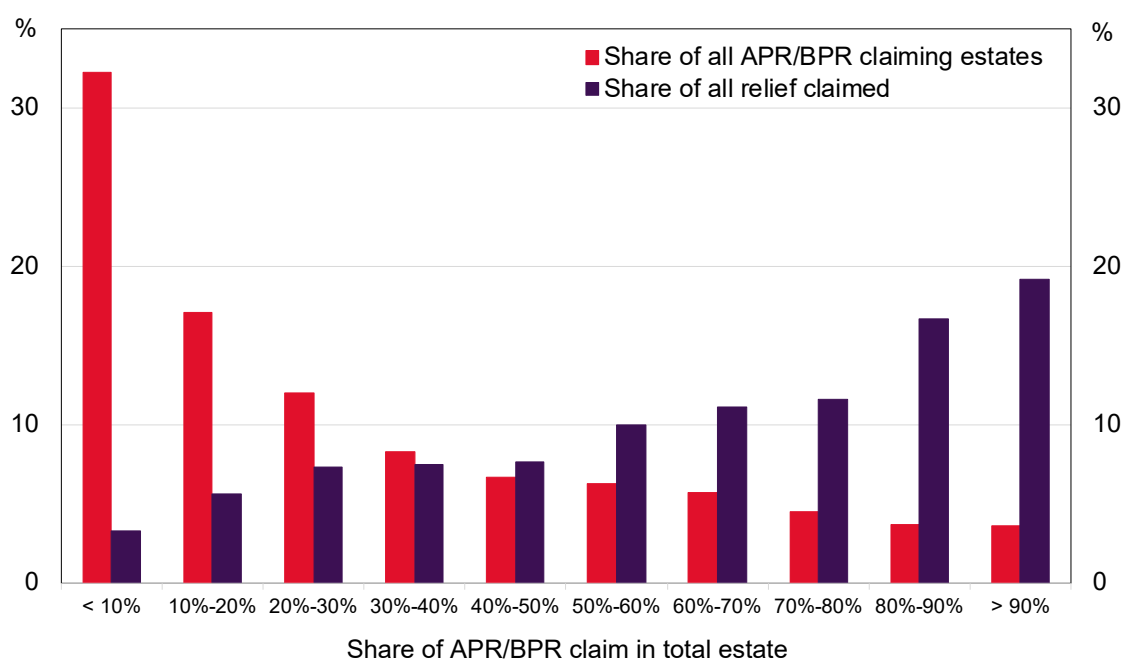
Figure 18 shows the distribution of the share of APR/BPR in the total estate, amongst all estates that claimed APR or BPR, averaged over the period 2018-2022. We show all estates rather than only farm estates because the minimum share rule would apply to non-farm estates as well. The figure represents the 'baseline' distribution of estates that would be eligible or ineligible for relief under a minimum share rule, if there was no change in behaviour. By number of estates, claims for APR and BPR are currently strongly skewed towards estates with relatively low shares of APR and BPR in the total estate: 76% of estates claim APR/BPR on less than half of the total estate. However, by amount of relief claimed, this pattern is reversed, with 69% of all relief going to estates where APR/BPR was claimed on over half of the total estate.

We suggest setting the threshold for the minimum share rule at 60%. This is for three reasons. First, we assume that the vast majority of active farmers and other active business owners would comfortably exceed this threshold. It is difficult to confirm this assumption empirically, given the challenge of defining an active farmer or other business owner with precision. However, the objections to the Government's planned reform put forward by industry bodies that represent farmers and other family business owners are premised on the basis that the owners of these businesses would be unable pay the IHT bill because their assets are fully invested in the business. In this context, it would be difficult to argue that these owners would be at risk of failing the minimum share rule with a threshold set at 60%.

Second, the most tax that an estate can ever be required to pay under IHT is 40% of the total estate, and in practice the nil rate band always reduces the average rate below 40%, even if no other exemptions or reliefs are available.

¹³⁵ We use 'total estate' as shorthand for the value of the estate plus gifts made within the previous seven years. For further details see Section 5.3.1.1.

Figure 18: All estates claiming APR/BPR by share of APR/BPR in total estate



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). ‘Share of APR/BPR claim in total estate’ is the amount of APR/BPR claimed as a percentage of the total chargeable estate (before any exemptions, deductions or reliefs). ‘Share of all APR/BPR claiming estates’ is the percentage of estates out of all estates that claimed APR or BPR. ‘Share of all relief claimed’ is the percentage of APR/BPR claimed out of the total APR/BPR claimed across all estates. On average, 4,240 estates per year claimed APR or BPR, with a total of £4.8 billion in relief.

Source: Authors’ calculations based on HMRC administrative datasets.

Consequently, by setting the threshold for the minimum share rule at 60%, this conveys in simple terms the idea that any estate falling below the threshold should be able to pay their IHT bill out of their non-APR/BPR assets. As we explained in Section 5.3.1.1, this proposition will not always hold, since there are circumstances in which the value that qualifies for APR or BPR (the numerator in the calculation) will be less than the full chargeable value of the underlying asset. However, in practice, such cases are likely to be rare other than in the case of agricultural land with significant development value that has been let out rather than farmed in hand.

Third, if the threshold for the minimum share was set at 60%, the resulting distortion to investment portfolio decisions for estates that are close to the threshold is plausibly outweighed by the reduction in distortion for estates far below the threshold, relative to the planned reform. Unfortunately it is not possible to provide a precise empirical estimate of the net effect on this distortion that would result from a minimum share threshold set at 60%, or

any other level.¹³⁶ However, we observe from Figure 18 that currently around 12% of all estates claiming APR or BPR would be within 10pp of the (60%) threshold in either direction, representing around 21% of all relief claimed, compared with 76% of estates with shares currently more than 10pp below the threshold, representing around 31% of all relief claimed.

5.4.1.2 Upper limit

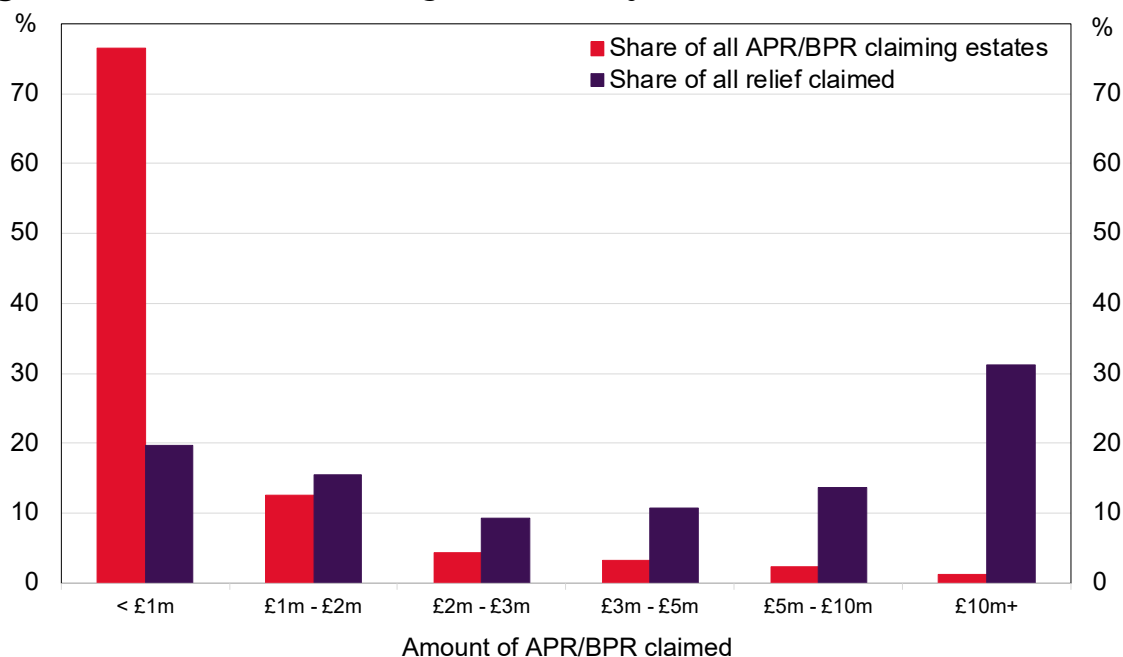
The threshold for the upper limit determines the value of APR and BPR claimed, above which no additional relief would be available. This limit would be computed on the same basis as the combined allowance, so effectively operates like an additional 0% band of relief above the threshold.

Figure 19 shows the distribution of the amount of APR/BPR claimed, amongst all estates that claimed APR or BPR, averaged over the period 2018–2022. Again, we show all estates rather than only farm estates because the upper limit would apply to non-farm estates as well. The figure shows that 3.4% of all estates that currently claim APR/BPR have claims exceeding £5 million, representing 45% of total relief claimed. By amount claimed, most of this relief goes to the 1.1% of estates that claimed more than £10 million in relief, who collectively claimed 31% of the total relief claimed across all estates. As we noted in Section 5.2.1, this concentration of relief will be reduced but not eliminated by the planned reform, which gives 50% rather than 100% relief on claims exceeding the combined allowance.

The choice of upper limit does not directly determine the impact of this adjustment on the overall progressivity of the IHT regime, since this also depends on how much qualifying agricultural and business property wealthy estates hold as a share of their total estate. However, it is obviously true that an upper limit on relief can only impact estates whose total value is greater than the threshold. If the upper limit was used to fund an increase in the combined allowance, then relative to the planned reform, estates with claims for APR/BPR slightly above the upper limit would still overall be better off as a result of the adjustment, up to the point at which the 0% relief above the upper limit started to outweigh the benefit of additional 100% relief resulting from the extension of the combined allowance.

¹³⁶ This would require information on both the change in retention rate for impacted individuals and the elasticity of investments with respect to this change. Whilst we could compute the former using available data, there is no existing evidence on the latter for the UK (or internationally), even on average let alone for relevant types of individuals.

Figure 19: All estates claiming APR/BPR by amount of APR/BPR claimed



Notes: Figure shows averages over the period 2018-2022 (with uprating to 2027). 'Share of all APR/BPR claiming estates' is the percentage of estates out of all estates that claimed APR or BPR. 'Share of all relief claimed' is the percentage of APR/BPR claimed out of the total APR/BPR claimed across all estates. On average, 4,240 estates per year claimed APR or BPR, with a total of £4.8 billion in relief.

Source: Authors' calculations based on HMRC administrative datasets.

A key consideration when choosing an upper limit is the level at which the owners of farms and other businesses could be expected to be able to obtain external financing if they were unable to pay the IHT bill out of non-business assets or the current income of the business. There is an extensive literature on the credit constraints faced by business owners. In simple terms, since there is always a minimum fixed cost involved for lenders in ascertaining whether a business is credit-worthy, it will tend to be the case that borrowing is more expensive for smaller businesses compared with larger ones, and below a certain size may be uneconomical or impossible. Whilst it is difficult to identify a specific value of business below which these credit constraints bite, since these constraints will also vary according to other factors, in principle we think the upper limit should be set at a high enough level that credit constraints can be ruled out for most businesses.

We suggest setting the threshold for the upper limit on relief at £10 million. At this threshold, if the combined allowance was increased to (£2 million) £5 million, then estates with claims for qualifying agricultural and business property up to (£11 million) £14 million would still be better off overall, relative to the planned reform. We think there is room for argument over whether

this is exactly the right threshold, applying the principle that we have discussed regarding credit constraints. However, as already explained, it is necessary for us to fix some policy parameters in order to make the modelling tractable without having too many variations to consider. Other thresholds could be chosen, although in the absence of very strong behavioural assumptions, setting the upper limit at a higher level would raise less revenue and so reduce the extent to which the combined allowance could be increased whilst remaining revenue-neutral overall.

5.4.1.3 *Combined allowance*

For each of the three main options that we consider – minimum share, upper limit, and both adjustments together – we model the revenue effects at four different levels of combined allowance: £1.5 million, £2 million, £3 million and £5 million.

We do not have our own view on which of these thresholds would suffice to *fully* 'protect family farms', and we acknowledge that the Government and farm industry bodies may differ on this. In considering an appropriate level for the combined allowance, it is important to remember that in addition to this allowance, each estate also benefits from the nil rate band (£325,000) and – if applicable – the residential nil rate band (up to £175,000). When these nil rate bands are used against qualifying agricultural and business property, their value is effectively doubled as a result of the interaction with the 50% relief above the combined allowance, meaning that they can cover up to £1 million of qualifying property in addition to the allowance for APR and BPR.

It is also important to highlight that the combined allowance and nil rate bands apply *per estate* (i.e. per individual death), not per farm. The nil rate band and residential nil rate band are both transferrable between spouses, meaning that if they are not used on the first death then they can be used against the value of the estate on the second death. Under the Government's current plans, the combined allowance would not be transferrable. As we already stated in Section 4.1.5.3 above, we think the combined allowance should be transferrable on the same basis as the nil rate bands. If it is not transferrable, a similar effect can often be achieved via tax planning on the first death, but this entails additional administrative costs for both individuals and HMRC and does not assist estates where the first death has already occurred.

5.4.2 Static revenue

In line with the standard approach to policy costings used by the OBR, we start by estimating the revenue effects of each reform option on a static basis, meaning the revenue that would be raised if there was no behavioural response. The baseline for each estimate is the status quo (i.e. the position prior to the planned reform). We model the planned reform in the same way as we outlined in Section 4.1 above. We model the minimum share rule using the value of the net estate plus lifetime gifts for the denominator, and the total value of APR/BPR claimed for the numerator. We model the upper limit on relief using the total value of APR/BPR claimed.

Our modelling assumes that the combined allowance would *not* be transferrable between spouses. For the reasons we explained in Section 4.1.5.3, we think that the combined allowance *should* be made transferrable under the planned reform, and in principle the same reasoning motivates in favour of transferability under the adjusted policy designs that we have developed. However, accounting for transferability in our modelling would further complicate the comparison with the planned reform by adding another dimension of difference. As we explained in Section 4.1.5.3, providing a reliable estimate of the revenue cost relative to non-transferability also faces significant empirical challenges. Consequently, we model the combined allowance as non-transferable, whilst noting that there is some (lower) level at which the allowance could be made transferrable whilst maintaining revenue-neutrality.

Our modelling does not account for interactions with the other reforms to IHT on pensions and AIM shares that were also announced at the Autumn 2024 Budget, since we are unable to observe these asset types from existing IHT data. The reform to pensions would mechanically increase the revenue from a minimum share rule relative to our estimates, by increasing the number of estates whose APR/BPR share in the total estate – including pensions – would be below 60%. The amount of revenue raised by the AIM reform *in addition* to each of the options that we have modelled for the main reform to APR/BPR would depend on the distribution of AIM shareholdings amongst estates impacted by the main reform by total APR/BPR claimed and (for options incorporating a minimum share rule) the share of APR/BPR in the total estate.¹³⁷

¹³⁷ The revenue modelling for the October 2024 Budget used a sample of IHT returns to estimate the value of BPR claims on AIM shares: OBR, [‘Supplementary Information Release: Costing of changes to agricultural and business property’](#) 22 January 2025. Without

Besides the interaction with the reform to AIM shares, there are three further reasons why our static estimate for the planned reform will not match precisely the estimates published by the OBR. First, our revenue estimates are based on IHT *liabilities* while the OBR's estimates are based on IHT *receipts*. This means that the OBR scores revenue in the year when the tax would be paid by impacted estates, whereas we assign revenue to the year when the liability arises. Second, we base our analysis on the annualised average from source data covering the period 2018-2022 (uprated to 2027), whereas the OBR's estimates are based on source data from 2022 only (uprated to each year of the scorecard window in line with their standard determinants). Third, we use a different approach to uprating the value of farmland, as explained in Section 2.2.

To prevent any confusion resulting from these differences in approach, we present our estimates as the *percentage change in revenue* compared with the planned reform rather than in absolute numbers. We use our own modelling of the planned reform as our benchmark, so ensure internal comparability. To a rough approximation, it would be possible to convert our percentage changes into revenue estimates that are comparable with the OBR's estimate for the planned reform in 2028-29, using £0.7 billion per year in static revenue as the baseline.¹³⁸

Table 5 reports our estimates of the percentage change in static revenue under each reform option relative to the planned reform, at different levels of combined allowance. To aid interpretation: a change of 0% would mean that the option is exactly revenue-neutral compared with the planned reform (on a static basis), and a change of +100% would mean that the option raises twice as much revenue as the planned reform.

additional information on how holdings of AIM shares vary with total amount of APR/BPR claimed, it is not possible to use this sample to model the interaction with the combined allowance, either under the planned reform or any of our adjustment options.

¹³⁸ This is based on the OBR's estimate of additional receipts (on a static basis) of £0.8 billion in the final year of the scorecard, reflecting steady state additional liabilities under the planned package of reforms to APR and BPR. Our estimate of £0.7 billion reflects a small deduction to account for the effect of the separate reform to AIM shares, which were estimated as being around 20% of all BPR claims.

Table 5: Change in static revenue compared with planned reform, for each option at different levels of combined allowance

Adjustment to the planned reform	Level of combined allowance (100% relief)			
	£1.5 million	£2 million	£3 million	£5 million
Minimum share	+106%	+100%	+92%	+82%
Upper limit	+25%	+16%	+3%	-11%
Both	+137%	+131%	+122%	+112%

Notes: Table shows averages over the period 2018-2022 (with uprating to 2027). Revenue estimates are produced on a static basis (i.e. no behavioural response is assumed) for all APR/BPR claiming estates and expressed as a percentage in addition to the revenue under the planned reform. For any option, we do not provide absolute values of revenue because due to methodological differences and data limitations (see Section 5.4.2) our revenue estimates for the planned reform differ from those produced by the OBR.

Source: Authors' calculations based on HMRC administrative datasets.

With the exception of the option involving an upper limit at £10 million with combined allowance at £5 million, all of the options considered are at least revenue-neutral compared with the planned reform *prior to accounting for changes in behavioural response*. However, if the overall behavioural response to any of these options is larger than under the planned reform, this could mean that some options may no longer be revenue neutral on a post-behavioural basis. Consequently, we next consider what behavioural adjustments would be needed for each main reform option in order to obtain a reasonable and central post-behavioural revenue estimate, replicating as far as possible the OBR's methodology.

5.4.3 Behavioural response

5.4.3.1 Approach

The behavioural response to a change in tax treatment fundamentally depends on two factors. First, the size of the tax change. For Inheritance Tax, this is best measured by the percentage change in wealth that an estate is left with after tax, known as the 'retention rate'. The second factor is how responsive the affected taxpayers are. This can be estimated as an 'elasticity' that describes how much the tax base changes for a given percentage change in the retention rate. Whilst it is often possible to model changes in retention rates for the individuals affected by a particular reform, it is typically much harder (or impossible) to obtain a precise and reliable estimate of their responsiveness to tax.

Where it is possible to estimate changes in retention rates *and* behavioural elasticities for affected individuals, the best way to estimate the behavioural effects of a reform is using a 'bottom-up' approach. This involves estimating

behavioural effects at an individual level and then aggregating these to obtain an estimate for the total post-behavioural revenue from the reform. However, where the information needed to apply this bottom-up approach is lacking – for example because there is not sufficient existing and relevant evidence on the responsiveness of affected individuals – an alternative approach is to make a ‘top-down’ adjustment to the static revenue from the reform, based on a judgement about how much revenue would not be raised in practice due to the overall impact of behavioural responses.

In the Autumn 2024 Budget, the OBR relied on a top-down approach to estimate the post-behavioural revenue effects of the Government’s planned reform to APR and BPR, due to ‘the relative lack of academic evidence on the elasticity of IHT receipts to policy changes’.¹³⁹ Their top-down adjustment involved two separate steps. First, they assumed that by the final year of the scorecard (2028-29), 95% of the additional static revenue from married estates affected by the reform would not be received due to increased use of the spouse exemption.¹⁴⁰ Second, for unmarried estates,¹⁴¹ they assumed a 20% reduction in the additional static revenue from the reform relative to the baseline, intended to account for other tax planning channels available within the scorecard window. Together, these steps resulted in a reduction of around 40% of additional static revenue by the end of the scorecard.¹⁴²

We follow the OBR’s approach to estimating behavioural effects, since our aim is to produce post-behavioural revenue estimates that are directly comparable with the OBR’s scoring of the planned reform. For each reform option, we start with the additional static revenue from the reform relative to the status quo. To replicate the first step of the OBR’s behavioural adjustment, we then remove 95% of the additional static revenue from married estates. To replicate the second step, we *start* from exactly the same assumption that the OBR used for the planned reform, that 20% of additional static revenue from unmarried estates (relative to the status quo) would be lost due to behavioural responses. However, we also model larger

¹³⁹ OBR, [‘Economic and fiscal outlook – October 2024’](#) 30 October 2024, paragraphs 3.20-3.23; OBR, [‘Supplementary Information Release: Costing of changes to agricultural and business property’](#) 22 January 2025.

¹⁴⁰ ‘Married estate’ means the first death within a married couple or civil partnership. See further Section 4.1.5, for a discussion of behavioural responses by couples.

¹⁴¹ ‘Unmarried estate’ means the second death within a married couple or civil partnership, or the death of an individual who was not married.

¹⁴² The OBR acknowledged that behavioural responses were likely to be larger over the longer-term, especially due to the effect of lifetime gifts: OBR, [‘Supplementary Information Release: Costing of changes to agricultural and business property’](#) 22 January 2025, paragraph 1.11. They also gave their estimate a ‘high’ uncertainty rating, on a scale that goes up to ‘very high’.

reductions of 30% and 40%, to account for the possibility that overall, the behavioural response to the adjusted reform would be larger than under the planned reform. We discuss the factors affecting behavioural responses for each main type of adjustment below.

5.4.3.2 Minimum share

Relative to the planned reform, the 'winners' under a minimum share rule are estates with an APR/BPR share over 60% ('high share estates'), and the 'losers' are estates with a share below this threshold ('low share estates'). By number there are more losers than winners, but the losers face a smaller change in their effective average tax rate (EATR) because by construction APR/BPR assets make up a smaller share of their estate compared with winners. On the other hand, losers on average will have higher EATRs to begin with (again because they have a lower share of APR/BPR assets compared with winners), which increases the proportional impact of the increase in EATR on their retention rate. The net effect of these opposing forces could be estimated empirically but is not obvious either way from first principles.

On responsiveness, the OBR pointed to two main behavioural channels that could reduce revenues under the planned reform within the scorecard window: greater use of charitable donations and other reliefs; and running down the value of estates (i.e. consumption).¹⁴³ Under a minimum share rule, these strategies might be more prevalent for low share estates than high share estates, but this does not seem obvious either way.

The most important behavioural channels would be any steps taken to increase the APR/BPR share by estates that would have failed to meet the threshold on a static basis. First, individuals whose share was close to the threshold would have a strong incentive to buy more agricultural and/or business property. However, 'gaming' this share would not be straightforward given uncertainties over the timing of death, qualifying holding periods for APR and BPR, and fluctuations in asset values. Second, as we highlighted in Section 5.3.1.1, there is a risk that spousal transfers could be used to avoid the application of the minimum share rule on the first death within a couple. A targeted anti-avoidance rule for spousal transfers could reduce but not eliminate this behavioural channel. Third, existing tax planning strategies that are already used to obtain APR/BPR would become more attractive for those with an APR/BPR share close to the threshold.

¹⁴³ Lifetime giving was not included in this list because gifts made in response to the reform will not provide a tax benefit for deaths occurring within the scorecard window, apart from very marginally due to the effects of taper relief.

We think that the net behavioural effect of the increase in the combined allowance for estates above the minimum share and removal of relief for those below would be mostly offsetting, but that there would be a significant reduction in static revenue from estates that take steps deliberately aimed at increasing their APR/BPR share, especially amongst those close to the threshold. For a sense of magnitude, Figure 18 indicates that if two in five of the estates with a share between 50-60% managed to increase their share to meet the threshold, this would reduce additional static revenue by around 10%.¹⁴⁴ We therefore adopt a larger top-down reduction than the OBR used for the planned reform at step two, taking a 30% reduction as our central estimate, but also modelling 20% as a 'low' response and 40% as a 'high' response.

5.4.3.3 Upper limit

Relative to the planned reform, the 'losers' under an upper limit on relief are estates with APR/BPR claims greater than £11-14 million depending on the level of combined allowance ('larger claim estates'),¹⁴⁵ and 'winners' are estates with APR/BPR claims less than this amount ('smaller claim estates'). By number there are more winners than losers. The net effect of the changes in retention rates for winners and losers could be estimated empirically but is not obvious from first principles because the effect on each impacted estate is a function of their APR/BPR share as well as the amount of relief claimed.

On responsiveness and the two main behavioural channels listed by OBR, the use of other reliefs and bequests to charity seems more likely for larger claim estates, as these are wealthier and likely to have more tax planning options. On the other hand, running down the value of estates seems more significant for smaller claim estates, as it is more difficult for wealthy estates to make large increases in consumption (i.e. spending that is not reflected in any investment) relative to their total wealth. Taking into account both of these channels, it is not obvious whether larger claim estates or smaller claim estates would be more responsive overall.

The OBR did not directly list migration as a relevant behavioural channel for the APR/BPR reform, although it was discussed in the context of the wider package of reforms to capital taxes.¹⁴⁶ Migration would not significantly

¹⁴⁴ This is on the basis that estates with an APR/BPR share between 50-60% account for roughly 25% of all relief claimed by estates with an APR/BPR share below the 60% threshold.

¹⁴⁵ As explained in Section 5.4.1.2, the tipping point is higher than £10m because for estates just above this size of claim, the additional 100% relief resulting from the increased combined allowance outweighs the withdrawal of 50% relief above £10m.

¹⁴⁶ OBR, '[Economic and fiscal outlook – October 2024](#)' 30 October 2024, Box 3.1.

affect IHT receipts within the scorecard window, because new leavers would generally still be within the IHT tail if they die within five years, and new arrivals would not yet be within scope. However, an increase in net emigration would have a cross-base effect on other tax receipts. The OBR did not separately account for this effect in its costing of the planned reform and consequently we do not make any separate adjustment in our estimates. However, crudely one could think of this factor as relevant to the appropriate size of top-down adjustment to IHT revenues.

We think that the net behavioural effect of the increase in the combined allowance for smaller claim estates and the reduction in relief for larger claim estates would be mostly offsetting, but that there is a greater risk of migration and tax planning from larger claim estates that would tend to increase the behavioural response overall, relative to the response under the planned reform. We therefore again adopt a larger top-down reduction than the OBR used for the planned reform at step two, taking a 30% reduction as our central estimate, with 20% as a 'low' response and 40% as a 'high' response.

5.4.3.4 Both adjustments

If the minimum share rule and the upper limit were both implemented, the key behavioural channels would be the same as we have already outlined. However, we think that it would not be justified to compound the top-down reductions that would be appropriate for each adjustment in isolation, because the adjustments would not have an additive effect on all estates. For example, an estate that has a claim exceeding the upper limit but which is also below the threshold for the minimum share rule could not lose out twice. Consequently, the 30% top-down reduction at step two remains appropriate as our central estimate when both adjustments are applied.¹⁴⁷ In absolute terms, this still entails a larger reduction to additional static revenue than when either adjustment is adopted in isolation, because (for the same combined allowance) implementing both adjustments raises more static revenue.

5.4.4 Post-behavioural revenue estimates

Table 6 reports our estimates of the percentage change in post-behavioural revenue under each reform option relative to the planned reform, at different levels of combined allowance. Once again, a change of 0% would mean that the option is exactly revenue-neutral compared with the planned reform (now on a post-behavioural basis), and a change of +100% would

¹⁴⁷ This is in addition to the 95% reduction in total static revenue from impacted married estates.

Table 6: Change in post-behavioural revenue compared with planned reform, for each option at different levels of combined allowance and under different top-down behavioural adjustments

Adjustment to the planned reform	Level of combined allowance (100% relief)			
	£1.5 million	£2 million	£3 million	£5 million
Minimum share				
Low (20%)	+120%	+114%	+105%	+94%
<i>Central (30%)</i>	+93%	+88%	+80%	+71%
High (40%)	+66%	+62%	+55%	+47%
Upper limit				
Low (20%)	+22%	+13%	0%	-14%
<i>Central (30%)</i>	+7%	-1%	-12%	-24%
High (40%)	-7%	-14%	-24%	-35%
Both				
Low (20%)	+152%	+146%	+137%	+126%
<i>Central (30%)</i>	+121%	+116%	+108%	+99%
High (40%)	+90%	+86%	+79%	+71%

Notes: Table shows averages over the period 2018-2022 (with uprating to 2027). Revenue estimates are produced on a post-behavioural basis (see Section 5.4.3 for details) for all APR/BPR claiming estates and expressed as a percentage in addition to the revenue under the planned reform. For any option, we do not provide absolute values of revenue because due to methodological differences and data limitations (see Section 5.4.2) our revenue estimates for the planned reform differ from those produced by the OBR.

Source: Authors' calculations based on HMRC administrative datasets.

mean that the option raises twice as much revenue after behavioural responses as the planned reform. To a rough approximation, it would be possible to convert these percentage changes into revenue estimates that are comparable with the OBR's estimate for the planned reform in 2028-29, using £0.4 billion per year in post-behavioural revenue as the baseline.¹⁴⁸

Our modelling indicates that the minimum share rule (set at 60%) would raise more revenue than the planned reform, even after accounting for behavioural responses. Even with a high behavioural response – involving a top-down reduction for unmarried estates that is twice as large as under the planned reform – a minimum share rule with a combined allowance of £5 million would raise around half as much again on top of the planned reform (47% additional revenue). Moreover, the precise level at which the combined allowance is set makes relatively little difference to the amount of additional

¹⁴⁸ This is based on the OBR's estimate of additional receipts (on a post-behavioural basis) of £0.5 billion in the final year of the scorecard, reflecting steady state additional liabilities under the planned package of reforms to APR and BPR. Our estimate of £0.4 billion reflects a small deduction to account for the effect of the separate reform to AIM shares, which were estimated as being around 20% of all BPR claims.

revenue under this option, up to the level of £5 million that we have modelled.

By contrast, an upper limit on relief (set at £10 million) would only permit a smaller increase in the combined allowance. Using our central estimate for behavioural response, an upper limit would be just about revenue-neutral with a combined allowance set at £2 million. However, this result is quite sensitive to assumptions about the behavioural response. If the overall behavioural response by unmarried estates was twice as large as under the planned reform (i.e. a 40% reduction in additional static revenue compared with the status quo), then an upper limit would fail to achieve revenue-neutrality under any of the combined allowances that we have modelled.

Our modelling also indicates that adopting both a minimum share rule (set at 60%) and an upper limit on relief (set at £10 million) would raise around one third more additional revenue (compared with the planned reform) than a minimum share rule alone. This is based on our central estimate for behavioural response by unmarried estates. As we explained in Section 5.3.2, there are other reasons for favouring an upper limit on relief in addition to a minimum share rule, beyond revenue implications, in particular concerns about further distortions to portfolio composition among the largest estates and around the concentration of relief.

Finally, we reiterate that our aim in this report is merely to ensure that adjustments would not cost revenue compared with the planned reform; we are not specifically seeking to raise any additional revenue. However, several of the options we have considered would nevertheless raise more revenue than the planned reform. For example, to a rough approximation, we estimate that a minimum share rule set at 60% with a combined allowance of £5 million would raise around an additional £200-400 million. We do not have any view on how (if at all) such additional revenues should be spent. Purely for a sense of scale, £200-400 million is equivalent to around 10-15% of the DEFRA budget for farming,¹⁴⁹ or the cost of decreasing the headline rate of IHT by just over one percentage point or increasing the nil rate band for all estates by £10,000, as estimated by HMRC.¹⁵⁰

¹⁴⁹ Based on planned spending of £2.7 billion per year for sustainable farming and nature recovery from 2026-27 until 2028-29: HMT, '[Policy paper: Spending Review 2025](#)' 30 June 2025, Table 5.23.

¹⁵⁰ HMRC, '[Direct effects of illustrative tax changes bulletin \(June 2025\)](#)', 24 June 2025.

5.5 Impact on farm estates

In this section, we analyse the impact of each reform option on farm estates and compare this with the planned reform.¹⁵¹ In principle, for any of the adjustment options that we have modelled, it would be possible to produce all of the same analysis that we showed for the planned reform in Section 4. However, presenting this analysis for every adjustment option, at every level of combined allowance, would obviously be impracticable. Consequently, we focus on four key points of comparison: (1) the share of total revenue from the reform that comes from farm estates; (2) the number of impacted farm estates; (3) the distribution of revenue from the reform amongst farm estates; and (4) the impact on farm estates' ability to pay out of non-farm assets or income.

5.5.1 Share of total revenue from farm estates

To be feasible, any reform to APR and BPR must apply to all estates and be based on a combined allowance for both reliefs.¹⁵² It follows that the reform options we have proposed would impact all estates claiming APR or BPR, not only farm estates. Whilst our focus in this report is on farm estates, and hence we do not provide any detailed analysis of the impact on non-farm estates, it is helpful to understand at a high level how each reform option would affect the overall balance of revenues from each type of estate. This is because, to varying degrees, the effect of each adjustment option would be to change the distribution of revenue *between farm estates and non-farm estates*, as well as *within farm estates* (and within non-farm estates), compared with the planned reform.

Table 7 reports the share of total revenue (additional static revenue compared with the status quo) that comes from farm estates under each of the adjustment options. As a baseline, we estimate that under the planned reform, 47% of total revenue would come from farm estates, with the remainder (53%) from non-farm estates. All of the adjustment options that we consider would involve a net reduction in the share of total revenue coming from farm estates, although these changes are never more than eight percentage points. This indicates that although all adjustment options would lead to some shift in favour of farm estates at the expense of non-farm estates, most of the change in the impact on farm estates would be driven by redistribution *within* this population, rather than by displacing the cost of the reform on to non-farm estates.

¹⁵¹ Just as in Section 4, all of our impact analysis is on a static basis. For further discussion of why we adopt this approach, see Section 4.1.1.

¹⁵² For further discussion, see Section 5.1.2.

Table 7: Share of total revenue from farm estates under different reform options

Adjustment to the planned reform	Level of combined allowance (100% relief)			
	£1.5 million	£2 million	£3 million	£5 million
Minimum share	43%	42%	41%	40%
Upper limit	42%	41%	-	-
Both	41%	41%	40%	39%

Notes: Table shows averages over the period 2018-2022 (with uprating to 2027). ‘Total revenue’ means additional static revenue compared with the status quo. The share from farm estates is expressed as a percentage of total revenue from all impacted estates including both farm and non-farm estates. By construction, farm estates and non-farm estates are mutually exclusive and sum to the full population of estates that would pay additional tax as a result of the reform on a static basis. We do not show results for upper limit with combined allowance of £3 million or £5 million because these options are already ruled out on the basis that they would cost revenue compared with the planned reform.

Source: Authors’ calculations based on HMRC administrative datasets.

5.5.2 Number of impacted farm estates

A major focus of debate about the planned reform has been how many farm estates would be impacted. Figure 20 shows the distributional effects of the reform, breaking out the number of impacted farm estates (per year) under each reform option by size of estate and by share of the estate covered by APR/BPR. For each option, we show versions with a combined allowance of £2 million or £5 million, except for the upper limit where we only show £2 million, since £5 million would not be revenue neutral.

Figure 20: Number of impacted farm estates (per year) by share of APR/BPR in total estate and size of estate

(a) *Planned reform*

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	0	0	0	*	*	15
	20%-40%	0	0	25	10	*	10
	40%-60%	0	*	85	15	*	10
	60%-80%	0	30	100	20	5	10
	80%-100%	0	15	60	20	15	15

(b) *Minimum share (£2 million)*

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	85	200	120	20	10	25
	20%-40%	55	95	85	10	*	10
	40%-60%	60	110	100	15	*	10
	60%-80%	0	0	50	20	5	10
	80%-100%	0	0	35	20	15	15

(c) *Minimum share (£5 million)*

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	85	200	120	20	10	25
	20%-40%	55	95	85	10	*	10
	40%-60%	60	110	100	15	*	10
	60%-80%	0	0	0	*	5	10
	80%-100%	0	0	0	10	15	15

(d) *Upper limit (£2 million)*

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	0	0	*	*	*	*
	20%-40%	0	0	*	*	*	10
	40%-60%	0	0	10	15	*	10
	60%-80%	0	0	50	20	5	10
	80%-100%	0	0	35	20	15	15

(e) Both (£2 million)

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	85	200	120	20	10	25
	20%-40%	55	95	85	10	*	10
	40%-60%	60	110	100	15	*	10
	60%-80%	0	0	50	20	5	10
	80%-100%	0	0	35	20	15	15

(f) Both (£5 million)

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	85	200	120	20	10	25
	20%-40%	55	95	85	10	*	10
	40%-60%	60	110	100	15	*	10
	60%-80%	0	0	0	*	5	10
	80%-100%	0	0	0	10	15	15

Notes: Figures show averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. In each adjustment option, a cell represents number of impacted farm estates (per year) in a 'share of APR/BPR in total estate' and 'size of estate' pair. 'Share of APR/BPR in total estate' is the amount of APR/BPR claimed as a percentage of the size of estate i.e. total chargeable estate (before any exemptions, deductions or reliefs). All counts are rounded to the nearest five. Any zeroes are structural zeroes due to features specific to the adjustment option. '*' represents values suppressed for reasons of statistical disclosure control.

Source: Authors' calculations based on HMRC administrative datasets.

Before discussing the number of impacted estates under each reform option, it is important to stress that this comparison is not directly 'like-for-like' because the options each raise different amounts of revenue. Although the constraint we targeted was revenue neutrality, as we showed in Section 5.4.4, all of the options involving the minimum share rule, or both the minimum share rule and the upper limit on relief raise substantially more revenue than the planned reform.

Our benchmark is the planned reform, which would impact a total of 480 farm estates per year.¹⁵³ Almost half (205 estates, 43% of those impacted) of these estates potentially comprise 'small family farms', as proxied by estates

¹⁵³ This is based on source data for 2018-2022, uprated to 2027: for further details see Section 4.1.2.

with a share of APR/BPR in the total estate above 60% and an estate value less than £5 million.¹⁵⁴ By contrast, the planned reform impacts hardly any farm estates with an APR/BPR share below 20% (15 estates, 3.1%), which include those not primarily engaged in farming. These two facts do tend to support the criticism that the planned reform is not well-targeted at preventing the use of APR and BPR for tax planning, although the Government has stated that this was not one of its objectives.¹⁵⁵

The minimum share rule would impact significantly more farm estates than the planned reform overall: 1,090 estates if the combined allowance was set at £5 million, or 1,200 estates at £2 million. Despite this, it would dramatically reduce the number of small family farms potentially impacted by the reform. Even with a combined allowance of £2 million the number of impacted farm estates that potentially comprise small family farms (based on the same proxy as above) would be reduced from 205 to 85 estates per year all with estate sizes above £2 million – and if the combined allowance was set at £5 million this number would (by construction) be reduced to zero.

Under a minimum share rule, the increase in the total number of impacted farm estates (compared with the planned reform) is driven entirely by the 840 additional estates with an APR/BPR share less than 60%, which would be impacted under this option but not under the planned reform. Of these, over half of those impacted (445 estates) under a minimum share rule have an APR/BPR share below 20%. This indicates that the reform may be better targeted at preventing the use of agricultural land as a tax shelter among estates not otherwise involved in farming, if the Government decided that it wished to advance this aim. It also indicates that most of those newly affected would face a relatively small increase in tax rates, since relieved assets only made up a small share of their estate to begin with.

The upper limit on relief (with combined allowance of £2 million) would impact the fewest farm estates of any option that we modelled. A total of around 240 farm estates would be impacted, which is half as many as under the planned reform (480). This effect is driven not only by removing from additional tax all of the farm estates valued at less than £2 million that would be impacted by the planned reform (45 estates), but more significantly by reducing the number of impacted farm estates valued between £2-5 million, from 270 under the planned reform to 95 under the upper limit option.

¹⁵⁴ From our engagement with farm bodies, our interpretation is that while not all family farms worth less than £5 million are necessarily 'small' farms, small family farms will all be beneath this threshold.

¹⁵⁵ See further Section 5.1.1.

However, under the upper limit option, around three quarters of impacted farm estates (170 estates, 71%) have an APR/BPR share over 60%, of which 85 estates (35% of total impacted) have a value less than £5 million, so potentially comprise small family farms. Only 2.1% of impacted farm estates (5 estates) would have an APR/BPR share less than 20%, which is lower than the proportion under the planned reform (3.1%). This reinforces that although the upper limit option would extend the protection of family farms (by increasing the combined allowance), it would not improve upon the planned reform in terms of reducing the use of agricultural land as a tax shelter by estates not otherwise involved in farming.

Adopting both adjustments (i.e. the minimum share rule and the upper limit on relief) makes no difference to the count of impacted farm estates compared with adopting the minimum share rule alone. This is because all of the estates that would be impacted by the upper limit on relief – which must have APR/BPR claims exceeding £10 million – were already impacted under the minimum share rule as a result of the reduction in relief (to 50%) above the combined allowance. However, the foregoing assumes that the same level of combined allowance is adopted under each policy. Since adopting both adjustments raises more revenue than the minimum share rule alone, if the additional revenue was used to increase the combined allowance this would reduce the number of impacted farm estates.

5.5.3 Distribution of revenue amongst farm estates

The number of impacted farm estates is helpful as a crude indication of how many ‘losers’ there would be under each reform option. However, as we illustrated in Section 4.3, this metric can obscure important differences in *how much* each impacted estate is affected, because it counts estates with a small additional tax bill in the same way as those that are much more heavily impacted. Figure 21 shows instead where the additional revenue from each reform comes from within the impacted population, to give a sense for the types of estate that would be paying the most additional tax, in absolute terms. Again, we break down estates according to their size and the share of APR/BPR assets in the total estate.

Figure 21: Share of revenue from reform by share of APR/BPR in total estate and size of estate

(a) *Planned reform*

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	0.0%	0.0%	0.0%	*	*	2.0%
	20%-40%	0.0%	0.0%	0.4%	0.7%	*	5.9%
	40%-60%	0.0%	*	2.9%	2.4%	*	8.2%
	60%-80%	0.0%	0.4%	8.8%	4.8%	2.8%	10.4%
	80%-100%	0.0%	0.2%	5.9%	6.2%	6.8%	28.7%

(b) *Minimum share (£2 million)*

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	0.5%	2.2%	2.4%	0.8%	0.6%	4.1%
	20%-40%	0.9%	3.2%	6.5%	1.8%	*	7.5%
	40%-60%	1.8%	6.5%	12.0%	3.9%	*	9.9%
	60%-80%	0.0%	0.0%	1.4%	1.8%	1.2%	5.2%
	80%-100%	0.0%	0.0%	1.3%	2.6%	3.2%	15.2%

(c) *Minimum share (£5 million)*

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	0.5%	2.5%	2.8%	0.9%	0.7%	4.7%
	20%-40%	1.1%	3.7%	7.5%	2.1%	*	8.6%
	40%-60%	2.0%	7.5%	13.8%	4.5%	*	11.4%
	60%-80%	0.0%	0.0%	0.0%	*	0.4%	4.2%
	80%-100%	0.0%	0.0%	0.0%	0.4%	1.7%	14.9%

(d) *Upper limit (£2 million)*

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	0.0%	0.0%	*	*	*	*
	20%-40%	0.0%	0.0%	*	*	*	7.0%
	40%-60%	0.0%	0.0%	0.2%	1.1%	*	10.9%
	60%-80%	0.0%	0.0%	2.6%	3.3%	2.2%	12.7%
	80%-100%	0.0%	0.0%	2.3%	4.7%	5.8%	44.2%

(e) Both (£2 million)

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	0.4%	1.9%	2.2%	0.7%	0.6%	3.6%
	20%-40%	0.8%	2.9%	5.8%	1.6%	*	6.7%
	40%-60%	1.6%	5.9%	10.8%	3.5%	*	8.9%
	60%-80%	0.0%	0.0%	1.3%	1.6%	1.1%	6.4%
	80%-100%	0.0%	0.0%	1.1%	2.4%	2.9%	22.1%

(f) Both (£5 million)

		Size of estate					
		< £1m	£1m-£2m	£2m-£5m	£5m-£7.5m	£7.5m-£10m	£10m+
Share of APR/BPR in total estate	< 20%	0.5%	2.2%	2.5%	0.8%	0.6%	4.1%
	20%-40%	1.0%	3.3%	6.6%	1.8%	*	7.6%
	40%-60%	1.8%	6.7%	12.2%	4.0%	*	10.1%
	60%-80%	0.0%	0.0%	0.0%	*	0.3%	5.6%
	80%-100%	0.0%	0.0%	0.0%	0.4%	1.5%	22.8%

Notes: Figures show averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. In each adjustment option, a cell represents share in total revenue (across all impacted estates under the adjustment option) of a 'share of APR/BPR in total estate' and 'size of estate' pair. 'Share of APR/BPR in total estate' is the amount of APR/BPR claimed as a percentage of the size of estate i.e. total chargeable estate (before any exemptions, deductions or reliefs). Any zeroes are structural zeroes due to features specific to the adjustment option. '*' represents values suppressed for reasons of statistical disclosure control.

Source: Authors' calculations based on HMRC administrative datasets.

Our benchmark is again the planned reform. Under this reform, around 15% of the additional (static) revenue from farm estates comes from estates that potentially comprise small family farms, again proxied by estates with a share of APR/BPR in the total estate above 60% and an estate value less than £5 million. On the one hand, this is a fairly modest share of revenue and contradicts suggestions that the reform falls *mainly* on small family farms. On the other hand, only 2% of the revenue from farm estates comes from estates with an APR/BPR share below 20%, and only a quarter even from all farm estates with a share below 60%. These findings tend to support the concern that the reform could be better targeted at reducing the use of agricultural land as a tax shelter by estates not otherwise involved in farming.

Under the minimum share rule with a combined allowance of £5 million, none of the additional revenue (compared with the status quo) would come from farm estates that potentially comprise small family farms, based on the proxy we have used. Instead, the reform targets estates with an APR/BPR share below 60%. These estates contribute around three-quarters (c.74%) of the revenue from farm estates under a minimum share rule with combined allowance of £5 million (including 12% from estates with a share below 20%).

Even with a combined allowance of £2 million, only 2.7% of revenue would come from estates that potentially comprise small family farms (based on our proxy), down from 15% under the planned reform. Over two thirds (68%) of the revenue from farm estates comes from estates with an APR/BPR share below 60% (including 11% from estates with a share below 20%).

The minimum share rule is overall slightly less progressive than the planned reform amongst farm estates that claim APR or BPR. Under the planned reform, over half (55%) of the additional revenue from farm estates comes from estates valued at over £10 million. By contrast, under the minimum share rule, 44% comes from estates valued at over £10 million when the combined allowance is set at £5 million, or 42% when set at £2 million. However, since the minimum share rule raises more revenue than the planned reform, in absolute terms farm estates valued at over £10 million would collectively pay more tax under this reform than under the planned reform.

Under the upper limit on relief (with combined allowance of £2 million), around 5% of the additional revenue from farm estates would come from estates that potentially comprise small family farms (based on our proxy), down from 15% under the planned reform. However, only 22% of the revenue from farm estates would come from estates with an APR/BPR share below 60%. This is almost the same as under the planned reform, indicating that an upper limit on its own would not solve the problem of agricultural land being used as a tax shelter by estates not otherwise involved in farming. An upper limit is, however, far more progressive than both the planned reform and the minimum share rule, amongst farm estates that claim APR or BPR. Under this option, 75% of the revenue from farm estates would come from estates valued at over £10 million.

If both adjustments were adopted, this would combine the tendency of the minimum share rule to limit relief to estates with few non-farm/non-business assets, with the progressivity of the upper limit on relief. Estates below the minimum (60%) share threshold would contribute around two-thirds (66%) of the revenue raised from farm estates, with a combined

allowance set at £5 million (or 61% if set at £2 million). At the same time, estates valued at over £10 million would contribute around half of all revenue raised from farm estates (48% if the combined allowance was set at £2 million, or 50% if set at £5 million). Although this is a slightly lower share of revenue than under the planned reform (55%), the contribution from the wealthiest estates would be larger in absolute terms, since again, adopting both adjustments raises more revenue overall.

5.5.4 Ability to pay

Farm industry bodies have argued that the planned reform will result in the break-up of farms because impacted farm estates will be unable to pay the additional IHT bill unless they sell part of the farm. We analysed this claim in depth in Section 4.4, first by estimating the number of impacted farm estates that could pay out of non-farm assets, and then by estimating how many of the remaining estates could pay their residual IHT bill out of farm income, without reducing the post-tax income per business owner below £30,000. In this section, we repeat this analysis for the other reform options that we have modelled, using exactly the same methodology.

As a benchmark, recall that around 70 farm estates per year would be unable to pay their IHT bill out of non-farm assets under the planned reform. Table 8 shows that raising the combined allowance to £2 million would halve this number (to 35 estates), irrespective of whether the additional allowance was funded by the minimum share rule, the upper limit on relief, or both. Raising the combined allowance to £5 million would further reduce the number of farm estates unable to pay out of non-farm assets to 15 estates if funded by the minimum share rule, or 20 estates if both adjustments were adopted. The difference reflects that if both adjustments were adopted (compared with the minimum share rule alone), around five additional farm estates per year valued at over £10 million would be unable to pay out of non-farm assets.

Table 8: Impacted farm estates (per year) unable to pay out of non-farm assets under the planned reform and adjustment options

Adjustment option	Number of farm estates per year	Impacted farm estates (per year) with <£30k income per business owner	
		Additional	Total Pre-reform
Planned	70	10	25
Minimum share (£2m)	35	5	10
Minimum share (£5m)	15	*	*
Upper limit (£2m)	35	5	10
Both (£2m)	35	5	10
Both (£5m)	20	*	*

Notes: Table shows averages over the period 2018-2022 (with uprating to 2027). 'Impacted' farm estates are those that would pay additional IHT as a result of the reform if they did not change their behaviour. 'Non-farm assets' exclude any APR/BPR claim from the total chargeable value of the estate. They also exclude the main residence if it is an APR-qualifying farmhouse (see Appendix Section A3.2.1.1 for details). 'Income per business owner' is calculated using the business income of the farm as defined in Appendix Section A3.2.3. An income threshold of £30,000 per business owner per year is only for illustrative purposes. We are in no position to indicate what the 'appropriate' level of income is. While a complete distribution with different threshold values would have been ideal, we are unable to produce it for reasons of statistical disclosure control. All counts are rounded to the nearest five. '*' represents values suppressed for reasons of statistical disclosure control.

Source: Authors' calculations based on HMRC administrative datasets.

Next, we analyse whether the farm estates unable to pay their full IHT bill out of non-farm assets could pay the residual bill out of farm income, without reducing the post-tax farm income per business owner below £30,000.¹⁵⁶ Among those impacted by the planned reform, even before the reform was implemented 25 estates per year were below this threshold (rounded to the nearest five). The planned reform would move a further 10 estates per year to below this income level, in the absence of planning behaviours to reduce the tax owed. Among those impacted by the reform at a threshold of £2 million, 10 estates are already below this threshold before the reform, and the reform would move another five estates below the threshold. With a combined allowance of £5 million, the number currently below the threshold and the number of additional estates who would move below the threshold are both too small for us to report due to statistical disclosure controls.

¹⁵⁶ As we highlighted in Section 4.4, we do not endorse this or any other specific threshold as an acceptable minimum income level, but statistical disclosure rules prevent us from reporting multiple thresholds so it was necessary to pick one.

6 Conclusion

The planned reform to APR and BPR has proved to be one of the most controversial tax measures in recent memory. The main controversy has been around the impact on farmers. This report aims to put the debate on a firmer evidential footing. We have set out our own view where we think the evidence points in a particular direction, but we have also tried to be as transparent as possible about the facts on which we have relied and the trade-offs involved, so that all those with an interest in the debate can make up their own minds. Some of our findings are likely to please certain groups and be contested by others; for other findings, the opposite will be true. Overall, we hope that all sides will view this as a constructive contribution to the difficult policy choices faced.

Our impact analysis indicates that the planned reform protects family farms to a large extent. We estimate that between 480 to 600 farm estates per year would pay additional tax if there was no change in their behaviour. This finding is very similar to the statistics already published by the Government, even after accounting for farm estates that only claim BPR and asset price inflation of farmland. Almost half (49%) of all impacted farm estates would see their IHT bill increase by less than 5 percentage points, and only 25 estates per year – all valued at over £7.5 million – would face an increase larger than 15 percentage points. In relation to the primary concern raised by farming groups, we find that 86% of impacted farm estates could pay their entire IHT bill out of non-farm assets, leaving around 70 farm estates per year that could not. Of these, around 40 farm estates per year would face a residual bill greater than 20% of the farm's income (after tax and depreciation), if paid in ten-year annual instalments.

However, our analysis also validates concerns that the planned reform could have been better targeted at those using agricultural land as a tax shelter by estates not otherwise involved in farming. Almost a third (32%) of all farm estates that currently benefit from APR and/or BPR have a claim covering less than 20% of the estate, indicating that they were most likely passive investors. The planned reform impacts only 15 of these estates per year (3.1% of all impacted farm estates). By contrast, 43% of all impacted farm estates potentially comprise 'small family farms', as proxied by estates with a share of APR/BPR in the total estate above 60% and an estate value less than £5 million. Consequently, if the Government wishes to more effectively target the reform at those using APR or BPR for tax planning, additional measures would be required.

Given these findings, we have explored whether alternatives or adjustments to the planned reform could extend the protection of family farms whilst still achieving the Government's other policy objectives *and* be deliverable by April 2026. We conclude that 'clawback' would not meet these criteria, so we have endeavoured to develop other options. As a minor adjustment to the planned reform, we suggest that the combined allowance should be made transferrable between spouses, whilst recognising the short term revenue cost that this would entail. Beyond this, we consider two main options: a 'minimum share rule' and an 'upper limit on relief'. Both options involve additional restrictions on relief that could be used to fund an increase in the combined allowance above its planned level of £1 million, whilst still raising at least as much revenue as the planned reform overall.

A minimum share rule would remove relief from a large number of estates for which farm and business assets are a relatively minor component, reducing the incentive to use these assets as a tax shelter. Restricting relief to estates whose APR/BPR assets made up at least 60% of the total estate could fund an increase in the combined allowance for 100% relief to £5 million per estate, which almost by definition would fully protect small family farms. However, in isolation, a minimum share rule would perform somewhat worse than the planned reform on the Government's objective of reducing the concentration of relief. Moreover, whilst potentially deliverable by April 2026, implementing a minimum share rule on this timescale would likely involve some design compromises that could leave the rule exposed to avoidance. Both of these factors mean that despite its appeal in targeting relief at active farmers (and other active business owners) at the expense of passive investors, this option is not a silver bullet.

An upper limit on relief would be the most direct means to reduce the concentration of relief, which was one of the Government's stated aims of the reform. If relief was restricted to the first £10 million of claim, with no additional relief above this limit, this could fund an increase in the combined allowance for 100% relief to £2 million per estate. The effect would be to extend protection for family farms and other small businesses, at the expense of larger landowners and businesses. This adjustment would be straightforward to deliver by April 2026, if the Government wished. However, if the response by the wealthiest estates was substantially larger than our central estimate, then it may only be possible to increase the combined allowance to £1.5 million, whilst still raising as much revenue as the planned reform. This indicates that whilst an upper limit on relief would be more administratively feasible than a minimum share rule, it offers significantly less scope to increase the combined allowance.

In previous reports, we recommended a combined allowance for APR/BPR similar to the one announced by the Government.¹⁵⁷ This was on the basis that 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. The options that we have developed in this report also reflect this approach. Where an estate has enough non-business assets to pay their IHT bill, there is no reason to give APR or BPR: this is what the minimum share rule achieves. Where a business is large enough that it should be able to access credit from financial markets, there is similarly no reason to give APR or BPR above this level: this is what the upper limit achieves. These new restrictions could then fund more relief, via an increased combined allowance, for those farms and small businesses that are most likely to be credit constrained.

There is therefore no contradiction in supporting the Government's planned reform as an improvement on the status quo and simultaneously exploring options to make it work better, including by extending protection for farms and other small businesses. The move towards reducing differences in tax treatment across different types of wealth, whilst also recognising the credit constraints facing farms and small businesses, is a move in the right direction. The question is whether this balance can be improved further by eliminating tax advantages altogether for estates that do not need them, in order to preserve or enhance reliefs for those that do. This is what we mean, specifically, by 'targeting'. On this definition, our analysis indicates that the planned reform is indeed better targeted than the status quo, but it is worth giving serious consideration – as we have attempted to do in this report – to whether it could be better targeted still.

¹⁵⁷ Advani, Disslbacher, Forrester & Summers, '[Inheritance Tax reliefs: time for reform?](#)', CenTax Policy Report (2024); Advani & Sturrock (2023), '[Reforming Inheritance Tax](#)', IFS Green Budget 2023.

Appendix A – Methodological details

In this appendix we provide additional information on the methodology used to arrive at the figures shown in the report. The main report provides an explanation of the methodology followed in each part of the analysis, so this appendix focuses exclusively on the areas where the report explicitly refers to it for more detailed methodological information.

A1 Uprating to 2026-27

As mentioned in the report, the IHT data that we use spans the five-year period from 2017–18 to 2021–22. To estimate the relevant population for IHT purposes, we adjust each year of historical data to 2026-27 to reflect changes in both the value of assets (and liabilities) and number of deaths. Note that our computation of uprating factors is in some cases based on indices or projections different from the ones used in the Government's published modelling.

A1.1 Uprating assets and liabilities

A1.1.1 APR/BPR assets

In the context of farm estates, APR and/or BPR cover the following assets: farmland, farm property and other farm assets (machinery, livestock, etc). To correct for the change in value of these assets since 2018–2022, we uprate the aggregate value of APR/BPR assets reported in the IHT returns.

The main type of eligible assets for APR are, broadly, farmland and farm buildings (including farm cottages and farmhouses).¹⁵⁸ Given this, we assume that the most relevant APR asset is farmland and apply the Savills (2024) farmland price indices.¹⁵⁹ This results in a 1.15 scaling factor on average for APR assets for 2022. Savills (2025) provide forecasts for overall farmland value in 2025 after accounting for the impact of the planned reform which gives a scaling factor of 1.07.¹⁶⁰ We also consider other indices such as the Knight Frank English Farmland Index. Linear projection of this index gives a higher scaling factor of 1.22 for 2022.¹⁶¹ We therefore worked with scaling factors based on Savills (2024) as they are close to the average scaling factors across these three indices.

¹⁵⁸ Some other minor categories of APR-eligible assets are growing crops, certain trees, milk quotas and stud farms.

¹⁵⁹ https://www.savills.co.uk/research_articles/229130/355918-0

¹⁶⁰ https://www.savills.co.uk/research_articles/229130/371302-0

¹⁶¹ <https://www.knightfrank.co.uk/research/reports/english-farmland-index-157>

There is more uncertainty about the nature of assets claimed under BPR. For BPR claims related to farming, underlying assets might be farm assets (machinery, livestock, deadstock, etc), shares in a farming company, or an interest in a farming partnership. But farm estates can also claim BPR on assets unrelated to agriculture, in which case the assets could be shares in unlisted companies (including AIM shares), interests in a business partnership, controlling shareholding in listed companies, and land, building or machineries used in a private business.

Given this uncertainty, using a specific index would require making unduly strong assumptions about the nature of the assets, and we lack the data to inform such assumptions. There is also no alternative proxy specifically linked to agricultural assets eligible for BPR (farm machinery, livestock, deadstock, etc.), as all indices for farming industry relate to farmland (which we expect to be primarily covered by APR). Based on these considerations, we apply the OBR's series on equity prices. This is an imperfect proxy for farm assets and shares (and interests) in farm businesses, as they do not relate to movements in the stock market, but is the index the OBR would use in this context. This means that there is some uncertainty on the uprated BPR values used in the analysis, but we don't expect this to affect our findings in a significant way.

A1.1.2 Main residence (and RNRB)

In addition to the assets covered by APR and/or BPR, the main residence is also an important asset in most IHT estates, and it has the RNRB relief attached to it. We uprate both the main residence value and the RNRB value in a three-stage process.

1. Uprate main residence value by applying a scaling factor based on the OBR's series on house price growth¹⁶² from the relevant date (between 2018 and 2022) and April 2026.
2. If the uprated value of the main residence is larger than the RNRB claim reported in the data, we increase the RNRB claim (up to the statutory limit, with or without transferable RNRB depending on whether the estate claims it).
3. Finally, we cap the updated RNRB claim to account for the uprated overall estate value (e.g. if an estate was worth £1.9 million in 2018 and the uprated overall value is £2.2 million in 2026, we cap the maximum RNRB at £75,000). The uprated value of the overall estate is obtained as mentioned in Section A1.1.3 below.

¹⁶² See OBR's [house prices forecast](#).

The above methodology is likely to slightly overestimate the combined value of RNRB for two reasons. First, on all second deaths within a couple that claims RNRB, we assume they have a transferable RNRB. The rationale behind this assumption is that, within couples, the main residence will usually be transferred to the surviving spouse, so the RNRB will not be used on the first death. But this will not always be the case. Second, the methodology assumes that all the estates that will exceed the threshold at which the RNRB is capped due to the increase in estate values from 2018–2022 to 2027 will not engage in tax planning for avoiding the cap.¹⁶³ This means that our uprating method would slightly overestimate the combined total of RNRB and TRNRB.

A1.1.3 Other assets, liabilities, gifts and reliefs

To get the value of other assets in the estate, we subtract the (non-uprated) values of APR/BPR and main residence from the (non-uprated) sum of all the assets in the estate. This value (and the value of liabilities, gifts and other reliefs) is then uprated using OBR's forecast for nominal GDP.

The overall uprated value of the estate will then be the sum of the uprated values of APR/BPR, main residence and other assets. This is the value used for the purposes of updating the cap on the RNRB (see Section A1.1.2 above).

A1.1.4 Farmland and farm assets

While the values in the variables corresponding to farmland and farm assets do not directly feed into our calculations (as we use the APR claims instead), we need this information for identifying non-farm assets in the affordability analysis of Section 4.4 in the report (see Section A3.2.1 below in this appendix). For that purpose, we have uprated these asset values separately. Farmland is uprated using the same scaling factors as APR. As farm assets could contain a mix of APR- and BPR-eligible assets, we have uprated the value of these using a weighted average of the multipliers used for APR and BPR, where weighting is done based on the share of APR and BPR respectively in the total claim for each estate.

A1.1.5 Summary of scaling factors

Based on the uprating methodology explained above, below are the average scaling factors for the different types of assets and liabilities depending on the relevant year of IHT data.

¹⁶³ This can be done by gifting assets before death to ensure the estate value does not exceed the £2 million, as the estate value for the purpose of capping the RNRB does not include pre-death gifts (even if within the seven-year period before death).

Table A1: Scaling factors used to uprate values of different assets and liabilities to 2027

Asset/liability	Average uprating factor				
	2018	2019	2020	2021	2022
APR	1.32	1.34	1.34	1.25	1.15
BPR	1.21	1.23	1.24	1.41	1.20
Main residence	1.33	1.29	1.28	1.24	1.15
Other assets, liabilities, gifts and reliefs	1.46	1.41	1.36	1.47	1.30

Notes: The uprating factor to scale each asset/liability type to 2027 is calculated by taking the ratio between the forecast in 2027 and the realised value for each year of our data.

Source: Authors' calculations based on Savills (2024) farmland value forecasts for APR, OBR's equity price index for BPR, house price index for main residence and nominal GDP series for other assets, liabilities, gifts and reliefs.

A1.2 Uprating nil-rate bands

The NRB has been fixed at £325,000 since April 2009, so we do not need to adjust this. However, increasing the value of the underlying assets can affect the availability of the NRB and the transferable NRB (TNRB).

For the NRB, we do not need to do any adjustment to account for the increase in value of underlying assets. This is because we have excluded from our analysis low value estates (see Section A2.2 below in this appendix). Consequently, all the estates in our population have fully used their NRB in the 2018–2022 period, so any increase in the price of the underlying assets will not have any effect on the available relief.

For the TNRB the change in asset prices may affect our population. For example, if on first death the estate only had property valued at £100,000 and this was passed to non-spouse heirs, they could pass £225,000 of their NRB to the surviving spouse. If the surviving spouse had an IHT liability, we would see their claim of NRB (£325,000) and TNRB (£225,000). If the property value of the first spouse increases to £200,000, it would mean that the available NRB to be passed on to second death would reduce accordingly.

However, the direction of adjustment is uncertain as there are two possible opposite effects from the increase in value of the underlying assets on first deaths. One is to increase the use of the NRB on first death, as outlined above. The second possible effect is to increase the transfers to the spouse (tax-free) which would increase the value of the TNRB (the assets now transferred to spouse would no longer use the NRB on first deaths). Since we cannot link couples in the IHT data, we cannot assess quantitatively

which effect is more relevant. When we observe an estate from a widow or surviving civil partner, neither can we know how long ago the first death took place, nor the value or make up of assets in the first estate. As we cannot make any informed assumptions, we choose not to adjust the TNRB.

A1.3 Upating income measures

We use certain income measures when we present characteristics of impacted farm estates (see Sections 4.2.2 and 4.2.4 in the report) and for the affordability analysis (see Section 4.4.2 in the report). The income measures also come from historical administrative data, as an average of the five-year period before the relevant death. Given this historical nature, we also need to uprate them to 2027.

We uprate income measures like the total income of the deceased (Section 4.2.2 in the report) and total (post-tax) farm business income (Section 4.4.2 in the report) that are presented in absolute terms. As farm income of the deceased (Section 4.2.4 in the report) is only presented as a share of total (non-pension) income of the deceased, we do not separately uprate it (or the denominator i.e. total non-pension income) as we want to conserve the share.

In cases where we uprate the income measures, we use the same method of relying on internal scaling factors. This is because different components of income (trading income, investment income, etc) may grow differently and income trends in agriculture can be different from other sectors. This is done in three stages.

1. We first find the average of the income measure for five years before death (excluding years where the income is missing), to account for any income volatility in the five-year period preceding death. This is used as our baseline income measure for 2022.
2. Second, we calculate the growth rate of total income over the five years for each estate (considering only complete cases where value of income for the first and the fifth years before death is available). To neutralise the effect of outliers, we calculate the 5% trimmed mean (exclude the top and bottom 5%) of these values as the scaling factor for the respective income measure. This comes out to be 1.06 for total income of the deceased and 1.36 for total (post-tax) farm business income.
3. Lastly, we apply the scaling factor to our baseline income measure to uprate it from 2022 to 2027. As an example, for deaths in 2022, this would mean taking the average of the income measure from 2017 to 2021 as the

baseline and then uprating it by the obtained scaling factor to use as income for 2027 (which is five years from 2022).

This approach is conservative (i.e. likely to slightly underestimate the actual level of income in 2027) as our scaling factor from 2022–2027 will not capture the growth in income that estates would have experienced between 2018 to 2022. This is because in all cases we only apply our scaling factor from 2022 to 2027, regardless of the date of the underlying income measures.

A1.4 Uprating number of deaths

Given that the number of deaths each year depends on demographic trends, we uprate the number of estates in our population of IHT taxpayers based on the ONS principal population projections for number of deaths in 2027.¹⁶⁴

To do this, we calculate the ratio between the estimated number of deaths in 2027 and the number of deaths in the UK for each year of our data.¹⁶⁵ We then apply this ratio as a multiplier to number of estates for each year to estimate the number of estates in 2027. Below are the ratios for each year in our data.

Table A2: Scaling factors used to uprate number of deaths to 2027

Average uprating factor				
2018	2019	2020	2021	2022
1.08	1.10	0.96	0.99	1.01

Notes: The uprating factor to scale the number of deaths to 2027 is calculated by taking the ratio between the estimated number of deaths in 2027 and the number of deaths in the UK for each year of our data.

Source: Authors' calculations based on ONS principal population projections (2021-based) and estimated number of deaths in the UK (ONS, NRS and NISRA)

A2 Defining 'farm estates'

A2.1 Farming activity link for BPR claims

As indicated in Section 3 of the report, we identify three types of 'farm estates': those claiming APR (with or without BPR), those claiming BPR with a farming activity, and estates not claiming APR/BPR (only when fully covered by spouse exemption and reporting farming assets). Here we provide additional details about the farming activity link we use to classify estates claiming only BPR as 'farm estates'.

¹⁶⁴ 2021-based ONS principal population projections available [here](#).

¹⁶⁵ Estimates for number of deaths in the UK are obtained from relevant statistical authorities: [ONS](#) for England and Wales, [NRS](#) for Scotland and [NISRA](#) for Northern Ireland.

Farm estates only claiming BPR would capture tenant farmers that do not own any of the land that they farm. These farmers would only claim BPR on the machinery, livestock, etc. used in the farm or on the shares of the company or interest in the partnership through which they carry on the farm trade. We use three different classes of farming activity links to identify 'farm estates' that only claim BPR.

1. Farming link through partnership (or self-employment): we classify the estate as a 'farm estate' if the deceased had any trading income with a Standard Industrial Classification (SIC) code 'A' from a partnership or self-employment (farming income), and this farming income represents at least 10% of total earned income of the deceased (excluding pension income).¹⁶⁶ We include this (low) threshold for farming income as a criteria to remove cases where a taxpayer has a non-farming BPR claim and also receives some small income from a partnership/self-employment with SIC code 'A', as these would not be tenant farmers (i.e. their BPR claim is unrelated to farming).
2. Farming link through company: we classify as 'farm estates' those that claim BPR on shares where the deceased was a director of a company with SIC code 'A'. In effect, this may miss some of the relevant 'farm estates' as there could be cases where a farmer retains a shareholding interest in a farming company but is retired from the management of the company. But discussions with practitioners have consistently suggested that only a very small share of farms are incorporated, so we do not regard this as a material risk of under-inclusion in our analysis. As with the farming link through partnership, we require that farming income (i.e. employment income from the company with SIC code 'A') represents at least 10% of total earned income of the deceased (excluding pension income).¹⁶⁷
3. Farming link through farming assets: there is a small number of cases where only BPR is claimed and the estate reports holdings farm assets (farm buildings) or farmland, even though they do not report a SIC code 'A' from the trading activity. This is unusual, as typically either the partnership holding farming assets is involved in agriculture (i.e. reporting SIC code 'A') or the farm assets/farmland are held separately from the partnership, in which case the estate would claim APR on those assets. We requested that HMRC examine these cases. HMRC reported that, from a sample of these cases, 50% of estates holding *farm assets*

¹⁶⁶ For the rationale for excluding pension income, see Section A3.1.1 below in this appendix.

¹⁶⁷ For the rationale for excluding pension income, see Section A3.1.1 below in this appendix.

met our criteria for qualifying as ‘farm estates’ as the partnership carried on a farming business.¹⁶⁸ For the group holding *farmland*, however, HMRC reported that only 20% would meet our definition of ‘farm estates’. Ideally, we would want to identify the specific cases that meet our definition and only include those in the relevant population. Unfortunately, from the data available through the HMRC Datalab we cannot differentiate the estates that meet our farming criteria. We therefore chose to include the first group (holding farm *assets*) and exclude the second group (holding *farmland*). This is closer to the relevant population than either excluding or including both groups, so was our preferred approach. It is worth noting, however, that this a very small group (around 30 estates per year) among the population of farm estates (around 1,570 per year as showed in Section 3.3 of the report) so any imprecision due to choices here is unlikely to be material to the analysis.

A2.2 Exclusion of low-value estates

Data limitations mean that there is one way in which our definition is under-inclusive, which relates to low-value ‘farm estates’. Data on estates valued below the NRB (in 2018-2022) are limited, as these estates are not fully covered in the data, and (when covered) the information available on the type of assets forming the estate is not very detailed.¹⁶⁹

The problem is that the fact that these estates are fully covered by the NRB means that there is no need to claim APR or BPR (except to transfer the NRB, but that is only relevant for first deaths within a couple). This means that by excluding these estates we will miss some estates that will be above the NRB after uprating 2018-2022 values to 2027. And those that have qualifying APR/BPR assets will then meet our definition of ‘farm estates’.

But there are no serious implications for the analysis arising from this exclusion of low-value ‘farm estates’. To start, many of these low-value ‘farm estates’ are unlikely to be commercial farms (given their low value), but instead simply estates that hold some farm assets without being primarily involved in agriculture. So, excluding them is unproblematic if the concern is about the effect of the planned reform on productive farms.

¹⁶⁸ So the SIC code reported for the trading business was not accurate.

¹⁶⁹ This simpler reporting for estates below the NRB is aimed at striking a balance between gathering information and prevent imposing a compliance burden, in cases where there is no tax at stake.

In addition, these low-value ‘farm estates’ will not be impacted by the planned reform, as even if they are above the NRB in 2027 they will be fully covered by the £1 million allowance. This means that the only effect of this exclusion is that we will slightly understate the total number of ‘farm estates’, which in turn means that we will slightly overstate the *share* (but not the number) of impacted estates among ‘farm estates’.

A3 Impact analysis

In Section 4 of the report, we showed our estimates for the number of impacted farm estates. We also showed the characteristics of the impacted farm estates, the size of the financial impact of the additional IHT from the planned reform and whether they could afford to pay the IHT. Below we provide methodology details for Section 4 of the report where necessary.

A3.1 Characteristics of impacted estates

A3.1.1 Estimating share of farm income in total income

In Section 4.2.4 of the report, we present the distribution of impacted farm estates by the share of farm income in total income to understand the impact of the reform on farms that provide livelihood to their owners.

To estimate farm income, we take the average farm income over a five-year period before death. Within this computation of farm income, we include the following income sources from self-assessment and PAYE data:

1. Any trading income with a SIC code ‘A’ from a partnership or self-employment
2. Any employment income from a company with SIC code ‘A’

As a denominator in the calculation of the share of farm income in total income, we take the total income of the deceased excluding pensions, i.e. all other sources of earned and investment income from self-assessment and PAYE data are included.

Three issues are worth highlighting in this part of the analysis. First, we take absolute values of farming trade losses, so that we measure the level of farming activity in the estate as a proxy for whether it is the livelihood. This reduces the risk of removing from our definition estates that have had some commercially difficult years in the past five years. Not taking absolute values would mean that an estate that has a trading loss in a year is seen as having 0% farming income in total income, which would not capture the relevance of farming as an economic activity.

Secondly, we do not consider dividend income as farming income, even when it arises to a deceased that was a director of a company with a SIC code 'A'. Reported dividend income cannot be linked back to its source, so that it is not possible to distinguish what part of this income came from the company with SIC code 'A', and what part comes from other sources. Excluding this dividend income might be problematic when it comes to a farm trade that is carried on through a company, as it might lead to under-inclusion if an incorporated farmer gets most of their 'farming income' as dividend. However, under the alternative (including dividend income as 'farming income') risk of over-inclusion is significant as we cannot identify farming and non-farming dividend income separately in the data, so is more likely to create a bias.

Thirdly, we exclude pensions from the denominator in the calculation of farm income for two reasons. First, they are not an indication of present economic activity. So if we include pensions in the denominator, many older farmers who have reduced their farming activity (income from which will be captured by the farming income in the numerator) but also rely on pension income would most likely appear as deriving little livelihood from farming. The second reason is similar to the exclusion of dividends: we only see a total amount of pension income without any indication of the source of the pension, so we have no way of identifying those relating to past farming activity.

A3.2 Affordability analysis

In Section 4.4 of the report we examine whether impacted farm estates have sufficient non-farm assets or income to pay the IHT without affecting the farm. We do this in a two-stage process. First, we estimate the number of estates that have sufficient non-farm assets to pay the IHT bill. Second, among those estates which cannot fully pay the IHT due from non-farm assets, we assess whether the farm business income would be sufficient to pay the residual annual IHT bill. Below we present details on the analysis in each stage.

A3.2.1 Identifying non-farm assets

As mentioned in the report we identify non-farm assets by excluding any APR claim or a BPR claim from the value of the impacted estate, and we also treat the main residence as a farming asset (i.e. not available for paying the IHT bill) when we suspect that the farmhouse is the main residence of the deceased, as we assume that selling the farmhouse separately from the farm is infeasible. We detail below how we identify that the farmhouse may

be the main residence in the estate and how we account for that. We also provide further details of our definition of non-farm assets and the implications for the findings of the analysis.

A3.2.1.1 The treatment of the farmhouse

Farmhouses are not usually fully covered by APR. This is because APR only grants relief for the 'agricultural value' of assets, and residential property (such as the farmhouse) will usually have a commercial value above this. This means that if we only consider the value of the APR and BPR claims as farm assets, we will assume that the share of the farmhouse that is not eligible for APR is available to be sold without affecting the operation of the farm. If there is a farmhouse, however, this will usually also be the main residence in a farm estate, so we try to use the value of the main residence in these cases to adjust our measure of non-farm assets.

As the motivation for this part of the analysis is to assess the extent to which impacted farm estates likely to need to sell (part of) the farm to pay the IHT bill, we take the conservative view that the farmhouse (if there is one) is fully part of the 'farm' even if APR does not grant relief on its full value.

Our approach is to use what seems to be a 'rule of thumb' regarding the determination of the agricultural value of the farmhouse, which would be 70% of its market value. This is based on the leading case on the agricultural value of a farmhouse (*Antrobus*),¹⁷⁰ where it was decided this was 70% of its market value. We acknowledge that the determination of the agricultural value of the farmhouse is, in principle, something that should be done on a case-by-case basis and that the 70% rule does not need to be followed. However, practitioners tell us that 70% is frequently used when it is estimated that the farmhouse has a market value above its agricultural value (although it can be disputed).

Based on this 70% 'rule of thumb' we identify estates likely to include a farmhouse when the value of the APR plus BPR claims is equal to or exceeds the combined value of the farmland, farm assets and 70% of the main residence. The rationale behind this is that if the combined value of APR/BPR is less than farmland/farm assets plus 70% of the main residence, it is more likely than not that there is no farmhouse. Put differently, if there is a farmhouse it is likely that it will get relief for at least 70% of its value, which would mean that the combined value of APR/BPR claim will be at least the value of farmland/farm assets and 70% of the value of the main residence.

¹⁷⁰ Lloyds (PR's of *Antrobus*) [2002] STC (SCD) 468.

In those cases (where we identify that there is likely to be a farmhouse) we further reduce our definition of non-farm assets by 30% of the value of the main residence. This would fully remove the value of the farmhouse from our definition of non-farm assets if the 70% 'rule of thumb' was applied.

Our approach is imprecise in individual cases as it can lead to an under- or over-inclusion in our definition of non-farm assets, but we think it should be correct (though conservative) on an aggregate basis as the imprecisions are likely to (partially) offset each other. We explain below the risk of underestimation and overestimation of non-farm assets due to the treatment of the farmhouse.

Risk of underestimation of non-farm assets: The treatment of the farmhouse will lead to underestimating the non-farm assets in two situations.

1. Agricultural value of the farmhouse is more than 70% of its market value. In the extreme, if a farmhouse is deemed to have an agricultural value equal to its market value equal, we would still deduct 30% of the value of the main residence from our definition of non-farm assets (even though the APR claim covered 100% of the value of the farmhouse).
2. Estate comprises a BPR claim unrelated to the farm business, as this will mean that the combined value of the APR/BPR claim may exceed the sum of farmland/farm assets plus 70% of the main residence without this being related to the farmhouse.

Risk of overestimation of non-farm assets: There is one situation where our approach to the farmhouse can lead to an overestimation of the non-farm assets, which is when the agricultural value of the farmhouse is deemed to be less than 70%. In those cases, we would assume there is no farmhouse and we would not be able to correct for the incomplete coverage of the farmhouse under APR.

We believe our approach is conservative as the risk of underestimation of non-farm assets seems more relevant than the risk of overestimation.

A3.2.1.2 Imprecision in our definition of non-farm assets

As any methodology that relies on proxies, there will be some imprecision in our measurement of non-farm assets. We have taken these into account and have tried to use something that, on aggregate, will be reasonably accurate. Below we describe the sources of underestimation and overestimation in our definition of non-farm assets and explain our conclusion that, on aggregate, the definition seems a reliable proxy for estimating the value of the assets in an estate that are not part of the farm.

Risks of underestimation: There are two main risks of underestimation:

1. For some estates we will exclude more assets than we would want to, as we cannot differentiate BPR-eligible assets that are linked to farming from those that are not. For example, the deceased could have been the director of a farming company (owning shares in the company on which they claimed BPR) and also have owned some AIM shares (unrelated to agriculture, on which they would also claim BPR). For these estates, we will underestimate their non-farm assets, as we cannot differentiate the farm assets within the BPR claim, so we would deduct the value of the AIM shares in our definition of non-farm assets.
2. We cannot observe pension assets that would be part of our non-farm asset definition, so this will also lead to an underestimation of non-farm assets.

Risk of overestimation: There is one risk of overestimation of non-farm assets which is when APR relief is given on the agricultural value of farmland or farm assets which is below its market value.¹⁷¹ In many of these cases, however, the 'residual market value' could obtain relief through BPR (if the farmland/farm assets are part of the business of the deceased) so this risk of overestimation should be small, especially as we have dealt separately with this risk when it affects the farmhouse (see Section A3.2.1.1 above). The two cases where BPR would not fully relieve the 'residual market value' are when the farmland is held by an agricultural landowner (in this case BPR would not be available at all) and when the deceased owned the farmland/farm assets which were used in a business carried on by a partnership (or company) in which they were a partner (or they controlled), as in this case the BPR relief will be limited to 50% (i.e. so 50% of the residual market value will not be captured by APR or BPR, and would therefore be considered part of our non-farm assets estimate).

We cannot test for the risks of underestimation (we cannot observe in the data underlying assets that cause underestimation) but this is not problematic as these risks means our methodology in Section 4.4.1 of the report is conservative. The risk of overestimation is more concerning as it could mean we are overestimating the number of estates that will be able to pay their IHT bill with non-farm assets. To address this concern, we perform a robustness test on our definition of non-farm assets by using an alternative definition where this risk of overestimation is absent and we

¹⁷¹ APR is only available on the agricultural value of the eligible assets. Farmland, in particular, could have a higher market value if it has some developmental value, and the excess is not covered by APR.

confirm that the risk is immaterial (see details on the robustness test in Section A3.2.2 below).

Overall, both risks of overestimation and underestimation in our definition of non-farm assets seem negligible. Additionally, both risks will (to some extent) cancel each other out, so on an aggregate level we are confident that our estimate of non-farm assets is reliable and conservative.

A3.2.1.3 Activities complimentary to farming

Our definition of non-farm assets will capture some assets which may be part of economic activities that are often considered complimentary to farming, such as furnished holiday letting (FHL).

We do not see this as problematic for two reasons. Firstly, when FHL activities are subsidiary to the farming business, they are eligible for BPR.¹⁷² This means that in these cases our definition of non-farm assets would exclude them.

When the FHL or property rental business is not subsidiary to the farm, it will not get BPR as these are considered investment businesses which are excluded from the relief.¹⁷³ This means that we would count them as assets available to pay the IHT bill. But this is consistent with our analysis as these assets would not be part of the farm, even if they have certain proximity to it. Similarly, non-farm estates which hold FHL or rental properties near/connected to the main residence, are not eligible for IHT relief on those assets and might have to sell them to pay the IHT bill.

A3.2.2 Robustness checks for definition of non-farm assets

In our main specification of non-farm assets, we exclude any APR or BPR claim from the value of the impacted estate to estimate the value of non-farm assets. We also exclude the main residence if it is an APR-qualifying farmhouse (see Section A3.2.1.1 above). However, as mentioned in Section A3.2.1.2 above, there is a risk of overestimation in this definition because there can be other assets (besides the farmhouse) on which APR relief is given on the agricultural value of the asset which is below its market value. In many cases, BPR would cover the residual market value, which would remove the risk of overestimation. But in certain cases (as explained in Section A3.2.1.2 above) the risk of overestimation will remain, as BPR will not be available to (fully) relieve the residual market value.

¹⁷² See leading cases on the matter: *Farmer v IRC* (1999) SpC 216, and *Customs Commissioners v Andrew Michael Brander* (As executor of the will of the late fourth Earl of Balfour), (2010) UKUT 300 (TCC).

¹⁷³ s. 105(3), IHTA 1984.

To increase the certainty of our analysis, we test whether this risk of overestimation is significant by using an alternative definition of non-farm assets which is not subject to this risk of underestimation. In this alternative, to estimate non-farm assets we exclude from the value of the estate all farm assets (i.e. farmland, any other farm assets and main residence when an APR-qualifying farmhouse). Under this definition, out of the 480 impacted estates per year, 80 of these will be unable to pay the IHT bill out of non-farm assets. This is only slightly higher than the 70 estates that could not pay out of non-farm assets in our main specification. In relative terms, this means that while under our main specification we estimate that only 14% of impacted farm estate would not be able to pay the IHT bill out of non-farm assets, under the alternative definition this increased to 17%. This reassures us that the risk of overestimation is low in our main specification.

A3.2.3 Estimating (post-tax) farm business income

In Section 4.4.2 of the report we analyse whether any residual IHT bill (after payment with non-farm assets) could be paid with the farm's business income. For this purpose, we compare the value of the ten annual IHT instalments with the farm's business income. We explain below how we estimate the different components in this analysis.

A3.2.3.1 Instalment payments of residual IHT bill

The residual IHT bill is the amount left after paying as much as possible of the total IHT bill (on both farm and non-farm assets) out of non-farm assets. By construction, this residual bill cannot exceed the amount of the IHT bill attributable to APR/BPR assets, so it should always qualify for payment by annual instalments. This allows taxpayers to pay their IHT bill on APR/BPR assets in ten annual instalments without any interest. Even for taxpayers without any liquidity constraints, this represents an interest-free loan from the Government so it would usually be financially advantageous to pay the IHT bill this way.

A3.2.3.2 Definition of 'farm business income'

For the purpose of the analysis in Section 4.4.2 of the report, we estimate the overall income of the farm business. The directly relevant income for this step of the liquidity analysis is the future income of the farm. Unfortunately, we cannot observe this directly, so we use the average income of the farm business for the past five years before death as a proxy for the future income from which the IHT instalments could be paid.

Two points of our estimation of 'farm business income' are worth pointing out. First, we use the overall income of the farm's partnership/company, not only its trading income. This is to account for the fact that in a business total income will fall, for tax purposes, into different sources of income, but this is only a result of having a schedular tax system which should not affect how we estimate the overall income of the farm. So, besides its trading income, we would also include its property income (e.g. if renting out farmland), investment income (e.g. if it receives dividends from a subsidiary company), interest income (e.g. interest received on cash reserves or cash equivalents) and foreign income (e.g. if selling products abroad through a foreign branch).

These different income streams should not be affected by the disposal of non-farm assets in the first step of affordability analysis (Section 4.1.1 in the report). This is because we only include these sources of income when they arise to a farm partnership or farm company, and not when they arise directly to the deceased. As such, the underlying assets for these sources of income should be covered by BPR or APR, and therefore not part of our estimation of non-farm assets. This means that even 'investment' assets (property, shares, securities or land) will be covered by BPR (so not part of our non-farm assets definition) if they do not make the overall business to be 'wholly or mainly' an investment business.¹⁷⁴ The only possible scenario where these assets would have been 'disposed of' on the first stage of the affordability analysis is if these are 'excepted assets'¹⁷⁵ (i.e. assets for personal use held by the business and excessive cash balances) but the application of the excepted assets rules should be limited (i.e. only capture a small number of assets) and exceptional (i.e. only capture small number of estates). Some of these assets would also be unlikely to produce an income stream (those held for personal use). For the above reasons, this should not have a significant impact on the analysis.

Furthermore, we do not restrict our estimation to the deceased's share in the partnership's or company's income but instead take the total income of the partnership/company. This is because, at this stage, we are concerned about the impact of the IHT bill on the overall farm business, as we are trying to assess whether the descendants (who will usually already own a part of the farm) will be able to afford the residual IHT bill with their income from the farm business. Otherwise, if the deceased was elderly and had reduced their work to a minimum (and this was reflected in their share of income

¹⁷⁴ IHTA 1984, section 105(3).

¹⁷⁵ IHTA 1984, section 112.

from the farm), our analysis would almost inevitably conclude that the farm's income is insufficient to pay the IHT bill. This would miss the fact that the descendants are likely to have been receiving a large share of the farm's income, even if the capital assets were still owned by the deceased.

A3.2.3.3 Adjusting for capital allowances

An important aspect of our methodology for estimating income from farm business is that we focus on financial profits, the measure of which can deviate from tax profits. For this purpose, we correct for one of the main sources of discrepancy between financial and taxable profits which is the treatment of depreciation.

From a tax perspective, depreciation is not an allowable expenditure. Instead, the tax system grants a deduction in the form of capital allowances. For most businesses, capital allowances will be more generous (i.e. grant a more valuable deduction than depreciation) as they frequently allow the full expenditure for capital investment in the first year of the investment (e.g. if the capital investment is covered by the annual investment allowance, full expensing allowance, etc.). To adjust for this, we add back the capital allowances deductions (and deduct any balancing charges) to the taxable profits, and we then deduct depreciation.

Our deduction for depreciation comes from the depreciation reported by partnerships with a turnover between £85,000 to £15 million (medium size partnerships).¹⁷⁶ For these partnerships (which account for around 60% of all farming partnerships), we directly replace capital allowances with the reported depreciation. For other farming businesses (small/large partnerships and corporations) we calculate a ratio between capital allowances and depreciation for medium partnerships (over a five-year period) and apply it to correct their capital allowance deduction, since filing requirements for these partnerships does not include the necessary information in a way that is data captured.

Deducting depreciation from farm businesses' income means that we assume farms will continue investing in capital assets at the rate we currently observe in the data, so the liquidity analysis is not affecting their ability to invest as long as future plans conform to historic rates of capital investment (i.e. investment above this level would limit the affordability of the residual IHT bill).

¹⁷⁶ Partnerships with a turnover between £85k to £15m will report their depreciation expenditure (even if disallowed for tax purposes) in box 3.44 in SA800, so we use that figure for these farming partnerships.

A3.2.3.4 Deducting tax from business income

As we indicate in Section 4.4.2 of the report, our affordability analysis only uses income from the farm's business after the personal tax liabilities of individuals. This is necessary because the payment of the IHT bill would not be an allowable expenditure of the business, so the individuals would need to extract profits from the business to pay the IHT bill, at which point income tax would be charged.

We estimate the post-tax income by focusing on the effective average tax rates (EATRs) of the business owners (partners, directors or individual owners in case of the self-employed) and using the weighted average of these EATRs (based on individual's share in sum of total income across business owners) to apply to the business income of the farm.

For example, for a partnership structure, we will calculate the EATR for each of the partners in the partnership and then apply the weighted average EATR (based on individuals share in sum of total income across partners) to the income at the level of the farming business.¹⁷⁷

For farm businesses that operate through corporations (identified as mentioned in Section A2.1 above) we deduct the corporation tax from the estimated income of the farm company. We then apply to the (post-corporation tax) business income the weighted EATR of the directors of the company. For the weighting, we use the share of each director's total income in the sum of total income across all the company directors (as we cannot observe the actual allocation of dividends from the farming company).

¹⁷⁷ E.g. if a partnership has two partners getting 70%/30% of the total income across partners, and the main partner has a EATR of 40% while the second partner has a EATR of 20%, then we apply to the overall partnership income a tax rate of 34% ($70\% \times 40\% + 30\% \times 20\%$) to get the after-tax income of the farm business.

Appendix B – History of APR and BPR

To frame the discussion around the planned reform in a wider historical context, we provide a brief background on the history of APR and BPR, covering the origin of these reliefs and changes to them over time.

B1 Agricultural property relief

Agricultural relief was introduced along with the Capital Transfer Tax (CTT) – predecessor to IHT – in 1974. The original relief was much more limited than the current relief. It was originally known as working farmer relief, as it was only available when the deceased was directly involved in farming as a trade (either as employee or partner of a trading partnership or as a director of a company involved in farm trade) so there was no relief available to agricultural landlords. In addition, the relief only granted 50% discount on the agricultural value of farmland, and there was no relief on other farming assets (farm buildings).¹⁷⁸ In addition, the relief was capped at 1,000 acres of land or £250,000.¹⁷⁹

The relief was gradually expanded, and the rate of relief increased, and we summarise the most important changes below:

- 1976: APR expanded to farm assets at a rate of 30%
- 1977: APR on farm assets equalised to relief on farmland at a rate of 50%
- 1981: APR expanded to agricultural landlords at rate of 20%
- 1984: APR on agricultural landlords increased to 30%
- 1992: APR for working farmers increased to 100%, and for landlords to 50%
- 1995: APR for agricultural landlords increased to 100%.

B2 Business property relief

Business property relief was introduced in April 1976 with the stated purpose of preventing businesses from being sold to cover large CTT bills after the death of the business owner.¹⁸⁰ As with APR, the relief was originally much more restricted than the current BPR. It was originally introduced at 30%,

¹⁷⁸ Sutherland (1980)

¹⁷⁹ The farmland above this cap was granted the same relief as other farm assets when APR was extended to these in 1976. The effect of this is that the cap became irrelevant in 1977 (when the rate of relief for farmland and farm assets was equalised).

¹⁸⁰ Chamberlain, E. (2016), 'A review of agricultural property relief and business property relief', *British Tax Review*, 5(5), 509–519; Fairpo, A. (2022). *Revenue law: principles and practice*. Bloomsbury Publishing (section 35.42).

and did not give any relief for minority shareholdings, as the relief on shares was conditioned on the transferor having control of the underlying company. The relief was gradually expanded and made more generous, and we highlight the main changes below:

- 1978: BPR extended to minority shareholdings at 20% relief. General relief increased to 50%.
- 1984: BPR relief on minority shareholdings increased to 30%
- 1992: BPR increased to 100% for controlling shareholdings and 50% for minority shareholdings
- 1996: BPR relief on minority shareholdings in private businesses increased to 100%

B3 Evolution of maximum effective tax rates

Over this period the tax rates under CTT and IHT were reduced from a top tax rate of 75% in 1974 to the current rate of 40%. The combined effect of increased relief under APR and BPR and the reduced rates of CTT/IHT means that the maximum effective tax rate on qualifying business and agricultural property has further declined over time. The table below shows the historical maximum effective tax rate based on the combined effect of the rate of relief and the top rate of CTT/IHT.

Table B1: Maximum effective tax rate on asset qualifying for APR and BPR

Year	IHT/CTT top rate	APR Relief*	BPR relief**	Max. effective tax rate	
				APR assets*	BPR assets
1974	75%	50% / 0%	-	37.5% / 75%	75%
1976	75%	50% / 0%	30% / 0%	37.5% / 75%	52.5% / 75%
1978	75%	50% / 0%	50% / 20%	37.5% / 75%	37.5% / 60%
1981	75%	50% / 20%	50% / 20%	37.5% / 60%	37.5% / 60%
1984	60%	50% / 30%	50% / 30%	30% / 42%	30% / 42%
1988	40%	50% / 30%	50% / 30%	20% / 28%	20% / 28%
1992	40%	100% / 50%	100% / 50%	0% / 20%	0% / 20%
1995	40%	100% / 50%	100% / 50%	0%	0% / 20%
1996	40%	100%	100% / 100%	0%	0%

Notes: * First percentage applies to owner-farmer, and second percentage to agricultural landlord. If only one percentage is stated, it applies to both. ** First percentage applies to controlling shareholdings, and second percentage to minority shareholdings. If only one percentage is stated, it applies to both.

Source: Own preparation based on [IFS data](#) on Inheritance Tax rates and historic analysis of statutory rates of APR and BPR

The trend of reducing effective tax rates on APR/BPR-qualifying assets was reversed by the Autumn Budget 2024, where the 100% relief on APR and BPR was limited to the first £1 million of combined APR and BPR-qualifying assets, above which the relief is reduced to 50%. This means that the maximum effective tax rate will increase up to 20% on the value of APR/BPR-qualifying assets exceeding the £1 million allowance.

Appendix C – Valuation issues

This section considers potential valuation issues affecting the reported values of property qualifying for APR/BPR prior to the planned reform. In Section C1 we outline reasons why there could still be tax at stake on valuations even in relation to property qualifying for 100% relief. In Section C2, we consider possible reasons for upward or downward biases in valuation in cases where no tax is at stake. Section C3 explains our conclusion that, despite imperfections, we think that there is insufficient evidence of relevant upwards or downwards bias overall to justify making any adjustment to valuations reported in IHT data for the purpose of our analysis of farm estates.

C1 Valuations where tax is at stake

Even where 100% relief is available under APR/BPR, there are at least three circumstances in which tax may be at stake on the valuation of the qualifying property, that may be relevant in relation to farm estates:¹⁸¹

1. **Agricultural land with development value.** When claiming APR on assets where the agricultural value may be lower than its market value, and any excess value is not fully covered by BPR, it will be necessary to provide proper valuations of both the agricultural value and the open market value. This can occur in cases involving agricultural land that has development value and which is being let out rather than farmed in hand.
2. **Availability of Residential Nil Rate Band (RNRB).** The RNRB is tapered for estates valued at above £2 million, and for this purpose, the relevant value is the value prior to reliefs. Consequently, if an estate is in the range where the RNRB might be (partially) available depending on the total value of the estate, the value of assets qualifying for 100% relief under APR/BPR may still matter for tax purposes.
3. **BPR on a business with investment activities.** Where it is unclear whether the business is ‘wholly or mainly’ an investment business for the purpose of the qualifying rule for BPR, it will be necessary to undertake an appropriate valuation of the total value of the business and the value of any investment assets.¹⁸² This could be the case in relation to a highly diversified farm business. To apply the ‘wholly or mainly’ test, HMRC will

¹⁸¹ See also, cases in which the estate is partially exempt and the value of specific and residuary gifts needs to be ascertained: IHTA 1984, s. 38-39A.

¹⁸² IHTA 1984, s. 105(3).

look at all of the business's activities, assets and sources of income and gains,¹⁸³ and ascertain the value of the investment and trading activities, in order to apply the qualifying rule 'in the round'.

C2 Valuations where no tax is at stake

Notwithstanding the circumstances described in the previous sub-section, in most cases where property qualifies for 100% relief under APR/BPR, there will be no tax at stake on the valuation. In these circumstances, one might worry that the values reported on the IHT return might be less reliable – and less carefully scrutinised by HMRC – than in cases where there is tax at stake. In this sub-section, we consider the main (countervailing) factors affecting such valuations.

Overvaluation for CGT purposes: There can be a tax-related incentive to overestimate the value of assets that are fully relieved from IHT due to APR/BPR. This incentive results from 'uplift at death' for Capital Gains Tax (CGT) purposes, whereby assets are rebased to their value at death when computing the CGT liability on a subsequent disposal by the heir. HMRC are only strictly bound to adopt the IHT valuation for rebasing purposes if there was IHT at stake on the valuation (known as an 'ascertained' value).¹⁸⁴ However, several tax advisors have told us that in practice, the IHT valuation is still often taken as the starting point for CGT on a subsequent disposal even where the value had not been formally ascertained. This provides a clear incentive for personal representatives to seek an 'optimistic' valuation of APR/BPR assets in circumstances where – because of 100% relief – there is no IHT at stake.

Undervaluation of assets on which BPR claimed: Where BPR is claimed and there is no tax at stake, the 'balance sheet' value may be reported as a shortcut, and this could lead to undervaluation of the open market value.¹⁸⁵ Some examples in relation to specific assets are given below:

- Land and property: if part of a large corporate farm, they will be usually recorded at market value as their accounts will be under a 'mark to market' basis. Otherwise, they are likely to be recorded at their historic cost on the balance sheet.

¹⁸³ HMRC internal manual, [SVM111000](#)

¹⁸⁴ HMRC internal manual, section [IHTM09243](#).

¹⁸⁵ Although note that there can be reasons why farm businesses may be motivated to produce balance sheets that fully reflect the market value of their assets, such as when applying for credit.

- Agricultural tenancies: these will not usually be recorded in the balance sheets, unless the tenancy has been purchased.
- Livestock: the general principle is that livestock should be valued on the balance sheet at their cost or net realisable value (if lower). The cost value should include purchase costs, insemination costs, maternal feeds, rearing costs, etc.¹⁸⁶ This approach should not lead to any significant undervaluation. However, when it is not possible to ascertain actual costs from the farmer's records farmers are allowed to use deemed valuations for livestock. The deemed cost, in these cases, will correspond to a percentage of the livestock market value. This percentage ranges from 60% for cattle to 75% for sheep, pigs and deadstock.
- Production animals: these should be valued at their net realisable value, recognising the value of the future income stream. This general rule should not lead to any significant undervaluation. However, farmers who do not have the necessary records to accurately establish the net realisable value can use approximations such as the written-down cost, which can lead to undervaluation. Lastly, farmers can make an election to use the 'herd basis', in which case the animals will be recorded in the balance sheet at their original cost, leading to significant undervaluation.

C3 Implications for analysis

Whilst valuations in individual cases will often be over- or under-estimated relative to their 'true' value (and recognising that there will often be a reasonable range), for present purposes we only need to be concerned about systematic biases across the whole population of farm estates or a relevant sub-population. Specific sources of over- or under-valuation will be at least partially offsetting in aggregate, so systematic bias is a problem only when one or other of these effects dominates within the relevant population. Overall, we think that there is insufficient evidence of relevant systemic bias either upwards or downwards to justify making any adjustment to the valuations reported in IHT data, for the following main reasons:

First, for the reasons we explained above, the availability of 100% relief under APR/BPR does not mean that there is never tax at stake on valuations of qualifying property. There are a substantial minority of cases relevant to farm estates where a proper valuation of qualifying property is still required

¹⁸⁶ HMRC Guidance, [HS232](#) Farm stock valuation.

notwithstanding the availability of 100% relief. In these cases, the relevant valuation incentives can go both ways. For example, there would be a tax incentive to overvalue the agricultural value of land with development potential that does not qualify for BPR, or to overvalue trading assets used in a hybrid business where the availability of BPR may be in doubt. By contrast, there would be a tax incentive to undervalue qualifying property in an estate facing a tapered RNRB.

Second, in cases where there is no tax immediately at stake on the valuation for IHT purposes, there again seem to be countervailing factors at play. On the one hand, for any assets that may be disposed of by heirs, there may be a tendency towards overvaluation (or at least optimistic valuation within a reasonable range), given the potential knock-on effect for CGT purposes. We do not claim that this practice is ubiquitous, but it is certainly not unheard of. On the other hand, we acknowledge that there could be undervaluations of some specific assets on which BPR is claimed, as a result of taking the balance sheet values as a simple shortcut. Whilst this issue could be material for tenant farmers, it is not clear what adjustment would be appropriate, and it seems unlikely to be a major source of bias in valuations for farm estates generally.