



AG

The Rural Accountancy Group

THE REAL IMPACT OF THE 2024 AUTUMN BUDGET IHT ANNOUNCEMENTS

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Executive summary

This paper and the case studies highlight the real impact on genuine businesses who have planned their succession based on the current measures.

Who will be impacted?

The new measures will impact on married couple owned businesses worth over £4M or £2M if owned by a sole trade. All business owners will need to incur costs to ensure their Wills enable the use of the £1M allowances.

The proposed measures are not well targeted to reduce the abuse of APR and BPR. APR and BPR investments will remain attractive to those who can afford to invest for the purposes of avoiding IHT. Our evidence shows that these are a minority, less than 10%, compared to the number of genuine trading businesses impacted by the new rules.

The existing measures have encouraged retention of business ownership until death and investing profits for growth in the business, rather than to fund future retirement. Whilst the new measures will encourage the handing on of business assets earlier, the lack of time to plan for the new measures will mean many of the next generation will not inherit a viable business. The lack of retirement income outside the business alongside the uncertainty of surviving seven years from the date of gift, due to age or health, will mean IHT will have to be paid.

Impact on growth and the economy

The case studies highlight the likely hardship which will result in the sale of businesses and in all cases a reduction in the ability to invest in the business. As a result, this will have a direct impact on employment and the economy.

Our evidence shows that in most cases IHT is unaffordable, even if paid over ten years interest free, and at best, will take profits away from future investment and growth in business, and therefore the wider economy, and has created uncertainty for business owners.

For farming businesses, where farm property or non-farm assets must be realised to pay the IHT liabilities, this has a direct impact on the future viability of farming for that business. Therefore, the proposed measures will likely result in a long-term reduction in UK food production and security.

The case studies show that the proposed measures are already having a direct impact on investment and growth in businesses where owners are faced with a choice of investing profits for growth or retaining to fund the future IHT liability to prevent the business being sold. Further, where debt is required to fund investment, the cost of future IHT liabilities must be considered in light of the new measures when measuring the ability of the business to repay the debt. A reduction in investment and confidence impacts on wider businesses in the whole supply chain.

Implementation and administration

The implementation of the new measures within a short time window does not enable business owners to plan for change and creates uncertainty and instability in the economy.

The government should consider mitigating against the cliff edge date of 5 April 2026 so that those dying before pay less than those dying after. RAG recommend transitional provisions for gifts made before 6 April 2026, or later, to enable time to plan and to include:

- a relaxation of the gift with reservation of benefit rules, and
- deaths within 7 years are taxed under the current rules.

The new measures will result in additional cost and time to administer estates for Executors and HMRC. With company shares and working capital becoming chargeable to IHT, specialist professional valuations will be required, increasing the cost and time to administer estates. It is unlikely professional firms will have sufficient resource trained and available by April 2026.

Further, given many businesses will not be able to fund the IHT over ten years out of profits and property or shares will likely need to be sold, this will delay the ability to pay the IHT liabilities within six months of death.

Given the increased complexity of IHT computations and valuations, it is expected that HMRC and the District Valuation Office will need to have additional highly skilled and technical resource available to field queries, assess IHT returns and to understand the businesses and the valuations.

Conclusion

The proposed measures will result in permanent long term damage to businesses negatively impacting on working people, growth in the economy and UK food production and security. Further, the proposals will increase complexity to the tax system HMRC administer and add further pressure too.

RAG urge government to reconsider their proposals and to protect our economy.

Who we are

The members of RAG are 10 accountancy firms from across England and Scotland who act for businesses including family and large corporate businesses and also specialise in farming, estates and rural businesses.

There is a core technical committee of 25 individuals from the 10 member firms, most of whom are Chartered Accountants and Tax Advisors and have a huge amount of experience in their field.

There are around 200 members in total and the newest members, although not yet qualified in their profession, have a keen interest in the future of family business, land management and the associated tax consequences.

The Purpose of this Report

RAG members act for around 10,000 farming and rural businesses as well as other family businesses across England and Scotland they are very well placed to consider the impact of the proposed measures for inheritance tax (IHT) announced in the October 2024 autumn budget.

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

The Current Rules

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

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

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

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

RAG members consider a small minority (below 10%) own business or agricultural investments purely for IHT planning purposes.

The Proposed Changes

The measures announced in the 2024 Budget mean that from April 2026 the reliefs will be subject to a combined cap of £1M for 100% relief per estate. Value over £1M will only benefit from 50% relief - effectively a 20% tax charge on businesses and agricultural property values of more than £1M.

This report considers the impact of the proposed changes on genuine businesses in the hands of the next generations investing for future growth.

What is a Small Business?

Fig.1

POST APRIL 2026 IHT EXAMPLES	£4M	£6M	£10M	£20M
Nil rate bands available				
100% relievable APR/BPR assets	£4,000,000	£6,000,000	£10,000,000	£20,000,000
Less;				
100% relief on 2 x £1M allowances	(£2,000,000)	(£2,000,000)	(£2,000,000)	(£2,000,000)
50% relief on remainder	(£1,000,000)	(£2,000,000)	(£4,000,000)	(£9,000,000)
	£1,000,000	£2,000,000	£4,000,000	£9,000,000
Less;				
nil rate bands	(£650,000)	(£650,000)	(£650,000)	(£650,000)
residence nil rate band	(£350,000)	-	-	-
	-	£1,350,000	£3,350,000	£8,350,000
IHT Liability at 40%	-	£540,000	£1,340,000	£3,340,000
Annual instalments over ten years		£54,000	£134,000	£334,000

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

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

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

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

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

Based on the above assumptions, a 'small farm or business' for a married couple might be worth up to £4M, whereas for a sole owner the value would be up to £2M.

Is the Tax Affordable?

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

There is the option to fund the IHT in instalments over ten years with the first instalment due six months after death. Interest is generally charged over the ten year period, with the interest rate from 27 August 2025 8%.

However, where the IHT relates to certain assets qualifying for APR and BPR, if the instalments are paid on time no interest would be charged. Therefore, it is important to consider whether the deadline for each ten year instalment can be met and how it would be paid.

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

If the IHT payments cannot be met out of profits or life insurance then assets are likely to be sold, or profits retained to save for IHT rather than invest in the business.

How will the IHT be Funded?

Farm Profits

Fig.2

POST APRIL 2026 IHT EXAMPLES Nil rate bands available	£4M	£6M	£10M	£20M
100% relievable APR/BPR assets	£4,000,000	£6,000,000	£10,000,000	£20,000,000
IHT annual instalments		£54,000	£134,000	£334,000
Estimated annual profits (1% return on capital)	£40,000	£60,000	£100,000	£200,000
Estimated annual profits net of income tax	£36,136	£50,936	£80,536	£138,623
Number of years to repay using all profits	-	11	17	24

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

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

Expanding on Fig.1, please see Fig.2. Assuming a higher than average return on capital of 1% a year, having paid the annual income tax liabilities, farm businesses could not afford to fund IHT out of farm profits over the ten year period.

Centax concluded in their report, [The Impact of Changes to IHT on Farm Estates](#) that 86% of impacted farms could pay their entire IHT bill out of 'non-farm' assets. However, their report failed to consider the impact of sales of 'non-farm' assets on the future viability of farming. Over many decades Farm businesses have been encouraged to diversify to provide non-farm income to support the future viability of farming where profits are low and often nil. The diversified activities enable farming in the UK to continue and are increasingly important as government support reduces. Without this income, farming and the production of food in the UK is likely to be unsustainable, threatening the UK food supply as well as rural jobs and the economy. Our case studies have considered whether the IHT can be funded out of the whole business, not just farm profits.

All businesses

For all businesses, profits are required to fund existing debt and hire purchase repayments, new capital purchases and investment, such as machinery and technology or increasing stock levels to meet demands, in addition to providing income for the business owner/s to live. Therefore, funding an IHT liability, even if over ten years, adds another demand on profits, which can only take away from future investment and growth.

A business is faced with a choice of:

- Using profits to fund life insurance, if affordable
- Using profits to fund the IHT over the longer term with bank debt but with interest charged
- Selling assets, resulting in reduced income in the business
- Saving profits within the business to extract to pay IHT later
- Retaining profits over ten years to extract and pay IHT over ten years, interest free
- Giving assets away before death

The likely impact of the above options is that there will be less capital and cash available in the business to fund increasing compliance, investment and growth, impacting the overall economy.

For businesses run through a limited company, there will be an additional tax cost and huge complexity to extract profits to fund a business owners IHT liability. An income tax charge will arise on the extraction of profits, increasing the overall tax rate to potentially, effectively, 100%. Further the other shareholders would need to agree to profits paid out as dividends, and similar dividends would need to be paid to other shareholders, likely making this option hugely expensive and in some cases impossible.

Giving away assets before death is complex for tax purposes and will require specialist advice for the business owners. In some cases, see our case studies, giving assets away is not possible.

Gifting

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

The seven year rule and gifts with reservation of benefit

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

For those who have not planned for the new IHT rules, and have no time to plan, they are unlikely to be able to give assets away due to the lack of income from other sources. Further, our case studies show that, in addition to having no source of income outside the business, there are many who are unlikely to survive seven years. Therefore the future business owners face very difficult decisions on how to fund the IHT liability on death.

Tax on gifts

A gift of property is chargeable to CGT. Holdover relief may be available on certain business assets, but not all. For many farms there is income from 'non-farm' assets supporting the farm and gifts of this property may not qualify for holdover relief. Therefore, there would be a tax charge on the gift from which there will be no cash realised to settle the tax liability. Therefore in these circumstances gifting is not likely to be possible.

In addition if death occurs within seven years of a gift, there will still be an IHT liability. As a result there is potentially a double charge to both IHT and CGT.

Other Practical Implications

1 Land Values

There has been much debate as to whether current land values are driven by investment in land for tax 'avoidance' purposes rather than return on capital.

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

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

2 Cost to Administer

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

3 Future Banking Serviceability

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

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

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

4 Investment and growth

Given future IHT liabilities will need to be planned for and met, the cash required to meet the liabilities for IHT, CGT and or life insurance will result in less cash available in the business to invest, to meet regulations or to invest for growth. Please see the case studies with evidence already of the real impact on investment in businesses as a direct result of these proposed measures.

5 Age and Time

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

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

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

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

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

Conclusion

The proposed measures will continue to encourage investment in IHT relievable property for the purposes of tax avoidance. However, the changes will impact genuine businesses investing in the economy for the future.

The proposals as they stand are ill-thought through and will force many business owners to adopt behavior to reduce the impact of the changes in order to avoid the cost and disruption to their business. For many this will result in reduced investment in their business.

This perceived 'wealth', which is by nature illiquid and unavailable for private use, is fundamentally to enable the carrying on of a strategically important business. Being forced to settle tax, including by the sale of assets, could cause irreversible damage to the UK economy.

As discussed in this report, and evidenced in the case studies, paying the IHT, even when spread over ten years, is unaffordable for farm businesses and at best removes profits for future investment in business and the economy.

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

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



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Case Study 1 CONTRACT CLEANING BUSINESS

Single business owner, impact on investment in business, supply chain and employment

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

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

The business employs around 90 local people from office staff, site managers, manual labourers trained in high quality cleaning processes in a specialist sector as well as site inspectors.

With relatively little competition in the area if this business were to cease, it is unlikely that the clean out staff would find similar employment.

The business is an integral part of the supply chain for businesses across the south-west producing high-quality food for the UK market. Therefore the loss of this business would have knock on implications for other businesses.

The business invests regularly in plant and machinery, spending in excess of £100,000 a year, which again would be lost from the economy.

Case Study 2 TENANTED FARM

IHT on Working Capital and impact on investment in business

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

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

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

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

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

The parents will have to consider further gifts of partnership capital and the freehold property. However, the parents have no significant investments or pensions away from the farm. This will severely limit the ability to gift away their share of the business without reserving a benefit. One of parents has recently had a health scare which will put at risk the ability for lifetime gifts to be appropriate and life insurance unaffordable. As a result the business owners will need to retain cash to fund the IHT liability rather than the growth plans they were part way through implementing.

Case Study 3 BEEF AND SHEEP FARM

Likely sale of farm and loss of livelihood of next generation

A hill farm valued at £3.9M after deducting debt is owned by a widowed man in his 80s. As such there is only one £1M allowance. Profits are very low and with an IHT liability increasing from nil under today's legislation to £440K under the new measures, £44K a year is unaffordable. In this position the bank is likely to cease lending to the business at the next review early next year, forcing the farm to be sold and leaving the two sons in their 50's without a livelihood and potentially needing to retrain.

Case Study 4 HOSPITALITY BUSINESS

Unmarried owner, shelving investment plans

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

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

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

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

Case Study 5 TECH AND MANUFACTURING BUSINESS

Located in an area of low employment opportunities and their competitors are offshore

An innovative, award-winning tech and manufacturing business employing over 100 people in a remote area of the country is owned by parents in their 70s and their three children. The children are driving the business forward, expanding overseas, and the parents have passed nearly half the ownership of the company to the children.

Unfortunately, one of the parents has a life-limiting and terminal illness and may not survive seven years. Their life cannot be insured.

Having continually reinvested heavily in the business to fund its growth, the parents have taken little out and have no assets or income sources outside the company. As a result, making further gifts and protecting against IHT on death is problematic.

Since the autumn budget, whilst the parents have been able to pass the majority stake in the company, retaining enough shares to meet their needs, the IHT liability on death, particularly if they die within seven years, will severely limit the future growth of the business which is the only source of funds to pay the liability.

Extracting funds from the business will be very expensive with income tax (nearly 40%) payable on funds which have already been subjected to corporation tax (25%).

If the IHT is unaffordable, which it will be if death occurs within seven years, the business may face potential closure or sale. Their competitors in the market are offshore. Therefore, jobs will be lost in an area where employment opportunities are scarce.

Case Study 6 MIXED FARMING SOLE TRADE

Likely sale of farm

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

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

Case Study 7 ARABLE AND POTATO FARM

Likely sale of farm

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

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

Case Study 8 FARMING AND RENTAL BUSINESS

Reduction in ability to invest and grow the business

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

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

Case Study 9 FARMING AND NON-FARMING BUSINESSES

Tax and investment impact

A married couple in their 80s who are actively involved in their diversified farming partnership alongside one son, also own a significant interest in a separate family trading company, operated with their other son. They built the business from scratch from the 1960's and had planned for their retirement investing in pensions and the estate planning including the passing of these business interests to the relevant sons on death. The expected IHT was on personally owned assets under the current rules. However, a death after 5 April 2026, the IHT liability will become £5m+. Cash to settle the liability will have to be from the trading company, so the extraction of profits from the company to pay the tax, will result in an effective tax charge of 98.75%, after corporation tax and income tax.

For the farming business, where yields on agricultural land are low, there may be a need to sell land to fund the associated liability. Where this land is secured by bank borrowing, the loan to value (LTV) will naturally reduce and may require further disposals of land, to repay debt, to maintain the required LTV, thus putting the whole farming business at risk.

The couple are forced to consider significant gifts in a bid to mitigate the IHT, but at a time in their lives when surviving seven years for the gifts to be outside their estate, is far from certain. Furthermore, the likelihood of obtaining life cover for the seven years, is either low, or will be a particularly expensive option.

Overall the business owners face reducing investment in the businesses to be able to fund IHT.

Case Study 10 TOURISM COMPANY

Impact on future investment in the business

Mr J, owns 84.7% of a tourism company with a total value of £17m. Mr J is in his mid-80's and the rest of his estate is c£1.5m including his home. No spouse. Unless he can survive 7 years from a gift to his daughters, there will be c£3.3m of IHT due on his death. If Mr J does not survive 7 years, the family will also be hit with a further tax bill to raise funds to meet the IHT. Insurance has been denied. The family wealth is in the company. Profits will need to be extracted from the business to meet the IHT over a ten-year period and therefore limit future investment in the company. This will bring a decline in the quality of the service and lead to a drop in sales. This could lead to a cut in employment and reduction in visitor spending in the area.

Case Study 11 DAIRY FARM

Selling land

A dairy farm of circa 300 acres is primarily owned by a father in his 60s with mother and sons owning smaller elements. The current IHT position for father and mother is nil, but under the new rules rises to over £300k, or £30k a year for 10 years. Whilst the farm makes profits, and may be affordable on paper, once the husband/father passes away, there could easily be a need to restructure business operations and employee staff, which would reduce profits, coupled with the fact that dairy farms require regular plant and machinery investment. This could result in some land needing to be sold to pay the IHT bill.

Case Study 12 FARM WITH HOSPITALITY BUSINESS

Owners loss of capacity

Mother (88), father (94) & son (62) in partnership. (Grandson works on farm part time and hopes to take over in the future). 300 acre arable farm and holiday lets/caravan park/B&B all owned by mother. Farming son and one other sibling live in farm properties. Commenced succession planning in 2019 then Covid hit. Father succumbed to dementia and mother suffered a stroke and so both lost capacity. Lasting power of attorney in place for both but nothing can be done to change asset ownership, so succession plan ceased. Annual profits average £50k to cover debt, investment and livelihoods of two generations. B&B now ceased due to health. Estimated IHT liability £900k. On second death of parents, assets will have to be sold resulting in loss of livelihood for several families.

Case Study 13 LOW RETURNING TENANTED ESTATE

Impact on farm tenants

An estate with hill farming tenants, already facing huge compliance costs, is facing an IHT charge of approximately £1.6M on the death of one of its owners. The owner is in his 90's and is divorced and has retained this part of the estate to fund his income needs. Therefore gifting the estate at this stage is impossible.

To meet the IHT liability farms will need to be sold. As a result the terms of tenancies have to be renegotiated, threatening the tenant's ability to invest in their farm and creating uncertainty for the future of their businesses.

Case Study 14 BREWERY AND PUBLIC HOUSE BUSINESS

IHT proposals threatens its future

The fifth generation owners have been in the process of handing over the business to the next generation, who are very much involved.

Due to low returns in the brewery and public house trade, the business has invested in an investment property portfolio (mostly ex-worker accommodation) which supplements the overall pub trade which is a challenging sector and can be quite seasonal. In the event of a sizeable IHT bill the new generation of owner would need to raise funds from the company which would require further accelerated property sales. This wouldn't be easy and would harm the long term profitability of the business which is a key independent business and employer in the local economy.

Case Study 15 COMMERCIAL TRADING BUSINESS

Reduction in investment in business

An entrepreneur is running a mixed commercial trading business producing an annual profit of over £300k, with employed staff of just under 50, worth around £6m.

The business is owned by a sole trader who is currently in their second marriage, and not in a position to pass assets to their spouse. Their spouse already has their own business and assets.

The owner has two children, both of whom are currently in full time education and a period away from coming back to the business. From April 2026 the revised IHT liability is £1m or £100K a year.

Whilst the business is producing annual profits of £300k, so could fund the IHT, this money would need to be extracted from the limited company, and therefore the business net of higher rate dividend tax (33.75%) would need to extract over £150k a year to do this.

This would stop future investment in the business and likely result in profitability falling in the long-term putting at risk 50 jobs and a wider supplier and customer network.

This diversion of profits away from investing in the business will slow growth in the business. At an 8% return, there would be lost growth over a ten year period of £450k.

Case study 16 ELDERLY FARMER

Reduced confidence for future generation

An elderly farmer who had talked about his estate for the last 20 years, had taken advice, and made the decision that with 100% APR on death and the on death uplift the best approach to mitigating the impact of his death on future generations was to retain farming assets and pass them on death. He was 97 when the announcements were made in the budget and is 98 now!!

He owns, broadly, £5M of APR qualifying assets on a mixed farm so effectively £800K of additional IHT should he survive past 5 April 2026.

His options are:

- *To gift the whole farm, or*
- *Pay IHT potentially by selling land or borrowing.*

There is a high risk that the former will still result in an IHT liability due to his death within seven years, from 6 April 2026. There would also be an additional CGT charge where land has to be sold to pay the liability.

The latter will make the business less viable for future generations. Even spreading over 10 years is not affordable based on historic profits. It will certainly mean less investment, potentially redundancies of staff. The next generation are left with an uncertain future, reducing confidence to invest in the business

Feels wrong that our client surviving the winter could cost his family £800,000, and their business.

A terrible position for anyone to be in!

Disclaimer

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

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

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