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The Inside Track

AUTUMN BUDGET 2024

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Welcome to The Inside Track - Autumn Budget 2024

The Chancellor of the Exchequer, Rachel Reeves, has delivered the first Labour Budget with painful tax implications for many farming families.

The changes to Agricultural Property Relief (APR) and Business Property Relief (BPR) are severe, yet The Chancellor describes them as 'fair and proportionate'. Emotions are high with betrayal felt by many.

The tax system encourages certain behaviors as taxpayers typically arrange their affairs to reduce their tax burden and optimise their financial position. For many farming families, this has meant that the farm is held within a partnership with the top generation holding the capital value of the farm until they pass away. With a robust Partnership Agreement, carefully prepared annual accounts and appropriate Wills, farmers have generally been able to pass on the farm free of Inheritance Tax (IHT) to the next generation.

The changes to APR and BPR are now likely to encourage the top generation to pass down the farm sooner. This may well prove positive for many families, stimulating helpful conversations about the future of the business and whether the next generation want to grasp the opportunity.

The passion and emotion attached to landed businesses is arguably stronger than any other industry. Being a custodian and passing on the farm in better condition has been a fundamental motivator for generations. But farming, society and the wider world, has changed enormously over the generations. The older generation were raised by parents who lived and fought through the Second World War, whilst the younger generation is being raised in a world of Tik Tok and celebrity influencers.

Having a successor who shares the same passion, values and life goals is likely to become less common. As well as passion and enthusiasm for farming, modern famers need resilience and business acumen in bucket loads to succeed. Farming is a constant challenge, even for the most successful.

To produce food effectively in the UK, the country needs these farmers at the helm. Are those that inherit farms the best people to steer the ship? Many are; we are fortunate to have some of the world's greatest minds in UK agriculture, but the reality is that some aren't.

The changes will be a reality check for many and help to focus their minds on considering what they want from life.

If IHT is payable on a farm, decisions will need to be made. Whatever the decision, the process will be easier for those who are clear on where their heads and their hearts lie.

Some will confidently want to continue farming and there will be a way forward for many. The grim reality however is that there will be families, including some of the UK's best farmers, caught by IHT bills that may force sales if the Chancellor's changes go through.

For most families, difficult conversations will be needed. This is hard, but there is help available. Whether that be from your existing advisers, organisations such as The Farming Community Network or friends and family. There will be a way forward for everyone.

For those with time on their side, there will be the opportunity to make lifetime gifts, and potentially other changes, to enable the farm to be passed on tax efficiently to future generations.

As the details emerge, particularly with regards to the implications for Trusts, your advisers will be able to help you consider what is best for you and your family.

Change often presents challenges for some, whilst creating opportunities for others. There is the potential for a fall in land values, possibly improving accessibility for new entrants.

KEY ANNOUNCEMENTS SUMMARY

Inheritance Tax (IHT) – Agricultural Property Relief (APR) and Business Property Relief (BPR)

- The changes to APR and BPR mean that 100% Relief will apply for £1m of combined agricultural and business property, but will only apply at a rate of 50% thereafter.
- Unused £1m allowance will not be transferrable between spouses.
- The £1m allowance is in addition to the existing Nil Rate Bands of up to £1m per married couple. This can effectively allow a married couple to pass on a £3m tax efficiently, providing their Wills and any other relevant legal documents, such as Partnership Agreements, are structured appropriately.
- The new rates of relief will apply for deaths from 6 April 2026. Lifetime gifts made on or after 30 October 2024 will also be subject to the new rates where the transferor dies on or after 6 April 2026 but before the seventh anniversary of the gift. It is not yet clear how the new rates would apply to transfers of agricultural and business property to trust during lifetime.
- To illustrate the rules, here is an example of the how new rules may apply.

Example

A B C Farming Partnership – Mum, Dad and Son in Partnership

The Partnership owns Home Farm which has a market and agricultural value of £6m, which Mum and Dad are equally entitled to the capital value of. They also hold £500,000 of personal investments and their bungalow valued at £500,000 outside of the Partnership.

Mum and Dad's Wills currently leave their estates to the surviving spouse. On the second of their deaths, the assets will pass to Son.

If they were to both pass away before 6 April 2026, the farm would be covered by APR and BPR. There would be £140,000 IHT due on the second death as their estates substantially exceed the £2m threshold where the Residence Nil Rate Band begins to taper away. Lifetime gifts could have helped them to reduce the value of their estates to fully benefit from the Residence Nil Rate Bands and mitigate the IHT charge.

If they were to pass away after 6 April 2026 the position would differ. Let's assume Mum passes away, followed by Dad. There would be no IHT on Mum's death, as her estate would benefit from the spousal exemption. Dad's Estate would then comprise the £6m farm, the £500,000 personal investments and the £500,000 bungalow, totaling £7m. APR and BPR would be restricted to £3.5m leaving £3.5m subject to IHT. After accounting for Nil Rate Bands, the IHT liability would be £1.14m.

The position would be improved had Mum and Dad's Wills left their share of the farm to Son on the first death, as this would facilitate access to a further £1m APR/BPR allowance, reducing the overall IHT charge by £200,000.

It is possible to vary the Will after death, via a Deed of Variation, where the relevant parties are in agreement but best practice is to ensure the Will is appropriate in the first instance.

The position would have been further improved had Mum and Dad made lifetime gifts of part or all of the farm to Son. The gift would need to be survived by 7 years to escape an IHT charge, but taper relief would begin to apply and reduce the IHT liability once the gift is survived by 3 years. A lifetime gift that reduced their death estate to less than £2m would have also allowed access to the combined Residence Nil Rate Band of £350,000, reducing the IHT liability by up to £140,000.

- Clearly the changes will affect the larger farms and estates the most. It will be sensible to review your individual position and consider whether lifetime gifts would be appropriate or perhaps changing the business structure. On the assumption the new APR/BPR rules are here to stay, we would encourage farming families to consider the optimum business structure as early as possible. Getting a suitable structure in place whilst the business owners are relatively young will likely pay dividends in the future.

IHT - Pensions

- The Chancellor announced that from April 2027 most unused pension funds will be subject to IHT. For many years, pensions have been a useful vehicle for passing wealth down to future generations free of IHT. This change will be unwelcome for those with substantial pension pots and they may like to review opportunities to optimise their overall financial position and exposure to IHT.
- The IHT shelter may have been the primary justification for keeping those funds tucked away, but this change could provide the stimulus to put them to a potentially more fruitful purpose. Do speak with your Financial Advisers alongside your other professional advisers to ensure you receive rounded advice that works for both business and family goals.

IHT – Thresholds

- The main £325,000 Nil Rate Band and the £175,000 Residence Nil Rate Band is to remain frozen until at least 5 April 2030. The main Nil Rate Band has not been increased since April 2009.

Employing Staff

- National Minimum Wage will increase to £12.21 per hour from April 2025 and the Government will phase in a flat rate for all adults.
- Employer's National Insurance Contributions (NICs) will increase by 1.2% to 15% from April 2025. The threshold at which Employer's NICs become payable will reduce from £9,100 to £5,000.
- The Employment Allowance will however be increased from £5,000 to £10,500. Therefore whilst very small businesses can escape NIC charges, many employers will suffer the combined impact of the NMW and NIC increases.
- Coupled with the Day 1 protection from unfair dismissal, employing staff is becoming increasingly costly and risky.

Company Taxation

- In a bid to provide companies with clarity regarding their tax affairs, the Chancellor confirmed the rate of Corporation Tax will be capped at 25% for the duration of this Parliament.
- The tax regime for Research and Development is to continue unchanged, as will Full Expensing and the £1m Annual Investment Allowance.

Stamp Duty Land Tax (SDLT)

- The higher rates of SDLT payable on the purchase of additional residential properties by individuals, and purchases of residential properties by companies, will increase from 3% to 5% from transactions completing on or after 31 October 2024. This will further disincentivise the purchase of further residential properties.
- The SDLT rates for the purchase of additional residential property by individuals and companies are as follows:

Rates from 31 October 2024 to 31 March 2025	
Consideration	SDLT Rate
Up to £250,000	5%
From £250,000 to £925,000	10%
From £925,000 to £1.5m	15%
Above £1.5m	17%

Rates from 1 April 2025	
Consideration	SDLT Rate
Up to £125,000	5%
From £125,000 to £250,000	7%
From £250,000 to £925,000	10%
From £925,000 to £1.5m	15%
Above £1.5m	17%

- For companies purchasing residential properties for more than £500,000, the SDLT rate will increase from 15% to 17%.

Capital Gains Tax (CGT)

- For disposals on or after 30 October 2024, the main rate of CGT for non-residential capital gains will increase from 18% to 24%, aligning it with the current main rate for residential capital gains. The rate of CGT for capital gains falling within an individual's unused basic rate tax band (up to £37,700) will also be aligned with residential property gains to the rate of 18%.
- Whilst increases are of course unpalatable, the increases could have been much worse, with some previously speculating that they may be aligned with Income Tax rates.
- Business Asset Disposal Relief (BADR), which currently reduces the rate of CGT to 10% for £1m of qualifying gains, will remain but the tax saving will be reduced. From April 2025, BADR will reduce the rate to 14% and from April 2026 it will reduce the rate to 18%. Whilst BADR remains a helpful relief, it does require a number of conditions to be met and many may now consider that the reduced tax saving no longer warrants the complications of ensuring they satisfy the conditions.
- The CGT rates are summarised below:

	Main rate of CGT			
	Pre 30 Oct 2024	30 Oct 2024 to 5 April 2025	From 6 April 2025	From 6 April 2026
Residential gains	24%	24%	24%	24%
Non residential gains	18%	24%	24%	24%
BADR gains	10%	10%	14%	18%

The rate of CGT applicable to carried interest is set to increase to a flat rate of 32%.

We remain positive that there are opportunities to navigate the Budget changes and look forward to helping our clients with this. Do speak with us to discuss your position further.