INHERITANCE TAX REFORM & FARM SUCCESSION

Implications for farming families and landowners

Forrester Boyd
CHARTERED ACCOUNTANTS

INTRODUCTION

Inheritance Tax (IHT) reform affecting agricultural and business property is now confirmed and will take effect from April 2026. These changes represent the most significant shift in inheritance tax relief for farms and family businesses in a generation.

While qualifying agricultural and business assets have historically benefited from unlimited 100% relief, the new regime introduces a cap on full relief and reduces the level of relief available above that threshold. This guide explains what is changing, why it matters and the steps farming families, landowners and business owners should consider now to protect succession plans and long-term business viability.

OVERVIEW OF THE REFORMS

From 6 April 2026, Agricultural Property Relief (APR) and Business Property Relief (BPR) will operate under a revised framework:

- A combined £2.5 million allowance per individual will qualify for 100% relief across APR and BPR.
- The allowance will be frozen until at least 5 April 2031.
- Qualifying assets above £2.5 million will generally receive 50% relief, resulting in an effective inheritance tax charge at 20% on the excess.
- The reforms apply to deaths occurring on or after 6 April 2026.
- These changes are contained within the Finance Bill 2025–26 and are expected to receive Royal Assent before implementation.

While the increase from earlier proposals offers greater protection, the introduction of a cap marks a fundamental change from the previous unlimited relief regime.

HOW THE CHANGES AFFECT FARMS AND LANDED ESTATES

For many farming families, land values alone may exceed the £2.5 million relief threshold. Although a significant proportion of estates will still fall fully within the allowance, others will face inheritance tax liabilities for the first time.

Key impacts include:

- Potential inheritance tax charges where no liability previously existed.
- Increased pressure to generate liquidity to fund tax payments.
- Greater scrutiny of asset ownership, business structures and succession arrangements.
- Risk that long-standing plans no longer deliver the intended outcome under the new rules.

The reforms highlight the importance of reviewing assumptions that have underpinned farm succession planning for decades.

AGRICULTURAL AND BUSINESS PROPERTY RELIEF EXPLAINED

Under the existing regime, qualifying agricultural and business property can attract 100% inheritance tax relief regardless of value, provided ownership and usage conditions are met.

From April 2026:

- APR and BPR will share a single combined allowance.
- Relief above the allowance will be restricted to 50%, rather than being removed entirely.
- The effective inheritance tax rate on qualifying assets above the cap will be 20%.

Understanding which assets qualify, how they are valued and how relief is allocated will be critical in assessing exposure.

TRANSFERABILITY BETWEEN SPOUSES AND CIVIL PARTNERS

The Government has confirmed that the £2.5 million relief allowance will be transferable between spouses and civil partners, aligning it with other inheritance tax allowances.

Key points include:

- Any unused allowance on the first death can be transferred to the survivor.
- This applies regardless of whether the first death occurs before or after April 2026.
- In practice, this can allow a married couple or civil partners to shelter up to £5 million of qualifying assets at 100% relief.

However, this transferability does not apply to unmarried cohabiting couples, which can significantly increase inheritance tax exposure where ownership and succession planning has not been structured carefully.

WIDER INHERITANCE TAX CONTEXT

The reforms sit within a broader inheritance tax framework that may increase the number of estates affected over time:

- The inheritance tax nil-rate band (£325,000) and residence nil-rate band (£175,000) remain frozen until at least 2031.
- Asset values, particularly land values, may continue to rise while allowances remain static.
- From April 2027, unused pension funds and certain death benefits will be included in the taxable estate.
- While qualifying property can still be paid for in interest-free instalments over 10 years, this does not remove the underlying tax liability.

These factors increase the importance of integrated estate, tax and succession planning.

SUCCESSION PLANNING IMPLICATIONS

Succession planning has always been central to farming and family businesses. The introduction of a relief cap means that plans which worked under the old rules may no longer be optimal.

Areas requiring review may include:

- Wills and testamentary provisions.
- Partnership and shareholder agreements.
- Asset ownership between individuals, partnerships and companies.
- Timing of transfers and succession events.
- Whether existing structures maximise available reliefs.

Early review allows for a wider range of planning options than waiting until the changes take effect.

LIQUIDITY AND CASH FLOW CONSIDERATIONS

Where inheritance tax liabilities arise, funding the tax can create significant pressure on farming businesses.

Families should consider:

- Whether sufficient liquid assets are available to meet tax liabilities.
- The impact of instalment payments on ongoing cash flow.
- The risk of forced asset sales following a death.
- The role of insurance or other funding strategies.

Liquidity planning is a critical part of protecting both the farm and the next generation.

WHAT FAMILIES SHOULD BE DOING NOW

Although the reforms do not take effect until April 2026, early planning provides greater flexibility.

Practical steps to consider include:

- Reviewing the total value of qualifying agricultural and business assets.
- Assessing whether estates are likely to exceed the £2.5 million relief cap.
- Updating wills and succession documentation.
- Reviewing ownership structures and historic planning assumptions.
- Considering lifetime planning options where appropriate.
- Identifying potential future inheritance tax liabilities and funding strategies.

Proactive planning can significantly improve outcomes and reduce uncertainty.

HOW PROFESSIONAL ADVISERS CAN HELP

How an Accountancy or Tax Adviser Can Assist

- Assessing exposure to inheritance tax under the new rules.
- Reviewing asset valuations and relief eligibility.
- Modelling potential inheritance tax liabilities.
- Advising on ownership structures and succession strategies.
- Supporting liquidity and funding planning.

How Legal Advisers Can Assist

- Updating wills and succession documentation.
- Reviewing partnership and shareholder agreements.
- Advising on ownership and transfer structures.
- Supporting long-term succession planning for family businesses and estates.

Inheritance tax reform does not just affect tax bills — it affects family legacies, business continuity and long-term security. Taking advice early allows families to adapt, plan and protect what matters most.

If you would like to discuss how inheritance tax reform may affect your farm, estate or business, professional advice can help you understand the options available and plan with confidence.

Please get in touch - we would be more than happy to help.

Publication Date: April 2026

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