

Understanding the changes to inheritance tax for farm businesses

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Contributors



Paul Clyde

Paul Clyde, Financial Services Sales Manager for Scotland, NFU Mutual

With 25 years of experience in financial services, Paul Clyde brings a wealth of expertise in advising clients and leading high-performing teams. Paul has spent over a decade specialising in the farming and rural sector, advising on investment, retirement, succession, and protection planning.

As Sales Manager, Paul oversees NFU Mutual's financial services delivery in Scotland, across eight Financial Advisers and twenty insurance agencies. Known for his deep sector knowledge, relationship-driven approach, and commitment to high standards of client care, Paul continues to champion sustainable financial outcomes for both advisers and their clients.

Sarah Aughwane, Solicitor specialising in trusts, estates and inheritance disputes, Withers

Sarah is a partner in the trust, estate and inheritance disputes team.

She specialises in on and offshore trust litigation including claims for removal of protectors or trustees,



Sarah Aughwane

access to trust information, Mistake, Variation and directions applications. She has experience on cases in jurisdictions including the Jersey, Guernsey, Switzerland, the Bahamas, Bermuda, BVI, Cayman, the Isle of Man and Nevis.

She also advises on all types of domestic and international probate disputes including issues relating to the validity of wills and trusts and claims under the Inheritance (Provision for Family and Dependents) Act 1975.

Richard Dancer, Farmer, Warwickshire

Richard Dancer farms approximately 900 acres in Warwickshire, running sheep, cattle and an arable enterprise. He farms alongside his son and his brother, whose son is also active in the business. Richard's perspective as a working farmer gives a grounded, real-world dimension to the discussion — having recently gone through the process of seeking professional advice and beginning to restructure his farm's ownership arrangements in response to the inheritance tax changes.



Richard Dancer



Introduction

The October 2024 Budget delivered one of the most significant shocks to farming families in a generation when Chancellor Rachel Reeves' announced Agricultural Property Relief (APR) and Business Property Relief (BPR) would be capped.

Richard Dancer, a farmer from Warwickshire, said the announcement was 'like a bombshell'.

"I do not think I will be alone in saying that we were all a little bit complacent."

Following months of protests and lobbying, and a major tweak to thresholds announced in December 2025, the changes came into force on April 6.

Succession has always been a difficult conversation for farming families, but the changes have pushed the issue to the top of the agenda for many.

This whitepaper draws on the discussions from that webinar to provide a practical guide for farming families. It sets out the key changes, explores their implications and offers actionable advice — whether you are just beginning to think about succession or already well advanced in your planning.

Understanding the changes

The October Budget announcement

The UK government is capping 100% Inheritance Tax (IHT) relief for farmers on combined Agricultural Property Relief (APR) and Business Property Relief (BPR) to the first £2.5 million of assets per individual. Above this, 50% relief applies, setting an effective 20% tax rate on excess value. Married couples can pass up to £5m combined.

This is a change from the original announcement, which set the cap at £1m. After extensive lobbying from the UK farming unions and farmers across the country,

this threshold was raised to its current level following months of highlighting to the Government the impact this would have on the sector.

Despite the welcome uplift, farmers have vowed to fight on opposing the changes with opposition parties pledging to scrap them.

Implications for farm businesses

The ten-year instalment option

The Government has pointed to a provision allowing qualifying inheritance tax liabilities to be paid in ten annual instalments as evidence that the changes are manageable. In principle, this does reduce the immediate cash burden on the new owner. However, as Paul Clyde observed, it is important to work through the full implications carefully.

Mr Clyde said: "How will the new owner find that out of profits for the next decade? What will happen to the profits when the new owner takes over? Can the business still invest in itself or is that capital going out to HMRC?"

The instalment option also means that money going to HMRC is not available for reinvestment in the business — whether in new infrastructure, land, equipment or working capital. For businesses already operating on tight margins, this is a material consideration.



Pensions and other assets

The changes to pension taxation, due to take effect from April 2027, add a further layer of complexity. Farm business owners who have accumulated pension assets in anticipation of a relatively tax-efficient retirement

may now find those assets also subject to inheritance tax. Any estate planning undertaken prior to the Budget announcements should be reviewed in light of these additional changes.

The capital gains tax interaction

A key consideration for families thinking about transferring assets during their lifetime is the interaction between inheritance tax and capital gains tax. As Paul Clyde explained, holdover relief is available when agricultural assets are gifted to the next generation as part of a business transfer.

The capital gains tax liability is effectively deferred and passed to the recipient. However, if assets are passed on

death, the capital gains position is reset — though the estate may face inheritance tax. There is no universally right answer; the best approach depends on individual circumstances and requires careful analysis, with the contributors advising farmers seek professional advice before committing to any plans.



Planning ahead: key Strategies

Start with the outcome, not the tax

One of the most important messages from the webinar was that tax planning should not be the sole driver of succession decisions. As Paul Clyde emphasised, the primary question is: what outcome the family wants. Is there a successor ready to take on the business? What do the non-farming family members need? What will the senior generation live on in retirement? Tax is an important consideration, but it is a means to an end — not the end in itself.

Mr Clyde said: "Do not let the tax tail wag the dog. You are the important one. Tax is just a means to an end along the way."

Bring in the right professionals

Richard Dancer described assembling a team comprising a solicitor, an estate agent and an accountant before making any structural decisions. This approach has allowed the family to consider all options before making decisions.



Lifetime gifting and partnership structures

One of the most widely used strategies is to begin transferring ownership to the next generation during the senior generation's lifetime — often through the mechanism of a farming partnership. By bringing family members (including spouses and the incoming generation) into a partnership and gradually transferring ownership stakes, it is possible to both reduce the taxable estate over time and to establish a clear and legally documented succession structure.

Richard Dancer said he was bringing his wife and his son into a formal partnership, with the partnership

agreement being drafted at the same time as an updated will, so that the two documents align with each other and with the family's intentions.

When assets are transferred into a partnership in this way, the seven-year rule applies: provided the transferor survives for seven years after making the gift, the transferred assets fall outside the estate for inheritance tax purposes. The clock starts on the date the transfer is made.

Life assurance

Life insurance was identified by Paul Clyde as the single most popular approach to meeting an inheritance tax liability.

Key points to consider include: policies should generally be held in trust so that the proceeds fall outside the estate and are not themselves subject to inheritance

tax; the cost of insurance is lower when the policyholder is younger, so it is worth the incoming generation considering their own coverage at an early stage; and in situations where the senior generation is older or in poor health, the incoming generation's own policy may be the more cost-effective vehicle.

Trusts

Trusts can play a useful role in succession planning, both as a vehicle for holding assets and as a way of ring-fencing capital set aside to meet future tax liabilities. Sarah Aughwane outlined the two main types most commonly encountered in farming succession:

A life interest trust gives a named individual the right to benefit from the trust assets during their lifetime — for example, to live in a property or take the income from trust assets — while the capital passes to others on their death. A discretionary trust gives trustees the power to decide how trust assets are distributed among a defined class of beneficiaries. Both types have their

uses, and the right choice depends on the family's specific circumstances and objectives.

However, the ongoing cost of professional trust administration can be significant. Anyone considering a trust structure should factor in those costs as part of their planning.



Family dynamics and succession planning

The non-farming child

One of the most consistent themes in the webinar was the challenge of balancing the interests of farming and non-farming children. It is common in farming families for the farm to pass to one child — typically the one who has been working on it — while other children receive a share of the non-farming assets. The inheritance tax changes complicate this significantly.

Richard Dancer highlighted a son living abroad, which brings added complications.

Sarah Aughwane at Withers said: “Non-farming assets that were set aside to provide some gift or

compensation to the children who aren't going to take the farm may now be absorbed to pay the tax on a gift to a sibling. That is a real flash point for disputes.”

This dynamic makes it all the more important to have open and honest conversations within the family — ideally while the senior generation is still in a position to take part and to communicate directly what they intend and why.



The importance of open communication

Both Sarah Aughwane and Paul Clyde emphasised strongly that the families who navigate succession most successfully are those who communicate openly and early. The conversations are not easy but the alternative is that family members are left to navigate grief and financial surprise simultaneously, often without the benefit of understanding what the deceased person actually wanted.

Sarah Aughwane said: "People can only really hear those messages from that senior family member. When they are gone, having other people tell them what their parent wanted does not land the same."

Cohabiting couples

For those who are not married or in a civil partnership. The concept of the 'common law spouse' does not exist in English law, and cohabitants do not benefit from the same automatic inheritance rights or the ability to transfer the nil rate band that married couples enjoy.

This means that for unmarried farming couples, careful and specific estate planning is even more important.

Life insurance and bespoke will provisions take on particular significance. Entering into marriage or a civil partnership remains an option that some couples in this situation may wish to consider, though as Paul Clyde observed, the implications of marriage extend well beyond tax planning.



Scottish law considerations

For farmers in Scotland, there are additional legal considerations specific to Scottish law. In particular, the concept of 'legal rights' means that children cannot be fully disinherited from moveable property regardless of the terms of a will.

Land and buildings (heritable property) can be directed to a single child to the exclusion of others. This has

traditionally led many Scottish farming families to hold land and buildings in one vehicle while running stock and machinery through a separate partnership. The APR and BPR changes interact with these existing structures in ways that require specialist Scottish legal and financial advice.



Practical steps to take now

Farmers were urged to review their wills now.

Wills drafted before October 2024 will have been written on the assumption that agricultural assets carry no inheritance tax liability. That assumption no longer holds for many estates, and wills need to be reviewed in light of the new rules.

Pay particular attention to how any inheritance tax liability is to be funded as the default position may produce outcomes very different from those the intended.

Ensure the will and any partnership agreement are aligned with each other and reviewed at the same time.

Whilst much of the talk has surrounded older farmers, succession planning is not just the domain of the older generation.

Younger people were also urged to make wills and keep them regularly updated at major life milestones, as well as considering life insurance options.

Farmers should also make sure they understand the value of their assets, to better understand exactly how they will be impacted.

Engaging with professionals who are familiar with agricultural businesses was also advised.

Paul Clyde, NFU Mutual, said: "Take advice, listen to professionals, understand what you have and understand what you and your family want. Think through the thought experiments in the safety of an office or at your kitchen table."

Open and honest family communication is one of the most effective tools available for preventing future disputes.

Richard Dancer said: "Please do not sit on the fence. Do not hide your head in the sand. Do something and get it set in place, because it will only pay you to get something set up."

Include all relevant family members in the conversation and not just those in the farming business.

Revisit the conversation whenever there is a significant change in the family, the business or the law.

Sarah Aughwane, Withers, added: "Get your succession plan out and dust it off. Communicate as much as you can, as openly as you can. Select the right people to administer whatever structures you put in place."

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