



THE ROYAL
COUNTRYSIDE FUND

Farm for the Future

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The Royal Countryside Fund

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Inheritance Tax Relief Changes

John Ward FCA

January 2025



Ward and Co
CHARTERED ACCOUNTANTS



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CHARTERED ACCOUNTANTS

Basics

- Since 1984 in the main we've had 100% Agricultural or Business Property Relief on farming and business assets owned by the business
- This is changing to 100% for £1m each for assets held within the business and 50% relief on the balance on deaths after 6th April, 2026. Effective immediately.
- IHT on pension funds from 6th April, 2027



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Key Points

- £1m exemption is for **each** person
 - Cannot be passed to spouse !
 - If you don't use it you lose it !
 - Back to pre October 2007 rules and 1970's re 50%
- In addition to the above a maximum of £500,000 each (£1m for a couple) of normal exemptions
- Above headlined as £3m and then 20% tax but not true. It's more !



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Key Points

- Don't let tax rule decision making. Family relationship decisions more important.
- Gifting for IHT can have negative effect for CGT.
- Holdover but lower base cost for donees. Depends on intentions regarding assets.
- Control clauses in Partnership Agreements.



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Wills – use of discretionary will trusts on first death

- Why use them ? Use £1m but trustees control asset ?
- Avoid farmhouses going into trust – lose £RNRB” if house not left to lineal descendants
- Look after spouse and children
- Discretion
- Trustees
- Letter of wishes
 - What are they ?
 - Change easily !
- Flexibility



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Key points

- Non business assets still 100% chargeable
- 50% relief continues for assets owned outside a partnership, or a company where individual controls more than 50% of the shares
- If you've gifted already with 100% relief prior to 30th October 2024, it is important for the donee to keep assets in use for business for 7 years, or land in agricultural use if let. **THIS 100% IS IN ADDITION TO NEW £1M EXEMPTION.**
- If gift between now and 5th April, 2026 and die after 6th April, 2026 then 50% relief and balance brought into charge. There is a sliding scale on tax on the gifts > £325,000 from 3 to 7 years.
- Death before April, 2026 100% relief still!
- Relief applies to property and stock and machinery in the business. Probate values everywhere !
- Effectively 50% relief only on agricultural and business assets over £1m that are held on death after 5th April 2026 or gifted from 30th October 2024.



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Example 1 Facts and Tax

- Single Person
- £1.6m farm (including house at £500,000) and £250,000 stock and machinery. Total assets £1.85m.
- No other assets
- No past gifts
- Will leaves all to child

	£	£
Value of assets		1,850,000
Less: 30% value of farmhouse		150,000
Value qualifying for agricultural/business relief		<u>1,700,000</u>
Less: 100% exemption		1,000,000
		<u>700,000</u>
Less: 50% relief		350,000
		<u>350,000</u>
Add: 30% value of farmhouse		150,000
		<u>500,000</u>
Less: Exemption	325,000	
Residential Nil Rate Band	175,000	500,000
Chargeable Estate		<u>Nil</u>
Tax due		<u>Nil</u>



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Example 1 Facts and Tax

This example assumes that the £1million allowance can be used against the farm assets in priority to the farmhouse, so there is sufficient farmhouse value left to utilise the full residential nil rate band.

Where the estate value is higher or the value of the farmhouse differs to that in the example there could be an inheritance liability.



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Example 2 Facts and Tax

- Married couple both partners in business and own farm property/stock and machinery equally.
- Farm property/stock and machinery worth £3.8m (including house at £600,000).
- No other assets
- No past gifts
- Wills leave to children on each death

	£	£
Value of assets		3,800,000
Less: 30% value of farmhouse		180,000
Value qualifying for agricultural/business relief		3,620,000
Less: Exemptions 2 x £1m		(2,000,000)
		1,620,000
Less: 50% relief		810,000
		810,000
Add: 30% value of farmhouse		180,000
		990,000
Less: Exemptions 1	325,000	
Exemptions 2	325,000	
Residential Nil Rate Band 1	175,000	
Residential Nil Rate Band 2	175,000	1,000,000
Chargeable Estate		Nil
Tax due		Nil



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Example 2 Facts and Tax

This example assumes that the £1million allowance can be used against the farm assets in priority to the farmhouse, so there is sufficient farmhouse value left to utilise the full residential nil rate band.

Where the estate value is higher or the value of the farmhouse differs to that in the example there could be an inheritance liability.



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Example 3 Facts and Tax

- Married couple both partners in business and own farm property/stock and machinery equally.
- 600 acres farm worth £8m (house worth £750,000 and stock/machinery worth £2m).
- Total farm assets £10m.
- Rental house/pensions/Investments £1m.
- No past gifts.
- Will leaves half of farm to son on first death

	£	£
Value of farm assets		10,000,000
Less: 30% value of farmhouse		225,000
Value qualifying for agricultural/business relief		<u>9,775,000</u>
Less: 100% exemption		2,000,000
		<u>7,775,000</u>
Less: 50% relief		3,887,000
		<u>3,887,000</u>
Other Assets		1,000,000
Add: 30% value of farmhouse		225,000
		<u>5,112,000</u>
Less: Exemption 1	325,000	
Exemption 2	325,000	650,000
Chargeable Estate		<u>4,462,500</u>
Tax due at 40%		<u>1,785,000</u>



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Life Cover (level) £500,000 Examples Only

	Term	Joint first death Premiums per annum	Single (M) Premiums per annum
30 year old couple	40 years	£495	
40 year old couple	20 years	£623	
60 year old male	7 years (reducing)		£4022 initial 3 years
75 year old male	7 years (reducing)		£19018 Initial 3 years

Assumed:

- Non-smokers
- Fit
- For 30/40 year olds the above includes critical illness
- For the 7 year policies for 60 and 75 year olds the cost reduces regarding the cover for years 4 to 7.



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Summary

- Lots to consider !
- Stack it up first.
- Assess position.
- Consider – options to use 2 x £1m ?
- FBTs
- Gifting
- Life Cover
- Drawing pensions
- Take advice !
- Tax only on part of life
- DON'T LET TAIL WAG THE DOG
- Family first



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Complexities – take advice !

It is vital to take advice – this is not an easy area – we have vast experience at Ward and Co with John Ward working through from the late 1970's when we last had 50% relief and Ian Smale who joined him in 1984, working together closely with the rest of the team.

“Marrying up” the rules and options with your own farm isn't an easy task but one we specialise in.



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Thank you

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