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CENTRE FOR THE ANALYSIS OF TAXATION (CENTAX)
THE IMPACT OF CHANGES TO INHERITANCE TAX ON FARM ESTATES
UFU BRIEF

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CenTax Overview

The Centre for Analysis of Taxation (CenTax) is a research centre dedicated to studying tax policy. It is directed by Dr Arun Advani from the University of Warwick and Dr Andy Summers from the London School of Economics. They operate strictly independently to provide robust advice for policymakers, and receive core funding by the 'abrdn Financial Fairness Trust' and the 'Thirty Percy Foundation', and received additional funding from the Nuffield Foundation for this specific paper.
<u>This is a UK-wide analysis and is not specific to Northern Ireland.</u>

High Level Summary

- From April 2026, estates will get 100% relief on the first £1 million of farm/business assets and 50% thereafter (20% marginal tax).
- 480-600 estates in the UK affected per year (30% of farm-estate deaths) with the vast majority of new tax coming from estates over £5 million.
- Owner-occupiers are disproportionately affected (37% of those impacted, despite being only 17% of farm estates), while landowners and tenants are less likely to face higher tax.
- Most family farms in the UK remain protected, with about 70 estates per year facing real cash-flow strain.
- Alternatives tested: clawback (impractical), minimum share rule (shields family farms but weaker on fairness), upper limit on relief (best at targeting very large estates), transferability between spouses (simple, low-cost adjustment).

'Farm Estates'

CenTax defines a "farm estate" as the estate of an individual who owned farmland or farm assets on which inheritance tax relief was claimed (or would have been, absent a spouse exemption). This broad definition covers owner-farmers, tenant farmers, and landowners, recognising that one farm may be split across multiple estates, or one estate may own multiple farms.

Current Proposals

From April 2026, estates will still get 100% relief on the first £1 million of combined agricultural and business property, bur relief above that falls to 50%, creating an effective IHT rate of up to 20% on qualifying assets above the allowance.

Headline Impact

CenTax estimates that between 480 and 600 estates per year would pay more IHT on a static basis (before behavioural change is factored in), which is approximately 30% of farm-estate deaths in a typical year.

The tax is highly concentrated at the top, with >80% of additional tax from farm estates coming from the third of people with estates over £5 million. Estates valued over £10 million contribute 55% of the extra tax. By contrast, <1% of the extra tax comes from impacted estates under £2 million.
Around 205 estates per year (approximately 43% of those affected) meet CenTax's proxy for small family farms, which is the APR/BPR share of the total estate being greater than 60% and the estate valued at under £5 million), but they contribute only approximately 15% of the additional tax.

Roughly 32% of all farm estates claiming relief do so on less than 20% of the estate, yet approximately 15 estates per year are hit (3% of those affected), raising only 2% of the total tax.

Most/Least Likely to be Affected

Owner-farmers are over-represented among the affected: 17% of all farm estates but 37% of those impacted. This is a particular concern for NI farmers.

Landowners (letting land) are less likely to be hit: 64% of the farm estates but 42% of those impacted.
Tenant farmers (primarily BPR-only claims) form a smaller slice of the affected group and of the revenue from farm estates.
By income of the deceased, impact spans the income distribution, but revenue is skewed up-market: approximately 10% of the extra tax comes from estates where the deceased average less than £25,000

annual income in the five years pre-death, whilst 47% comes from those at £100,000 (including 23% from those greater than £500,000).

Impacted deaths are older in the general population, 83% at 75%, 54% at 85+.

27% of affected cases are first deaths within a couple. Many such deaths may avoid extra IHT through a spouse exemption or by using the £1 million combined allowance on first death (since it is not transferrable).

Scale of Liability

Most increases are modest, as 49% of affected farm estates face less than a 5 percentage-point rise in their effective average IHT rate. Among estates less than £2.5 million, only 15 estates per year see an increase larger than 5 percentage-points. The 25 estates facing greater than a 15 percentage-point rise all have estates greater than £7.5 million.

86% of affected farms could cover their entire IHT bill from non-farm assets. About 70 estates per year could not, and of these, 40 would face a residual bill greater than 20% of farm's post-tax, post-depreciation income even using 10-year, interest-free instalments.

Overall

CenTax's analysis suggests that the reforms largely protect smaller family farms at a UK-wide basis in cash-flow terms and concentrates IHT on larger, wealthier farm estates, especially those greater than £5 million. However, owner-farms are disproportionately affected and therefore Northern Ireland is disproportionately affected.

Alternative Proposals

The CenTax Report considers three alternative proposals. It rules out the clawback proposal, but advocates for the 'minimum share rule' and an upper limit on relief.

CenTax is clear that any alternative must be deliverable by April 2026 without requiring new legislation or major new administrative systems. It must therefore be politically feasible.

1. **Clawback of Relief**

This proposal has been advanced by the NFU and other industry groups as an alternative. Under clawback, farmland and business property would continue to receive 100% relief, but this relief would only be retained if the inheritor kept those assets for at least seven years after death. If the assets were sold within that time, the relief would be withdrawn.

CenTax concluded that this model would not reduce the concentration of relief at the top because large estates could still transfer vast amounts of assets intact, nor would it raise as much revenue as the planned d reforms. Most importantly, to implement the clawback, the bureaucracy would require new legislation and administrative infrastructure to track asset sales over time, making it unfeasible to implement by April 2026.

2. Minimum Share Rule

This would remove relief where farm and business assets make up only a small part of an estate, where wealthy investors use farmland as a tax shelter. CenTax modelled a version of this where any relief would only apply if farm and business property made up at least 60% of the estate overall. The revenue from this proposal would allow the Government to fund a change in the full (100%) relief from £1 million to £5 million per estate, while still raising at least as much revenue as the existing proposals.

The effect would be to protect more family farms, which typically have a higher share of assets tied up in farm property, whilst cutting out passive investors. However, on its own, this rule would slightly increase the concentration of relief compared to the Government's current proposals. This would be deliverable by April 2026 without any new legislation or a huge overhaul of administrative systems but might require 'design compromises' to work in practice.

3. Upper Limit on Relief

The third alternative was to impose an "upper limit on relief". This would restrict APR and BPR so that only the first £10 million of farm and business property could qualify at any level. Any value above that would receive no relief at any rate. CenTax found that this would be the most direct way of reducing the concentration of relief, since the very largest estates would bear the biggest increases in tax. The model suggested that such a cap could fund an increase in the allowance for 100% relief from £1 million to £2 million per estate, or £1.5 million if wealthy estates responded with aggressive tax planning. This approach would extend protection for family farms and small businesses at the expense of large landowners

4. **Transferable Allowance**

CenTax also suggested that the new £1 million should be transferable between spouses. Under current plans, if the allowance is unused on the first death, it cannot be transferred, unlike the nil-rate band and the residence nil-rate band. CenTax argued that this would encourage unnecessary tax planning, such as splitting up bequests at the first death just to use the allowance. Making the allowance transferrable would reduce complexity and align it with other inheritance tax rules.

The long-run revenue cost would be small, though if the change were backdated for couples where one spouse had already died, the short-run cost would be larger.

Conclusion

For targeting the concentration of relief and raising revenue, CenTax found that the Government's plan is an improvement on the current system, but needs to be better targeted to extend protections for small family farms. Clawback would not achieve the Government's aims and is not feasible to implement in time. A minimum share rule would better protect family farms but would not reduce relief concentration. An upper limit on relief would mostly target large estates while protecting smaller ones. Transferability of the allowance would be a practical, low-cost improvement to make the tax system fairer. CenTax argues that no single option is perfect, but combining these adjustments would help the Government strike a better balance between fairness, revenue, and the protection of family farms.

This brief is a representation of the facts represented within the CenTax report and does not constitute UFU endorsement or comments on it.