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BUDGET DIGEST

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Taking stock after ‘devastating’ news

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Farmers and landowners are being urged not to make any knee-jerk reactions, as the dust settles on Labour’s first budget in 14 years.

Chancellor Rachel Reeves announced big cuts to Agricultural Property Relief (APR) and Business Property Relief (BPR), meaning farming families and a whole range of businesses could now face potentially larger Inheritance Tax (IHT) bills. The Budget also resulted in cuts to BPS payments, rises to National Insurance Contributions (NICs) for employees and a lift in the National Living Wage. Further impacts came in the form of increase in Capital Gains Tax (CGT) rates, changes to Company Car Tax (CCT) rates and increases in business rates ‘standard multiplier’.

The NFU has said the budget could be the “final straw” for many family farms, already stretched to breaking point after a decade of tightening margins, cost inflation and extreme weather events. Meanwhile, the CLA described Defra’s plan to accelerate the end of direct payments as “incredibly damaging” to investment in farming and diversified businesses, and dubbed the decision to reduce APR as “nothing short of a betrayal”.

The two organisations are speaking to ministers and MPs about their concerns, with a mass lobby in London planned by the NFU on 19 November.

Our view is that it is important not to make any rash decisions about strategy, business structure or tax planning in response. We can totally understand the strength of feeling, in particular the sense of fear, as what was billed as a pro-growth and pro-business budget, could represent an existential threat to some businesses if it stays in its current form, but it’s important not to panic, as a manageable way forward should be available for many.

While it’s possible the government will dilute (or even, though this ▸

seems unlikely, u-turn) on some of its plans, we have to be prepared for the possibility that there aren't any – or are only very few – changes to what was announced.

Two weeks on from the delivery of the Budget statement, accountants and lawyers are still trawling through the small print, trying to fully understand the implications. The devil may well be in the detail – but so, too, may be answers as to how to limit any tax liabilities. The full picture won't be known until that information is digested and only then will people be able to make fully informed decisions.

One of the options to reduce IHT liability may be to 'fragment' a holding into multiple ownerships or put in place multiple leases – but the disadvantage of this is you can tie yourself up in knots in structures that you can't unpick if you need to in the future. Trusts are also an option, but any planning needs to be done carefully to take advantages of the £1 million allowance since for a lot of business this might not go very far.

For those who do end up facing the prospect of a big IHT bill, the challenge will be how to generate enough cash to create a fund on the trigger of an IHT liability, or to cover the cost of spreading the tax over a period of years.

While the general public often wrongly assume whoever is in charge at the time must be very wealthy, the reality is, of course, that land-businesses are often asset-rich, but cash poor. The return on capital for farms is typically small (less than 1% in many cases) and while there has always been a commercial imperative, there has also been a focus on environmental, community and social objectives. The emphasis may now change towards sweating assets and generating cash.

> "LAND BUSINESSES ARE OFTEN ASSET-RICH, BUT CASH POOR."

The worry is that, under the new regime, people will be forced to sell assets to fund a tax bill, or borrow money to pay it. The former could lead to holdings being broken up and becoming unviable; the latter could result in debt repayments that become impossible to service.

A way to generate protection could be to take out life insurance to cover the potential cost of IHT bills, however this needs to be done well in advance to avoid hefty premiums and it must be accompanied by careful tax planning.

This all is happening at a time when returns in the land-based sector are under pressure. BPS has been falling for some time and, while we knew it would drop further in 2025, the acceleration of the rate of that drop has surprised many in the industry. People should look – and re-look – at the option of entering the Sustainable Farming Incentive (SFI) as a means of making up some of this shortfall.

One silver lining to this very grey cloud is that the budget will prompt succession conversations and these changes are likely to encourage people to hand on assets much earlier in life, which can benefit a business, injecting new energy and ideas to help them face the challenges. However, it is very clear that never has it been more important for farming and rural businesses to get the right advice from advisors and be proactive in dealing with the issues as they are unlikely to go away.

The Budget's impact on the land-based sector at a glance

From April 2026, the first £1m of combined business and agricultural assets will continue to attract no IHT. For assets over £1m, however, IHT will apply with 50% relief, at an effective rate of 20%, with other nil-rate reliefs available that can also be used. According to Treasury guidance, this means up to £3m in reliefs may be available in total for a couple who own a farm and are passing it to a direct descendant.

'Anti-forestalling' measures mean transfers made on or after 30 October 2024 where the transferor dies within seven years and after 6 April 2026 will be caught by the new regime.

APR will be extended to land managed under an environmental agreement from 6 April 2025.

Recipients of delinked payments ►

KIRSTY O'CONNOR / TREASURY - HM TREASURY, OGL 3 will see at least 76% of their base amount removed in 2025. This follows a 50% cut in delinked payments (formerly Basic Payment Scheme money) in 2024. No recipient will receive more than £7,200.

Employers' National Insurance Contributions (NICs) will increase by 1.2% to 15%. The Secondary Threshold (the point at which employers start paying NI on an employee's salary) will be cut from £9,100 to £5,000 a year.

The lower rate of capital gains tax (CGT) is set to rise from 10% to 18% (and the higher rate from 20% to 24%) from October 30, 2024. CGT rates for residential property will remain at 18% and 24%.

For anyone who is 21 or older, the National Living Wage will increase from £11.44 per hour to £12.21 per hour from April 2025 (an increase of 6.7%). For those between 18 and 20, it will go up from £8.60 to £10 per hour. The apprentice rate has increased from £6.40 per hour to £7.55 per hour.

The farming budget essentially remains static at £2.4bn for England in 2025/26.

Of this, the intention is that £1.8bn will be spent on Environmental Land Management (ELM) schemes, with the remainder on productivity schemes and final delinked payments.

HM TREASURY'S WORKED EXAMPLES

In response to a lack of clarity over how the exemptions would be applied in practice, on November 5, the government issued two worked examples:

Example 1: farm owned by two people

Two people who jointly own a farm will be able to pass on land and property valued up to £3 million to a child or grandchild tax free. That is made up of £1 million, where they combine their standard £500,000 tax-free allowances (£325,000 for nil-rate band + £175,000 for residence nil-rate band), and on top of that, an additional £1 million tax-free allowance each for agricultural property inheritance.

Person 1: £325,000 + £175,000 + £1 million

Person 2: £325,000 + £175,000 + £1 million

Total passed on to direct descendant tax free: £3 million

This would be £2.65 million if leaving to anyone else that is not a direct descendant as would no longer be able to access the additional property tax-free allowance (£175,000 each).

Person 1: £325,000 + £1 million

Person 2: £325,000 + £1 million

Total passed on to non-direct descendant tax free: £2.65 million

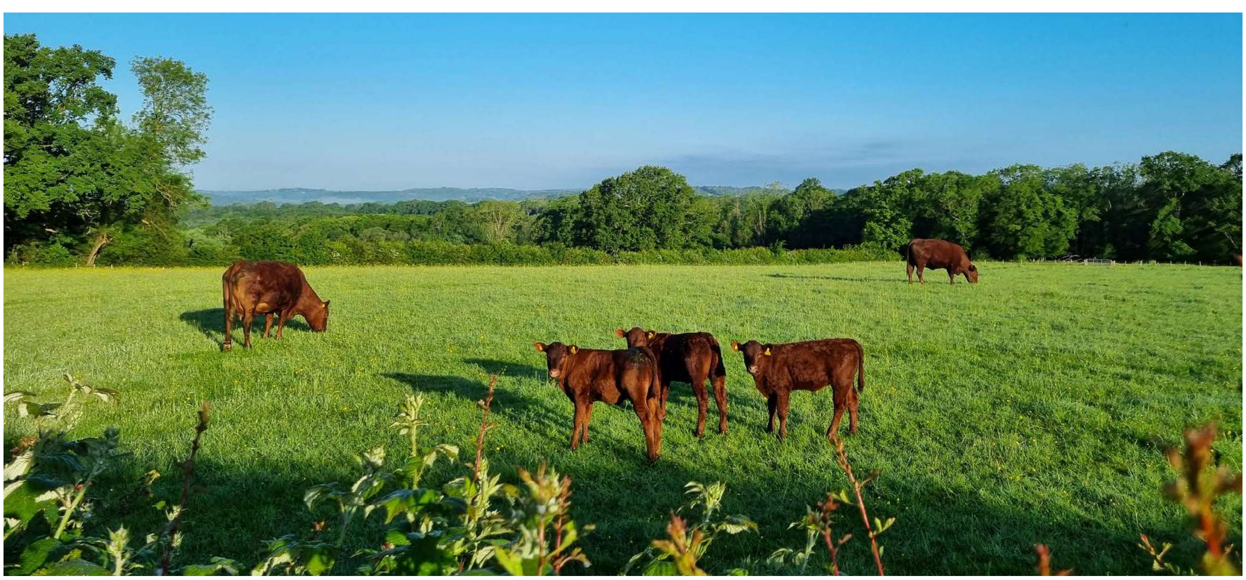
Example 2: farm owned by one person

One person who owns a farm will be able to pass on land and property valued up to £1.5 million tax free to a child or grandchild. That is made up of their standard £500,000 tax-free allowance (£325,000 nil-rate band + £175,000 residence nil-rate band), and an additional £1 million tax-free allowance for agricultural property inheritance.

Total passed on to direct descendant tax free: £1.5 million (£325,000 + £175,000 + £1 million)

This would be £1.325 million tax free if leaving to anyone else that is not a direct descendant as would no longer be able to access the residence nil-rate band.

Total passed on to non-direct descendant tax free: £1.325 million (£325,000 + £1 million)



Succession returns to top of agenda after budget

Having a succession strategy is even-more important after the Autumn Budget. We share some suggestions on how to make this potentially painful process happen smoothly and effectively

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Succession is sometimes referred to as "the elephant in the room" because there's an unwillingness to discuss the topic in some farmhouses and estate offices.

There is now, however, a need to address it with a candour and urgency we've not witnessed before. Focusing solely on tax mitigation and ignoring other motivating factors can be a case of "tail wagging dog". But tax liabilities can't be ignored, so now is the right time to wrap that planning into a wider discussion about the whole business strategy.

It's understandable why many have been reluctant to broach this emotive topic. It can be hard, after all, to confront one's own mortality and that of a loved one. The older generation can find it hard to take their hands off the reins and no one wants to feel like they're dispensable.

In this volatile world, many farms and estates have been focusing on the immediate future with good reason, but ultimately this could be futile without a succession strategy. The absence of one can lead to higher tax bills, protracted and painful family disputes and, ultimately, the break-up of farms and estates.

A plan should be formulated that covers the long-term direction and structure of the farm or estate, the ownership of assets, the mix of enterprises, investments and pension provision, education and training and, critically, the tax position, so liability to inheritance tax and capital gains tax is minimised.

Preparing for succession isn't about squeezing out the older generation or undervaluing their contribution. Far from it. It's about making sure everybody is doing what they are best at – and what they want to do – for the overall good of the business and everyone associated with it.

The earlier the conversation is started, the easier it is to have and the more effective the decisions that can be taken will be, too. Getting it right and doing it in a timely fashion allows the more senior generation to step back, while allowing the younger generation to take on more responsibility at the time that's right for them. The net result is a more profitable and resilient business that – whether it's in family, corporate or trust ownership – is better placed to pass through the generations undamaged by taxes and more enjoyable to be involved in.

A few simple ground rules make these conversations easier. Having an independent person in the room – be it a consultant, an accountant or even a trusted family friend – can kick-start the process and then help ensure momentum is maintained. Everyone around the table, meanwhile, has to be honest and constructive.

My role in these situations varies. Sometimes I'm asked merely to provide an objective, independent sense-check of the family's own plans. On other occasions, I'm asked to help shape and steer the whole strategic direction, a process that can involve restructuring, asset sales and acquisitions, adding or letting go of enterprises, introducing diversifications and exploring refinancing.

In these discussions, I'm very conscious that everyone should be heard and should feel comfortable saying what they think. Many farm and estate owners beginning the process feel like a weight has been lifted off their shoulders. I've been involved in farming all my life and a consultant for nearly 20 years and can count the number of meetings on the fingers of one hand when I wished I'd taken a tin hat!

What's crucial is that everyone understands their own aspirations. Being motivated by wanting to grow bumper crops of wheat or build a sporting estate of national renown are equally legitimate. Ditto prioritising biodiversity or making sure that you generate the funds to maintain your family home.

Everyone, however, must understand all the pros and cons of the different options and appreciate how that fits within the jigsaw puzzle that is successful succession. Part of my role is putting the different pieces of the puzzle together – basically, helping families and corporate clients truly understand what they want, giving them the options as to how best to achieve it, then making that happen.

Succession planning is not actually about retiring or even dying – it's about putting your business on the ►

best possible long-term footing. It's about creating a foundation that will serve your children and grandchildren well, and giving everyone a clarity of direction, a peace of mind and a new focus. It can re-energise a business.

There are many unknowns, but sound succession planning will give your family and beneficiaries some clarity and a road map to follow when they will be battling with grief, at the same time as trying to run a business. Grief does not bring clarity – so if you can offer a little through a sound succession plan, you will be able to rest easy.

Tips for successful succession planning

- The sooner you start, the easier it is to do
- Be honest and open
- Let all the family contribute
- Involve an independent professional as this can bring clarity and calmness
- View it an ongoing process, rather than as a one-off conversation

Some questions a succession strategy should address:

- How can I or we pass on a business that's viable, while being fair to all my children, even those who aren't involved in it?
- What role will each member of the family play now and in future?
- How will the assets of the farm be owned?
- What's the optimum time for me to take a step back?
- What do the next generation actually want to do?
- How can we give them enough responsibility initially to make a meaningful difference, without jeopardising the business if they make a wrong decision while they're on a steep learning curve?

Tips for the younger generation

Younger farmers sometimes say to me their parents simply won't engage with the succession conversation.

The challenge then is to raise the subject in a way that will make them want to engage with it and talk about it.

Pick your moment. Don't choose a busy spell, such as lambing or harvest. A period of quiet when hopefully everyone is not exhausted, will be more effective.

One option could be to email them. If you see them every day that might sound odd, but a letter would allow you to set out your perspective and your points in an organised and calm way. Sometimes emotions on all sides can run high when we're face-to-face and what you are seeking to do is remove the emotion from a business discussion.

However you do it, emphasise that addressing the topic is important for the financial long-term future of the farm. Most farms are better, more profitable, more resilient – and just nicer places to work – if everyone is clear about the future.

Stress, too, that this is in no way about you trying to wrestle complete control from them – some succession plans work best when the next generation initially take responsibility for one enterprise. Is there one that you are particularly keen on and experienced in? You could agree some goals and measures of success for this enterprise over, say, two years and that might be a way for you to prove to them (if they need it) your competence and ambition.

If you can show them a proposal for the future (including a budget and cashflow). Coming up with a costed business plan will help show them how serious you are about taking the farm forward and (should they need it) give them yet more confidence in you.

The objective is to set out in an honest, constructive and collaborative way, how and why you feel the situation needs changing for the good of the business and everyone involved.