



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Councillor Lisa Spivey
Leader of Gloucestershire County Council
Cabinet Office
Shire Hall
Westgate Street
Gloucester
GL1 2TG

19 December 2025

Dear Councillor Spivey,

Thank you for your letter of 25 November to the Chancellor of the Exchequer about inheritance tax. I am replying as Minister responsible for the UK tax system.

I appreciate the concerns you raise about the forthcoming reforms to agricultural property relief and business property relief.

The decision to reform agricultural property relief and business property relief was a fair and necessary decision. The purpose of the reforms is to raise revenue to ensure the sustainability of the public finances and to fund public services, whilst continuing to support farms and businesses by targeting the reliefs to make them fairer.

Data published at Autumn Budget 2024 showed that a very small number of claimants benefit from a very significant amount of agricultural property relief and business property relief. This shows the top 7 per cent (the largest 117 claims) in 2021-22 accounted for 40 per cent of the total Exchequer cost of agricultural property relief. This was £219 million in tax foregone. It is not fair to maintain such significant relief for a very small number of claimants, when this money could better be used to fund our public services. This data is available at:

www.gov.uk/government/publications/agricultural-property-relief-and-business-property-relief-reforms/summary-of-reforms-to-agricultural-property-relief-and-business-property-relief#statistical-annex-distribution-of-claims-at-death-for-agricultural-property-relief-and-business-property-relief-in-2021-to-2022

The reforms apply from 6 April 2026. The first £1 million of combined agricultural and business assets will not result in any inheritance tax. Above the £1 million allowance, individuals will access 50 per cent relief from inheritance tax and will pay inheritance tax at a reduced effective rate up to 20 per cent, rather than the standard 40 per cent. As announced at Budget 2025, any unused £1 million allowance for the 100 per cent rate of agricultural property relief and business property relief will be transferable between spouses and civil partners, including if the first death was before 6 April 2026. This will make the rules fairer for widows and widowers, and reduce complexity. It means a surviving spouse or civil partner can benefit from an allowance of up to £2 million of combined agricultural and business assets depending on their circumstances.

To put the allowance in context, the latest available data from 2022-23 shows 70 per cent of estates made claims for agricultural property below £1 million, and the median agricultural value relieved was £505,000. This data, and the data for business property relief, is available in table 12.2 at:

www.gov.uk/government/statistics/inheritance-tax-liabilities-statistics

The general inheritance tax rules remain unchanged. If an individual's estate goes to their surviving spouse or civil partner, it is completely exempt from inheritance tax. When an estate goes to anyone else, there is a £325,000 nil-rate band, which increases to £500,000 where a residence is left on death to a direct descendant, such as a child. Any unused nil-rate bands are transferred to a surviving spouse or civil partner, which means the qualifying estate of a surviving spouse or civil partner can pass on up to £1 million to a direct descendant without any inheritance tax liability when they pass away. Agricultural property relief and business property relief are in addition to these general allowances. These tax reliefs can be combined with the general allowances mentioned above, and this means a couple could pass on up to £3 million tax-free between them. More information is available at:

www.gov.uk/government/news/what-are-the-changes-to-agricultural-property-relief

Any gifts of assets made more than seven years before death are fully excluded from inheritance tax. Taper relief can also apply in certain circumstances, which reduces the tax payable on gifts made within seven years of death.

Following the change announced at Budget 2025 and taking into account the latest economic forecasts, the reforms announced by the Government are now expected to result in up to 375 estates claiming agricultural property relief, including those also claiming business property relief, paying more inheritance tax in 2026-27. Almost three-quarters of estates claiming agricultural property relief, including those that also claim for business property relief, will not pay any more tax as a result of the changes in 2026-27. The report by the independent Centre for the Analysis of Taxation (CenTax) published in August 2025 supported the Government's analysis of number of estates affected in 2026-27. It also concluded that half of these estates will see an increase in their effective inheritance tax rate of less than 5 percentage points, and 86 per cent of these estates could pay their entire inheritance tax bill out of non-farm assets.

I understand that people feel strongly about inheritance tax. However, the Government believes its reforms get the balance right between supporting farms and businesses, fixing the public finances, and funding public services. The reforms reduce the inheritance tax advantages available to owners of agricultural and business assets but still mean those assets will be taxed at a much lower effective rate than most other assets. Despite a tough fiscal context, the Government will maintain very significant levels of relief from inheritance tax beyond what is available to others and compared to the position before 1992 when the rate of relief was a maximum of 50 per cent on all agricultural and business assets, including the first £1 million. Where inheritance tax is due, those liable for a charge can pay any liability on the relevant assets over 10 annual instalments, interest-free.

The reforms to agricultural property relief and business property relief from April 2026 should also be seen in the broader context of the significant existing support for the farming industry in the wider tax system. The existing rules already provide considerable support for the agricultural sector beyond the general support for businesses. This includes the exemption from business rates for agricultural land and buildings, the ongoing entitlement for vehicles and machinery used in agriculture to use rebated diesel and biofuels, and the exemption from the plastic packaging tax for

the plastic film used by farmers to produce silage bales. Furthermore, farmers are able to claim to add together their profits from farming for two years or five years and be taxable on the average of those profits.

More broadly, the Spending Review has maintained the Government's commitment to farming, food security and nature recovery. The Government has allocated a record £11.8 billion to sustainable farming and food production over this Parliament. The settlement provided £5 billion over 2024-25 and 2025-26 for the Farming and Countryside Programme. In addition, the Government will invest more than £2.7 billion a year in sustainable farming and nature recovery from 2026-27 until 2028-29. Of this, farmers will benefit from an average of £2.3 billion per year through the Farming and Countryside Programme and up to £400 million from additional nature schemes.

This funding will boost productivity and protect the natural ecosystems underpinning food production and broader economic activity, which will support food and economic security and increase resilience to climate change and disease outbreaks. This includes increasing support for nature friendly farming through Environmental Land Management schemes from £800 million in 2023-24 to £2 billion by 2028-29, sustained by rapidly winding down subsidy payments that do not provide a return on investment. This will make a significant contribution to the Environment Act targets, including improving the quality of the water in our rivers, the air, and spaces for wildlife so biodiversity can thrive.

The Government's commitment to farmers and the vital role they play in feeding our nation remains steadfast, but there is a need to reform agricultural property relief and business property relief.

I hope this response is helpful. Thank you again for taking the time to make me aware of your concerns.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D Tomlinson', written in a cursive style.

DANIEL TOMLINSON MP
EXCHEQUER SECRETARY TO THE TREASURY