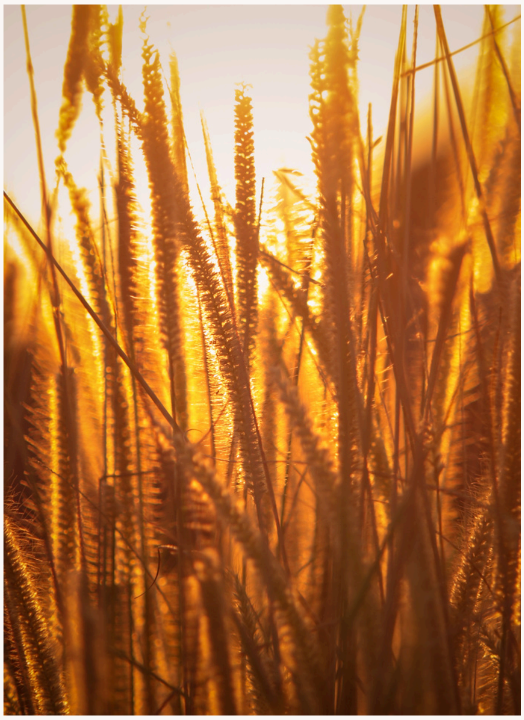
Tax changes highlight the need for farm succession planning

We don't know what the Budget will hold at the time of writing this article, but it is worth drawing your attention to the fact that, from Budget 24, we already know about two significant tax changes announced by the Chancellor which will have a major impact on all business owners, not just farmers.

The first is the introduction of a new 20% Inheritance Tax (IHT) rate for qualifying business assets applying to anyone who dies after early April 2026. The 20% rate will be calculated on the open market value of everything owned at the date of death. Relief will be limited to personal death tax allowances, possibly up to £1.5m per person, depending on circumstances.



Anything which doesn't qualify for the lower 20% rate will be taxed at the full rate of 40%.

The second significant tax change announced in Budget 2024, applies to all deaths after early April 2027 and will make all pension pots taxable at the full 40% IHT rate.

We wanted to highlight these two dates as it makes sense for everyone to continue working on passing assets down to younger generations where possible to effectively delay the point at which a death leads to these new IHT tax bills.

We also wanted to highlight the practical and personal considerations when looking at lifetime gifting. What you don't want to do is simply swap a potential tax problem on death for other complications during your life and during your business.

Think about how the new owners of your assets will sit within the bigger picture of the property portfolio or farm as well as within the family. On the ground, look at access, boundaries, services, and maintenance, repair and upgrades of those. Try to think like a guest or a new owner of a house or an employee in a business in a farmyard when assessing practical matters.

When thinking about gifting, always ask your accountant whether you can afford it. Start off looking at the tax and then the practical considerations of gifting: for example, you can't gift and asset away and continue taking the income or benefit from it as though you still own it. If you did that, it would negate any tax benefit of gifting, as you would be reserving a benefit.

Tax advice should come first, then get a succession solicitor to prepare clear, detailed and binding documents to properly record everything and help avoid disputes in the future.

Farming incomes have been hit hard in the last two years by crop rising input costs, falling receipts and the overnight cut of the old income subsidy scheme to a nominal £7,000 odd per farm business, regardless of size. This last point wasn't announced as part of the Budget in 2024, but was effectively a hidden announcement on the same day. Be aware of something similar on this year's Budget day.

There arguably seems to be a desire by the government to wipe out small to medium farms and businesses by taxing them into extinction. Postponing death tax bills may be the best way to carry on by passing assets down to younger generations. Those younger generations in turn, need to make their own succession and life cover plans.

Some farms and commercial properties are owned by pensions, so we may see further succession planning in the run up to April 2027.

We have seen unprecedented demand for agricultural accountants and lawyers to help with succession planning. Protecting assets for future generations is an extremely rewarding area of work and one that we are proud to do well for our clients.

Many members of our team are either in small farm partnerships, come from farming families or are actively involved in farming businesses, so we are all in this together. The next few years will be some of the most important and exciting for farms and their owners.

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