Larking Gowen
Autumn Farming Conference

Beckett Financial Services
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Agricultural Property Relief and Business Relief – Current

IHT relief qualifying assets	Exemption
Agricultural Property Relief (APR)	Full exemption
Business Relief (BR)	Full exemption after two years
EIS Investments	Full exemption after two years
AIM stocks	Full exemption after two years

Agricultural Property Relief and Business Relief – Changes

IHT relief qualifying assets	Exemption
Agricultural Property Relief (APR)	Full exemption for £1 million
Business Relief (BR)	Full exemption for £1 million
EIS Investments	Full exemption for £1 million
AIM stocks	50% exemption with no limits, effective rate of tax 20%

All APR, BR and EIS investments above £1 million have 50% relief so they are taxed at 20%

Where's the catch?

- £1 million limit applies to all three asset types, not £1 million each
- Originally £1 million allowance was not transferable to spouse and lost upon death – but now proposed that it is
- From 6 April 2026 inheritance tax payable on property qualifying for BPR/APR at any rate will be eligible to be paid in 10 equal annual instalments, interest-free
- But if the property is sold before the end of the 10-year period, the instalment option ends and all outstanding tax will become due, with interest
- APR/BR assets in pensions lose £1 m IHT reliefs
  OPTION: sell property to sponsoring employer?

Any good news?

IHT allowances frozen until 2031 (previously 2028):

- Nil Rate Band (NRB) - £325,000
- Residence Nil Rate Band - £175,000
- Can be transferred between spouses on death
- Uplift to probate value for capital gains tax for disposal of property following a death, remains available
- APR / BR allowance now transferrable

Mitigation strategies

- [illegible] assets held at that time.
- Qualifying IIP trusts share the £1m allowance with the estate on death
- Those trusts will be affected at the first 10 year anniversary falling after 6th April 2026
- After 6 Apr 2026: £1m allowance + nil-rate band (£1.65m cap) applies
- New trusts after 30 Oct 2024: single £1m allowance, used chronologically

Pensions - Current

- Pension schemes held in discretionary trust are exempt from IHT
- Pension funds excluded from the estate on death
- Tax treatment depends on death before or after age 75
- Pre-75: benefits paid tax-free
- Post-75: benefits taxed as income when withdrawn or taken as lump sum

Pensions - Current

- Pre-2015 rules were far less favourable
- Age 75 or over: all death benefits taxed
  - Lump sum: 55% special death charge
  - Pension/annuity: taxed as recipient's income
- Under 75: benefits generally taxable as income
  - Lump sum: no 55% charge, but still taxed as pension income
  - Pension/annuity: taxed as recipient's income

Pensions - Proposals

- From 6 Apr 2027, pensions will be subject to IHT
- Specifically, unused pension funds in drawdown (not used to buy an annuity) will be assessable to IHT
- Many more estates liable to IHT
- Some pension benefits remain exempt, e.g. employer death-in-service payments, scheme pensions

Pensions - Unintended consequences?

- Aim is to tax unused pension funds on death
- Death before minimum retirement age: pension not accessed yet still subject to IHT
- Creates a double tax hit: IHT, then income tax on funds
- Measures to ensure funds used to pay IHT aren't taxed again for income tax
- Probate just got a whole lot trickier!

Pensions - Unintended consequences?

- Personal representatives must report and settle IHT due
- Have 6 months to pay the tax due
- Pension scheme can pay, but only its share
- If at least £4,000
- Paid via the Pensions Inheritance Tax Payment Scheme (PITPS)
- May cause mismatched outcomes where pension and estate beneficiaries differ, SO…

Pensions: New IHT Withholding and PR Protections

- PRs can ask schemes to withhold 50% of taxable benefits for up to 15 months
- Withheld funds can be used to pay IHT to HMRC before benefits are released
- PRs will be protected from liability for pensions found after HMRC clearance
- Changes will be in the Finance Bill 2025–26, effective 6 April 2027

Pensions - What to do about it

- Pensions no longer the last source to draw from when planning income **and** intergenerational wealth transfer
- Review pension structures and beneficiary arrangements ahead of 2027
- Requires creative use of exemptions and allowances to optimise outcomes

Gifts from regular income exemption

- Regular gifts from income exemption likely to become more common
- Must meet three strict conditions:
  1. Gifts form part of normal, habitual giving
  2. Made from income, not capital
  3. Enough income left to maintain usual lifestyle
- Unlikely to be removed – it triggers immediate tax receipts, aligning with Treasury objectives

Annuities, gifting and life policies

- Use part of pension fund to buy an annuity and gift the income to beneficiaries
- Alternatively, use pension income to fund a life policy covering expected IHT – ensure it's written in trust to avoid further tax on death
- Generate income from drawdown to gift regularly or pay life cover premiums

Excess income trust

- Create an excess income trust if not gifting to a specific beneficiary
- Fund it using income from drawdown or annuity payments
- No IHT charge on creation; excess income is exempt
- Allows a wide choice of beneficiaries, offering flexibility and control over distributions

Give assets away?

- Gift assets outright if likely to survive seven years – IHT position no worse than keeping them
- CGT vs IHT comparison:
  - CGT rates now 18% and 24%
  - IHT 40% (or 20% for APR/BR assets)
- Balance potential IHT savings against downsides such as loss of income or control

How much can you afford to give away?

Assess your income

Cashflow tool takes the emotion out of planning

Goals

1 of 3 goals met

Name	Progress	Amount
Pre-Retirement Goal	100%	£60,000
Retirement Goal	35%	£60,000
Holidays	12%	£20,000

Events

8

Name	Owner	Year
Retirement	John , 60	2025
Retirement	Emma, 59	2025
Reduced Holiday Spending	John , 67	2032

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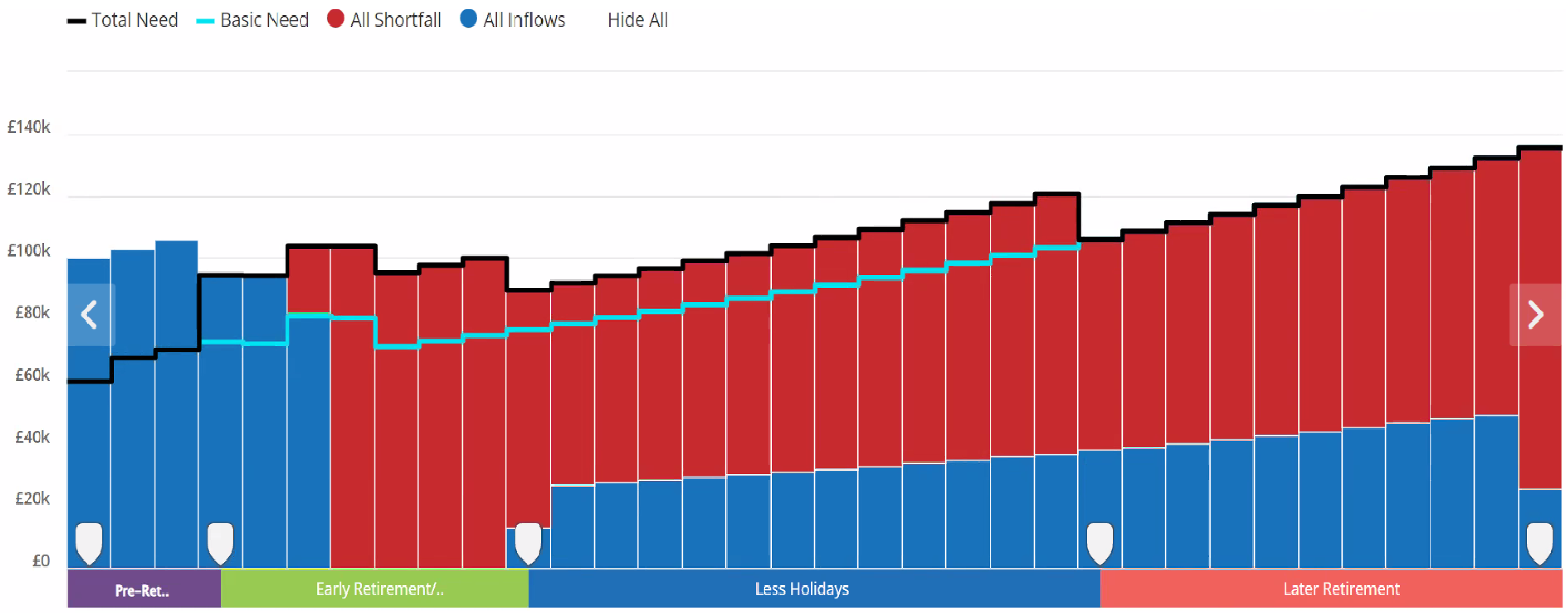
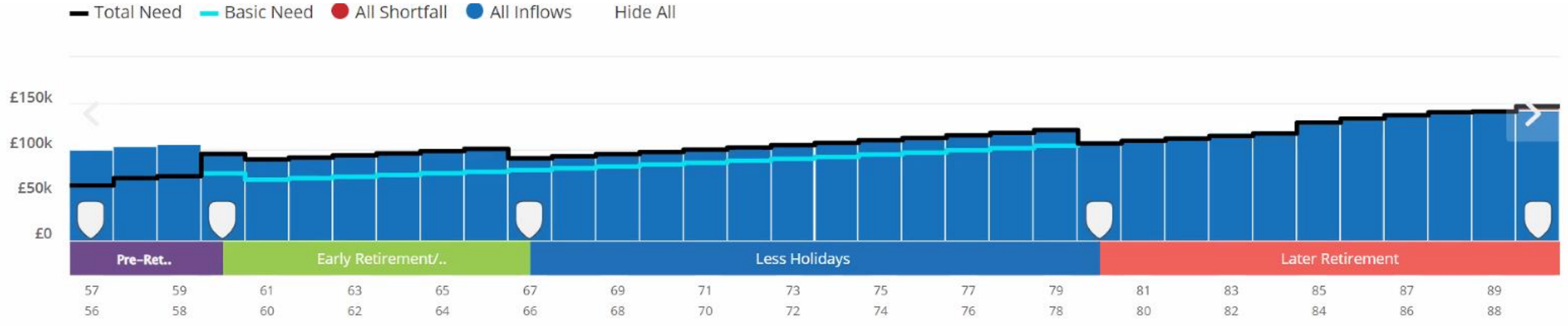
Cashflow tool takes the emotion out of planning



Cashflow tool takes the emotion out of planning



Original (planned) | Insight Results

Lump Sum Savings

The Lump Sum analysis will calculate the lump sum amount needed in cash at any given point in order to prevent shortfalls after the selected lump sum event. For example, the calculation can be used to determine how much a property or business may need to be sold for at that point in time to prevent shortfalls in the future.

Lump Sum Occurs	Lump Sum Needed
Retirement John . Age 60 — Change	£1,246,094

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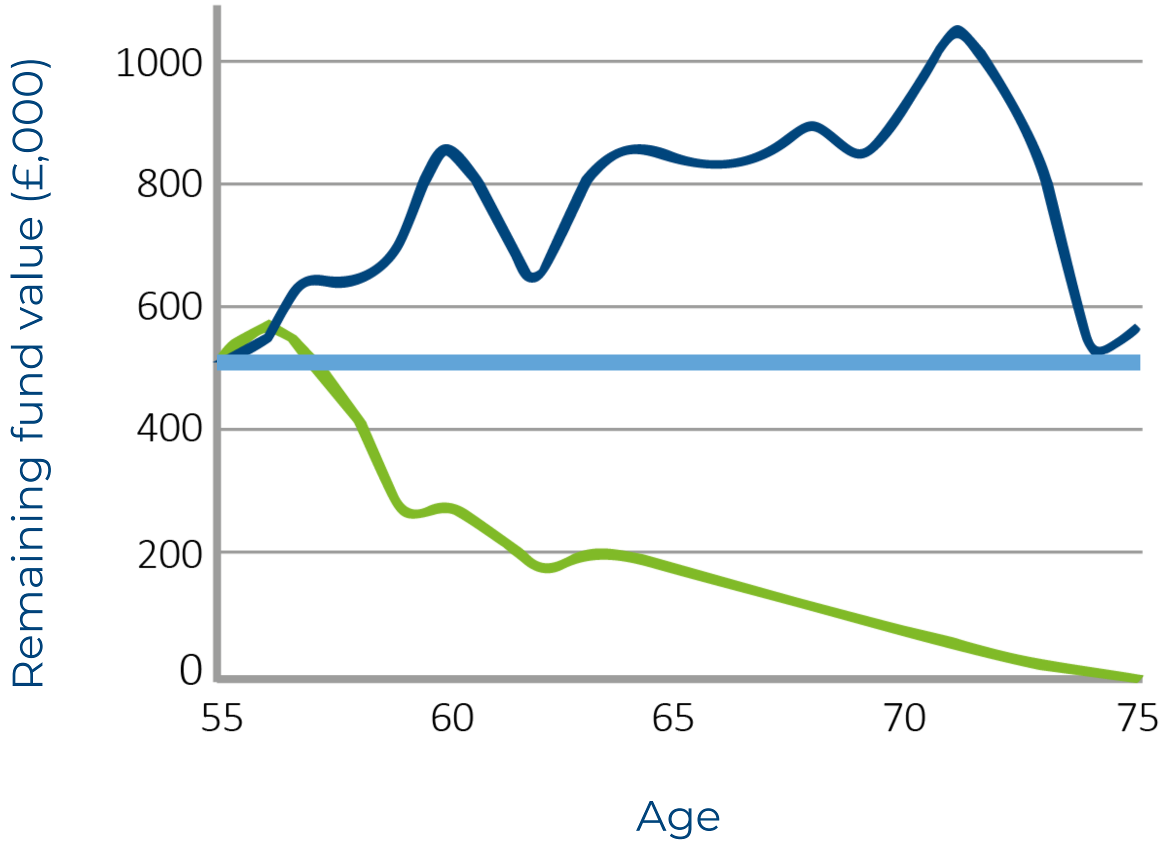
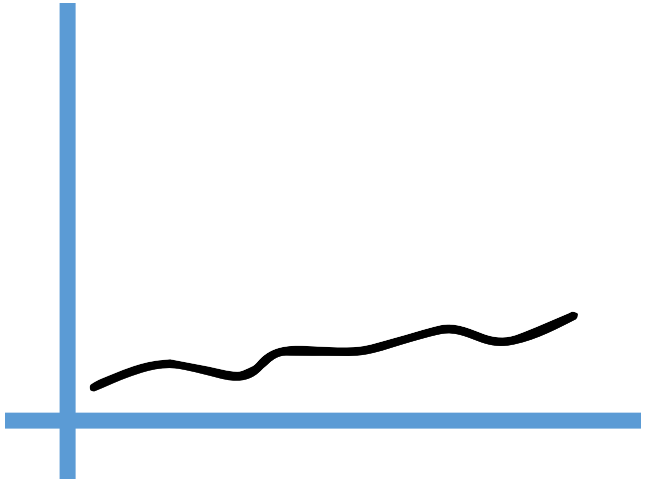
Invest with prudence

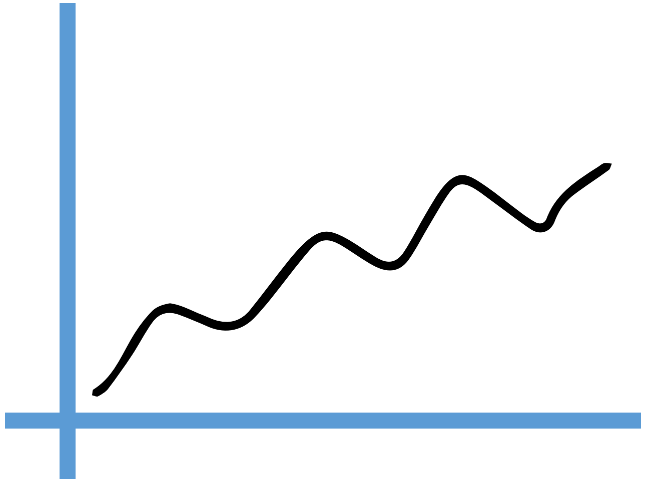


Avoid known risks



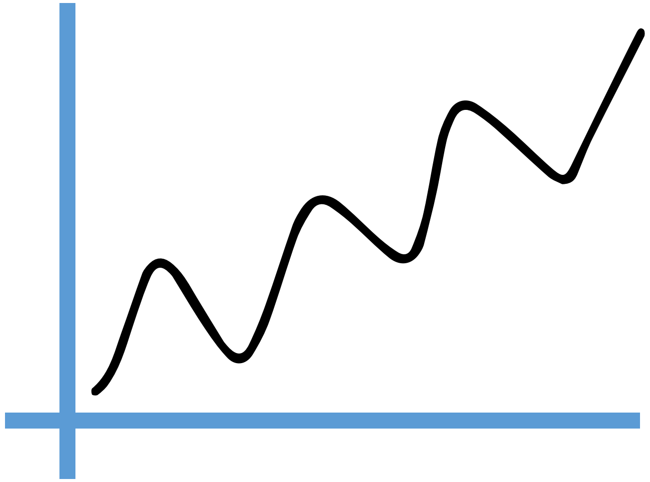
YEARS 1 TO 7

Mitigate sequencing risk



Years 8 to 14

Generate capital growth



Years 15+

Higher risk, higher return

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Company Insurance (Shareholder Protection)

HOW IT WORKS:

- Company/shareholders take out life insurance on key shareholders
- Policy written in trust for remaining shareholders
- Upon death, policy pays out tax-free sum
- Funds used to purchase shares from deceased's estate
- Estate receives cash which can be used to pay Inheritance Tax

Company Insurance (Shareholder Protection)

KEY BENEFITS:

- Ensures business continuity
- Provides immediate liquidity for IHT payment
- Prevents forced sale of business assets
- Protects remaining shareholders from unwanted new co-owners

Company Insurance (Shareholder Protection)

POTENTIAL PROBLEMS:

- Premiums may affect company cash flow
- Requires regular review as company value changes
- Complex legal agreements needed
  - Cross option agreement
  - Check Articles of Association
- May create conflicts between business and personal interests
- Tax treatment of premiums may not be favourable

Commerciality

WHAT DO WE MEAN?:

- Commercial premium equalisation is vital
- Unequal premiums risk IHT exposure
- Gift with reservation concerns
- Commercial arrangements avoid IHT
- Simple solution for two shareholders
- Documentation is important
- Gift trusts aren't a viable workaround
- Mathematical approaches for multiple shareholders

Commerciality

WORKING FORMULA:

$$\frac{\text{Sum assured on A} \times \text{B's premium}}{\text{Total sum assured - sum assured on B}} + \frac{\text{Sum assured on A} \times \text{C's premium}}{\text{Total sum assured - sum assured on C}}$$

Family Insurance Solutions

HOW IT WORKS:

- Individual/couple takes out whole of life policy
- Policy written in trust for beneficiaries (outside estate)
- Sum assured calculated to match expected IHT liability
- Upon death, policy pays directly to beneficiaries
- Funds available to pay IHT bill

Family Insurance Solutions

KEY BENEFITS:

- Creates immediate liquidity when needed most
- Avoids forced sale of family assets (homes, investments, business shares)
- Premium costs often lower than IHT liability
- Provides certainty for estate planning

Family Insurance Solutions

POTENTIAL PROBLEMS:

- Premiums increase with age and poor health
- Premiums often not guaranteed
- Requires ongoing premium payments
- Underwriting may be difficult for older individuals
- Estate growth may outpace policy coverage
- Trust arrangements must be set up correctly to be effective

EXAMPLE PREMIUMS:

Joint life cover = £400,000 sum assured

LEVEL TERM ASSURANCE

- 5 years age 60 - £111.92 p/m
- 5 years age 65 - £181.94 p/m

WHOLE OF LIFE

- Age 60 - £414.31 p/m
- Age 65 - £593.70 p/m

Your questions

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