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Ref: APR reform analysis

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An impact analysis of APR reforms on commercial family farms

The NFU has consulted with former Treasury and Office for Budget Responsibility economists to inform this analysis of the impacts of the APR reforms on commercial family farms.

In the Autumn Budget, the Chancellor announced that full APR (Agricultural Property Relief) from inheritance tax would cease from April 2026. From that date, full relief would apply up to £1 million and 50% relief thereafter, for both APR and BPR (Business Property Relief) combined. The Budget states that the £1 million threshold is “to help protect family businesses and farms”. The Government initially claimed that only 27% of farms will be affected, based on HMRC data on APR claims in 2021-22. The industry believes the proportion of genuine commercial family farms affected will be much higher.

This note reviews the available data and quantifies differences between the distributions of APR claims and farms by size to assess whether the different conclusions drawn from each source can be reconciled or whether they reflect genuine differences that mean the industry is correct to expect a larger proportion of farms to be affected. We also assess the ability of typical farms to meet inheritance tax liabilities over the ten-year payment window given evidence that profitability tends to be relatively low across the sector.

We show that the Government claims that only 27% of farms will be affected (as above the £1 million threshold) by the new IHT policy materially underestimates the true proportion. We find that around 75% of commercial family farms will be above the £1 million threshold

These results are based on reasonable and central methodologies and assumptions and are therefore robust to changes in the key underlying parameters.

The proportion of commercial family farms that are impacted

Comparing HMRC and Defra data sources

The Defra and HMRC data are not directly comparable, since the former show the net worth of a single farm while the latter show the value of the 'agricultural' component of a single estate that has claimed APR. These two concepts can be different in several ways, as explored in this note.

The mean net worth of a farm in 2022-23 was £2.2 million and the median was just below £1.5 million. By contrast, the mean value of an estate claiming APR in 2021-22 was £0.9 million (59% below the mean farm size) and the median was just under £0.5 million (68% smaller). The fact that the difference between the two metrics is greater at the median than the mean shows that tax claims are more heavily skewed to small land holdings. This is illustrated in Figure 1, which fits a smooth distribution through the available data on APR claims from HMRC and farm values from Defra. The HMRC distribution of APR claims is materially above the Defra distribution of farm values for all values below £1 million and materially below it for all values above £1 million.

It is these distributions that determine the proportion of estates and the proportion of farms that are expected to become liable to inheritance tax as result of the Autumn Budget measure.

Figure 1: Fitted distributions of APR reliefs claimed and the net worth of farms

Source: Analysis using data and information from HMRC, Defra, Advani et al (2024) and the NFU.

It is important to note that the net worth of farms includes both assets that are eligible for APR (land particularly, as well as farm buildings) and assets that are not (such as machinery and livestock, which are eligible for BPR). On average, around three-quarters of farm assets are made up of land. As the next section shows, this combination of APR and BPR assets is one key reason why using only APR data to estimate the proportion of farms that will be affected by the Budget measure paints a misleading picture.

3. **Relying purely on past APR claims does not capture the impact from the changes to BPR, which many working farms will currently claim alongside APR.** BPR is available for those estates claiming IHT relief on assets that are not eligible for APR. These include agricultural machinery and certain farming buildings, as well as non-farm business assets. BPR is claimed by around 40% of APR claimants, so bringing those cla bringin0.5 bat are se .7 (are e sb)0..5 me-1 43-rmx-f.5 (f)0ebringin0.allow

We would expect the 50% of farms that are owner-occupied to largely follow this ‘family ownership’ model too.

There will be other partnership structures, and multi-ownership might be more common in larger farms. Large farms employ an average five labour units each, which could conceivably be indicative of some multi-ownership, but is more likely to tell us that large farms typically have a small number of employees.

For the Government’s initial assertion that only 27% of farms will be impacted by the measure to be true, requires 2.8 owners per farm. We are not aware of any evidence that supports such a high number. While we have chosen central estimates for each of the three components in Figure 2, this result is robust to taking a more conservative view. For example, halving the impact of the three factors, would still require an average of close to 2 owners per farm, which is not supported by the data.

Figure 2: Assessing the Treasury’s underestimate of the proportion of working farms valued at more than £1 million

Source: Analysis using data and information from HMRC, Defra, Savills, Knight-Frank, ONS and Advani et al (2024).

Farms’ profitability and their ability to pay the IHT bill

Even with the Government’s proposed ten-

Annex A: Number of affected farms

The BPR restriction is effectively a lowering of the £1 million threshold and that is how it is modelled. The number of additional farms impacted as a result again relies on Defra net worth statistics.

Each component's estimate uses the best available public data that we are aware of and assumptions that we believe are reasonable and central. Therefore, while the precise estimates are subject to considerable uncertainty, the direction and broad magnitude of the three main results are robust. The proportion of impacted commercial family farms is higher than the Government's initial claim that 27% of farms would be affected, fiscal drag will lead to more farms impacted by the time the measure is in effect and over time, and the concurrent BPR changes make the measure more restrictive than is implied by looking only at APR claims. Interactions between these factors would be likely to push the number of farms affected somewhat higher still.