Rural Newsletter

Summer 2025

New Tax Pressure on Farms and Business Owners: Planning amid Uncertainty

In her inaugural Autumn Budget in 2024, Chancellor Rachel Reeves announced proposals for somewhat drastic reforms to Agricultural Property Relief (APR) and Business Property Relief (BPR) under Inheritance Tax (IHT). Currently, BPR offers up to 100% relief from IHT on qualifying business assets, while APR can provide up to 100% relief on eligible agricultural land and property.

From April 2026, the government plans to cap 100% relief for the combined value of these reliefs at £1 million per estate, with any qualifying assets above this threshold receiving only 50% relief, potentially resulting in a 20% tax charge on the excess.

The proposed reforms have sparked serious concerns among farmers, landowners and business owners who need to rapidly prepare for a potentially significant increase in their future tax liabilities, but noting the Government is still consulting on this.

At the heart of these changes is a fundamental shift in how wealth tied up in land and business is treated for IHT purposes. APR and BPR have long reflected the unique nature of farming and trading businesses, and many warn that restricting these reliefs could lead to tax liabilities at the point of succession or when there is an untimely family tragedy or death. For many, the proposed reforms could have far-reaching implications for business continuity, financial stability and legacy preservation.

IDENTIFYING AT-RISK GROUPS

The proposed reforms target two distinct, but often overlapping, groups: agricultural property owners and business proprietors and shareholders. Farmers, landowners and diversified rural enterprises face the possibility of the new tax on assets such as farm buildings, structures and houses, as well as land, equipment and non-agricultural business activities. In the business sector, owners and shareholders of privately held companies may see relief on unquoted shares, buildings, machinery and partnership interests reduced.

UNPACKING THE IMPACT OF THE PROPOSED REFORMS

Many of those affected have structured their estates around the current reliefs for the last 30 to 40 years but the rules may now be drastically changed with less than an 18 month notice period.

A key question now is how future tax liabilities would be met without having to release capital through the sale of property or other assets. The potential increase in IHT could disrupt long-term estate planning and place added pressure on businesses, employers and beneficiaries to fund a tax bill without access to sufficient liquid assets. The new cap could see the sale of generationally held businesses, land and infrastructure, restructuring of businesses, or forced diversification and significant restructuring costs.

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While such measures may be viable for some, an ageing population has limited time to respond to the new tax burden given the speed of implementation.

MOUNTING CONCERN FROM RURAL AND BUSINESS LEADERS

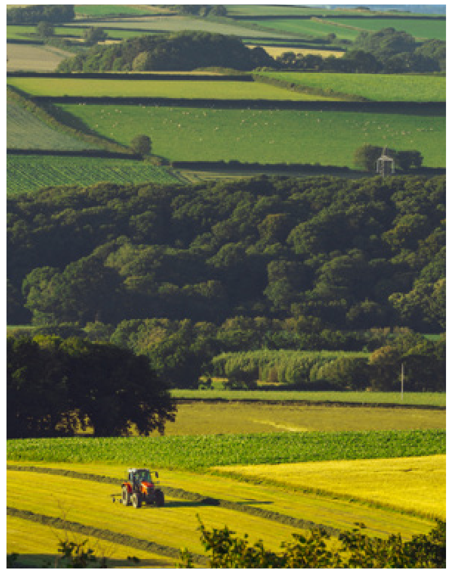
The proposal has provoked a strong reaction from multiple sectors. While the government has suggested that most estates will remain unaffected, many quite rightly argue the impact will be far more wide-reaching than anticipated. Farmers' unions, rural groups, businesses and professional experts have been actively lobbying the government against these changes, warning they could destabilise generational businesses, stifle investment, harm food security, force asset sales, and disrupt economies.

The proposal comes at a time of global and national economic volatility and rising costs, as well as climate uncertainties and profit challenges in the agricultural community. Some lobby groups have suggested alternative solutions, such as removing CGT rebasing on death, clawbacks and gradual relief, to ease the financial impact on farms and businesses while still raising public funds and countering tax avoidance. The government has yet to respond or publish specific legislation, and while the outcome remains to be seen, it's clear that longstanding tax reliefs are now under scrutiny.

TAKING CONTROL IN UNCERTAIN TIMES

With these reforms scheduled for April 2026, affected individuals have a window of opportunity to assess and, if necessary, restructure their estates. Reviewing asset holdings and exploring alternative planning strategies is appropriate and proactive, informed action is essential to protect complex business structures and support resilient generational transfers.

At WR Partners, we help our clients in the agricultural and business sectors prepare for change. Our specialist tax planning team can guide you through the proposed reforms, keep you informed of the latest developments, and identify effective, tailored strategies for your estate or business. If you're concerned about how these potential reforms could impact you, we encourage you to speak to one of our friendly and experienced advisers as soon as possible.



Act now and plan your Trust Distributions Ahead of April 2026

With reforms to inheritance tax (IHT) Business Property Relief (BPR) and Agricultural Property Relief (APR) due to take effect from 6 April 2026, trustees of certain trust's holding qualifying assets should act now to review their options — particularly whether capital appointments to beneficiaries should be brought forward to pre-date the new restrictions.

The proposed changes will introduce limits on the IHT relief available, including a £1 million cap on BPR/APR available at 100%, and a 50% rate of relief on excess value above £1m, as well as anti-fragmentation rules for relevant property settled across multiple trusts. Crucially, trust-held assets will be caught by the new regime even if settled before the legislation comes into force, once the trust hits its next 10-year anniversary after 6 April 2026.

WHY CAPITAL APPOINTMENTS BEFORE APRIL 2026 MIGHT BE BENEFICIAL

Currently, capital appointments of qualifying business or agricultural property from trusts can attract BPR/APR in full, meaning no exit charge arises for inheritance tax (IHT) purposes.

At a high level, from 6 April 2026, trustees making appointments will face:

- £1 million cap on the amount of trust property eligible for 100% BPR/APR
- Only 50% relief on the value exceeding that cap.
- Anti-fragmentation rules, which aggregate relief across multiple trusts to stop circumvention of the cap.
- Removal of full relief on trust property from the next 10-year anniversary after 6 April 2026 — even if the trust was set up before 30 October 2024 when the changes were announced.

In short, an appointment made before April 2026 could avoid these restrictions entirely.

STRATEGIC BENEFITS OF EARLY APPOINTMENTS

Appointing qualifying assets out of trust before the reforms take effect could:

- Secure full BPR/APR at 100% on the value of the assets, avoiding the future cap and reduced relief.
- Avoid exposure to capped relief on 10-year anniversary charges that will apply under the new rules.
- Simplify trust structures where retention of the assets is no longer needed or appropriate.

However, as is always the case, tax-savings must be considered in light of the other ongoing benefits provided by the trust structure:

- **Asset protection –** Trusts shield assets from beneficiaries' creditors, divorces, and financial mismanagement.
- **Control and flexibility –** Trustees can manage when and how beneficiaries receive value.
- **Some BPR/APR still available –** Relief is restricted post-2026, but not removed entirely.
- **Future planning flexibility –** Retaining assets keeps options open for later restructuring or legislative change.

IMPORTANT WARNING – THE 7-YEAR RULE STILL APPLIES

While early capital appointments may reduce trust IHT exposure, trustees must also consider the settlor's position. If the settlor dies within 7 years of having made the initial gift into trust, the value of that gift becomes chargeable to IHT on death.

If BPR or APR applied at the time of the original transfer to the trust, but are no longer available at the date of the settlor's death, for example, because the assets have been appointed to beneficiaries and no longer qualify then the relief can be clawed back against the settlor's estate. This could result in an unexpected and potentially large IHT liability on the failed gift.

Practical tip: Where the settlor is still alive and within the 7-year window, trustees should seek advice on whether retaining qualifying assets in the trust may provide a safer outcome, or whether other planning (e.g. life insurance) should be considered to mitigate the potential exposure.

FINAL THOUGHTS

For trustees of certain existing trusts, especially those established before 30 October 2024, there is a limited planning window to make tax-efficient appointments before BPR/APR is capped and restricted. Even long-standing trusts may be caught once they reach their next 10-year anniversary on or after 6 April 2026.

Taking action now could significantly improve long-term outcomes, but it's essential to weigh the benefits of early distribution against both the tax and non-tax benefits provided by trust structure, and the risk of clawback if the settlor dies within 7 years of the original gift.

As is always the case, the right answer will depend each trust's individual circumstances. For this reason, it is important to seek tailored advice before making any distributions or undertaking structural changes to avoid unintended, and potentially expensive, consequences.

FHL Reform: No Relief for Holiday Let Landlords

In April 2025, the UK government abolished the tax regime on Furnished Holiday Lets (FHL), removing specific tax advantages previously enjoyed by FHL landlords. Taxation on these properties will now be aligned with other residential and commercial property rentals.

The reform was proposed by former Chancellor Jeremy Hunt in his Spring Budget of 2024. He labelled the FHL tax regime a "distortionary" system that had a negative impact on the property market, particularly in limiting long-term rental availability for local residents. Despite opposition from industry bodies, the new government has implemented the changes to simplify the tax system on rented accommodation and align the tax treatment in the property sector.

A furnished holiday let in the UK is defined as a property that is available to the public for short-term stays over a 12 month period for at least 210 days of the year and is actually let for 105 days or more.

Any days that an owner, friends or family spend in the property, for free or at a discounted rate, did not count towards these requirements.

If occupied for more than 31 days by the same person/people, there must not have been more than 155 days of these longer lettings across the year

The new tax rules also apply if you, your company or trust have a holiday let mortgage or other financial arrangement secured against the property, whether you are running a qualifying FHL business or selling a property that was previously classed as one.

WHAT FHL LANDLORDS NEED TO KNOW

Previously, as a landlord of a furnished holiday let, you could access several tax benefits. Financial costs, such as mortgage interest, could be fully deducted from your income to help reduce taxable profits, and you were entitled to capital allowances on the cost of refurbishing and furnishing the property. Pension contributions also qualified for certain tax advantages, and Capital Gains Tax relief was available when gifting or selling the property.

On 6th April 2025, these benefits were withdrawn aligning the taxation of furnished holiday lettings with all other types of rental properties.

INCOME

Rental income from FHLs will now be taxed under the same rules as other property rental businesses. Full mortgage interest relief has been removed and is now restricted to the basic rate of income tax (20%).

If FHL business had losses on 5 April 2025, these losses will be pooled with other residential losses, if relevant. If the other residential property had no losses, the losses will be set against the first available profits of the 'property business', which will include all residential lets.

CAPITAL ALLOWANCES

FHL landlords can no longer claim capital allowances on fixtures, furniture, furnishings or hot tubs. However, Replacement of Domestic Items Relief is still available to help cover the cost of replacing items in your property.

CAPITAL GAINS TAX RELIEF

Reliefs such as Business Asset Disposal Relief, Rollover Relief and Gift/Holdover Relief are no longer available when selling or gifting a furnished holiday let. Instead, the standard Capital Gains Tax rules will apply should you decide to sell or gift your property.

INHERITANCE TAX RELIEF

A standalone FHL will not qualify for Business Property Relief and will therefore be fully chargeable to Inheritance Tax (IHT). This has been the subject of numerous tax tribunals in recent years, with HMRC winning the vast majority of cases.

FHLs run as part of a larger business, such as hospitality or farming, may qualify for IHT relief. This is a particularly complex area and requires specialist advice.

PENSION CONTRIBUTIONS

Income from furnished holiday lets is no longer considered relevant UK earnings when calculating your maximum pension contribution relief. If you're paying into a pension, it's worth checking how the change might affect your allowance.

VALUE ADDED TAX (VAT)

Despite the government's announcement to abolish the FHL tax regime from April 2025, this did not include any VAT changes to the treatment of income. Income from holiday accommodation is standard rated and an owner will be subject to compulsory registration if his or her total taxable supplies for VAT purposes exceed the VAT registration threshold. A consequence of this is that many owners endeavour to keep their income from FHLs below the VAT threshold.

Whilst the letting of holiday accommodation is standard rated, the letting of a property during the off season could still be exempt. VAT Notice 709/3 explains at para. 5.6 that if you let your holiday accommodation during the off season, you may treat your supply as exempt from VAT provided:

- it is let to a person as residential accommodation
- it is let for more than 28 days and
- holiday trade in the area is clearly seasonal.

THE POTENTIAL IMPACT ON YOUR TAX BILL

For basic-rate income taxpayers, there may be no change to the amount of income tax you pay. However, for higher rate income tax payers this will change and the capital taxes regime fundamentally shifts with these changes.

While this new reform aims to simplify the tax system, it will lead to higher tax bills, whether you let out a single holiday home or manage a larger portfolio of short-term rentals. It's important to review how these changes might affect you, both now and in the future. We are here to help you navigate these changes and plan accordingly. Get in touch today to find out how you could be impacted and explore the best way forward.

Business Asset Disposal Relief

From 6 April 2025, the generous 10% capital gains tax (CGT) rate applying to Business Asset Disposal Relief (BADR) is no longer available.

Following on from the announcement in the 2024 Autumn Budget, BADR is now being tapered to bring it in line with adjusted CGT rates, significantly impacting the effective tax rate on qualifying disposals of shares and other qualifying business assets. For business owners planning an exit, this change could materially increase the tax cost of selling a business.

WHAT HAS CHANGED?

Under the old rules, qualifying disposals of shares or business assets attracted a 10% CGT rate (up to a £1 million lifetime limit on qualifying gains), provided certain conditions were met. This was in line with what was then the lower rate of Capital Gains Tax, otherwise reserved for lower-rate taxpayers.

The 2024 Autumn Budget announced that the standard rates of CGT (10% for basic rate taxpayers and 20% for higher rate payers), would be increased to 18% and 24% respectively to bring them in-line with the rates previously applying only to disposals of residential property. At the same time, it was announced that the rate of BADR would also rise accordingly.

However, perhaps to ease the blow, provisions were also announced to bring the 10% BADR rate in line with 18% gradually.

As of 6 April 2025, the rate of BADR is subject to transitional provisions:

- Disposals taking place from 6 April 2025 will benefit from BADR at 14%
- From 6 April 2026, this will rise in line with the standard rate of CGT to 18%

ANTI-FORESTALLING RULES ARE IN EFFECT

For disposals around the transition date, anti-forestalling provisions are already in force. These target arrangements designed to lock in the old 10% rate before the rules changed.

This means:

- Contracts for sale signed before 6 April 2025 but completed after may be re-tested under the new rules, unless the disposal is considered commercially motivated and not primarily tax-driven.
- HMRC has made clear it will scrutinise pre-April transactions where completion was deferred or conditions were added that delay finalisation.

KEY POINTS FOR BUSINESS OWNERS AND ADVISORS

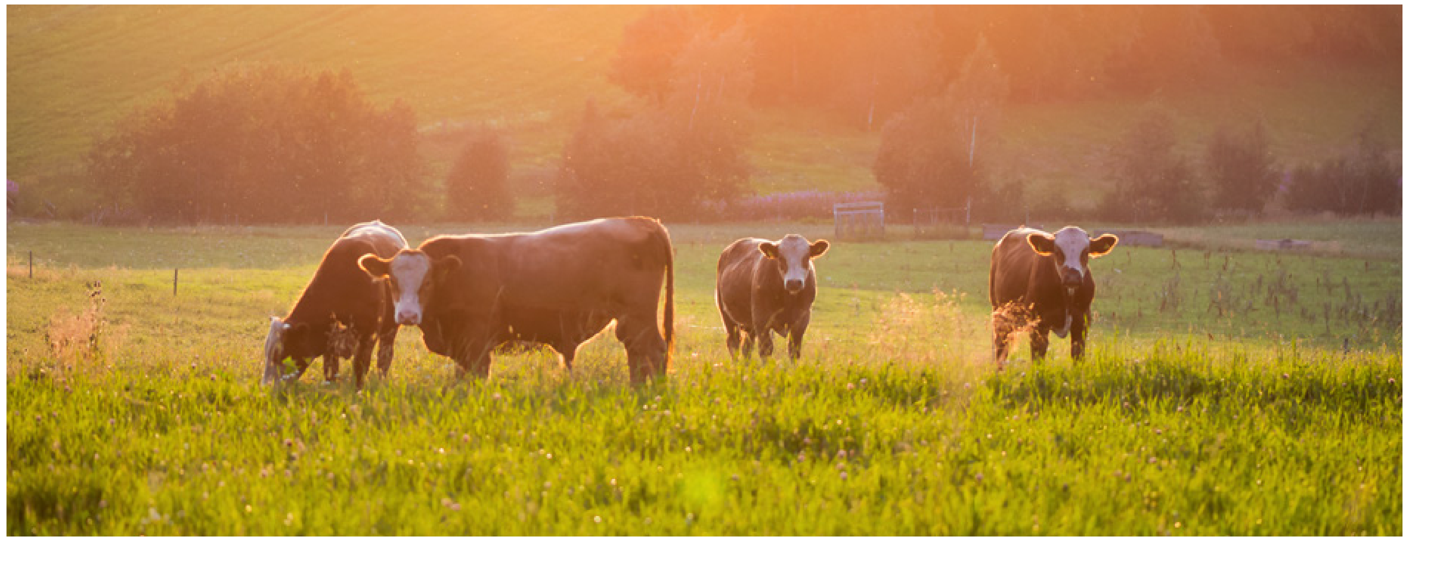
1. Review Any Recent or Upcoming Disposals: If a transaction took place around the April 2025 transition, it's essential to review whether anti-forestalling rules could apply — and whether the desired CGT treatment will apply.
2. Understand Your Effective Rate: The changes mean your CGT rate could end up falling anywhere between 10% and 18%, depending on exchange of contracts and completion date.
3. Qualifying Criteria Still Apply: The previous requirements to qualify for relief – material disposal of qualifying business assets and two years of ownership as standard - still form the baseline for eligibility, regardless of the changes to the relief available.
4. Tax Planning Just Got More Complex: For those considering an exit in the next few years, the timing and structure of any disposal may now have a bigger impact on the tax outcome than before.

FINAL THOUGHTS

It was only five years ago, in March 2020, that business owners faced the initial blow of the BADR lifetime allowance being reduced from £10 million to £1 million. The reduction in available relief now coming into force presents additional adversity.

For founders, business owners and shareholders in trading companies, these changes raise the stakes for exit planning.

If you're uncertain about how these changes affect you or your clients, now is the time to review current plans and seek advice. A missed detail could mean a much higher tax bill than expected.



Inheritance Tax, Business Property Relief and the Balfour Matrix

The recently announced Inheritance Tax (IHT) reforms will overhaul Agricultural Property Relief (APR) and Business Property Relief (BPR), resulting in potentially significant tax liabilities for the next generation of heirs (subject to consultation).

Estates can currently claim up unlimited 100% relief on qualifying APR and BPR assets, but the government plans to introduce a combined cap for APR and BPR at £1 million from April 2026 for assets qualifying for 100% relief. Anything above this threshold will only receive 50% relief.

For those with substantial business assets or AIM-listed holdings, the changes will undoubtedly impact intergenerational wealth transfer.

Despite the changing times, the Balfour Matrix remains a highly effective and strategic tool for mitigating IHT exposure.

The Balfour Matrix is a structured framework used to assess whether an interest in a business may qualify for BPR under IHT rules. The landmark Balfour Case established that businesses primarily engaged in trading activities, rather than investment holdings, could benefit from this relief.

It is imperative that business owners with diversified activities consisting of trading activities, rental properties, investments and passive income streams reassess and possibly restructure their assets into a trading business model.

WHAT YOU NEED TO KNOW:

- The £1 million cap on 100% APR and BPR assets comes into force in April 2026, limiting tax relief for business owners.
- Qualifying assets over £1 million will only receive 50% relief.
- Business Owners, Executors of Estates and their Advisors will be likely to face greater scrutiny when claiming APR and BPR and valuing interests in such assets.
- IHT reforms may increase the trading threshold for BPR, making it harder to qualify.
- The Balfour Matrix assesses your eligibility for BPR and could help in identifying areas of risk or opportunity.

While the final reforms have yet to be determined, it is clear that the relief regime is becoming more restrictive under this government. With less than a year to go until the changes may potentially be implemented, now is the time to review your estate. The Balfour Matrix may highlight innovative ways to minimise future tax liabilities.

We are here to help business owners and shareholders for advice on this matter. With careful, timely planning and the right guidance, businesses may still be passed down efficiently with reduced tax risk and tax implications.

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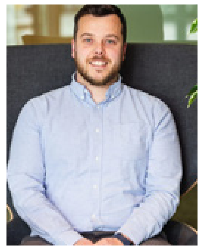

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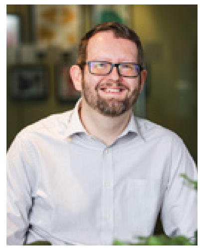

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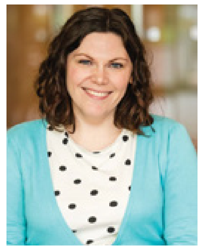

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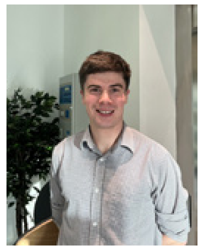

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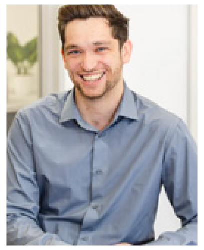

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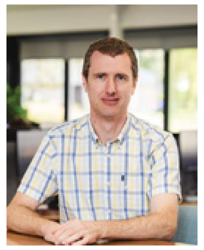

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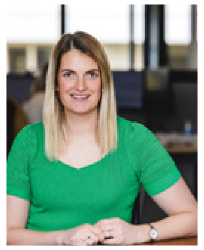

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Arable Show	**Wednesday 18th June 2025**
Newport Show	**Saturday 12th July 2025**
Royal Welsh Show	**Wednesday 23rd July 2025**
Oswestry Show	**Saturday 2nd August 2025**
Burwarton Show	**Thursday 7th August 2025**
Minsterley Show	**Saturday 16th August 2025**
Berriew Show	**Saturday 23rd August 2025**

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