



DRAFT FINANCE BILL 2025/26 LEGISLATION: REFORMS TO AGRICULTURAL AND BUSINESS PROPERTY RELIEFS

Issued 15 September 2025

ICAEW welcomes the opportunity to comment on the draft legislation regarding the reforms to agricultural property relief (APR) and business property relief (BPR), published by HMRC on 21 July 2025, a copy of which is available from this [link](#).

ICAEW is very disappointed that only one change, to uplift the £1 million allowance by inflation for 2030, has been made since the consultation period earlier in 2025. The government's consultation response has given little regard to the legitimate concerns ICAEW raised about the practical aspects of the proposals, such as the lack of transferability between spouses, and how estates will fund the unanticipated IHT liabilities that will arise after 5 April 2026.

We urge the government to revisit our proposals.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)1908 248 250 F +44 (0)20 7920 0547 [icaew.com](https://www.icaew.com)

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

This response of 15 September 2025 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, ICAEW's Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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For more information, please contact: Tax – taxfac@icaew.com

KEY POINTS

1. ICAEW is **extremely disappointed that the government's only concession has been to provide for the £1m 100% allowance to be uplifted for inflation from 6 April 2030.**
2. Business owners have planned their finances and ownership structures for decades on the provision that they would be entitled to full BPR and/or APR on their deaths. Those who are elderly, of limited life expectancy, or who lack legal capacity to change their Wills or make lifetime gifts (and cannot hope to survive seven years for gifts to be exempt from inheritance tax (IHT)) will be unduly penalised.
3. For the reasons we outline at paragraph 17, the £1m 100% allowance should be transferable between spouses.
4. Estates with farming and business assets must be able to pay the IHT due without having to sell off essential assets. If key assets have to be disposed of, many farms or businesses will become unviable and unprofitable, potentially jeopardising jobs. Any decline in farming may threaten the UK's food security. As the legislation stands, in order to pay an estate's IHT liability, executors will suffer double taxation if they have to pay income tax (currently up to 45%) or capital gains tax (currently up to 28%) on the disposal of assets when extracting funds from companies.
5. ICAEW considers that many businesses and farms are likely to be worth more than £1m. Consequently, if the government wishes to meet its own estimates that 75% of estates will be no worse off, the threshold needs to be increased.
6. In the light of the comments above, we urge the government to urgently reconsider its policies.

Background

7. At the Autumn Budget on 30 October 2024, the government announced it would be introducing restrictions to two IHT reliefs, APR and BPR from 6 April 2026 and published a [summary](#) of the changes.
8. The changes that were proposed in 2024 can be summarised as follows:
 - a. A £1m cap per individual on the combined amount of APR and BPR that can be claimed on qualifying assets. 50% relief will be available on the value of those assets that exceed £1m. These reliefs were hitherto uncapped. The £1m refreshes every seven years.
 - b. If any part of the £1m is unused on the death of the first spouse, the balance will not be transferable to their surviving spouse. In contrast, the nil rate band (currently £325,000) and the residence nil rate band (£175,000) are both transferable to a surviving spouse.
 - c. A reduction in the rate of BPR available on publicly traded but unlisted shares (eg, AIM shares) from 100% to 50%. The £1m cap will not apply to these shares.
 - d. The £1m APR/BPR cap will also apply to each relevant property trust created before 30 October 2024. There will be an anti-avoidance rule that prevents multiple trusts being formed on or after that date in order to circumvent the £1m cap per trust.
 - e. Assets in excluded property trusts, (ie, a trust that was established by a non-UK domiciled settlor and which holds non-UK assets), will become liable to IHT.
 - f. IHT can be paid by 10 equal annual instalments, free of interest, on all assets that are eligible for APR or BPR.
9. HMRC issued a detailed [consultation](#) on 27 February 2025.
10. ICAEW's response of 23 April 2025, ICAEW REP 30/25, can be accessed [here](#).
11. We would also highlight some notable publications/submissions:

- a. the House of Commons' May 2025 [research briefing](#) on the proposed changes to APR and BPR.
 - b. *The Government's Vision for Farming* [report](#), issued by the Environment, Food and Rural Affairs Committee in May 2025. The IHT reforms are covered at Chapter 3 and suggest alternative solutions.
12. On 21 July 2025, HMRC published:
- A summary of the 122 [consultation responses](#).
 - A [policy paper](#).
 - [Draft legislation](#) that will be included in the future Finance Bill 2025-26. The only notable change from the original consultation proposals is a provision for the £1m to be uplifted for inflation from April 2030.

General comments

13. In our April 2025 [consultation response](#), we stated:
- a. That the £1m allowance should be transferable between spouses on death, as the nil rate band (NRB) and residence nil rate band (RNRB) are. A lack of transferability adds complexity and cost to ownership structures.
 - b. that we had concerns about whether an APR/BPR allowance of £1m would be sufficient to exempt 75% of estates, if that is the government's intended policy
 - c. That the £1m allowance should be increased in line with CPI.
 - d. That to assist the elderly, or those in poor health, who lack the legal capacity to amend their Wills or to make lifetime gifts, there should be a tapering of the value of lifetime gifts made between 30 October 2024 and 5 April 2026, where death occurs within seven years of the gift.
 - e. Proposed that APR/BPR be targeted at active farmers and business owners, rather than passive landowners and investors.
 - f. That the personal representatives of a deceased estate should be able to choose how the £1m allowance is allocated against gifts of farming and business assets in the seven years prior to death. Otherwise, the rate of tapering of IHT on earlier gifts in excess of the nil rate band will be diluted.
 - g. That the legislation should be clear on how long an IHT valuation is valid for, in order to minimise the cost of professional valuations and HMRC enquiries.
 - h. That s112, IHTA 1984 should be amended so that cash retained by a business should not be an excepted asset for BPR purposes, where this cash is intended to fund a dividend, or a company purchase of own shares, to enable a deceased shareholders' estate to pay the IHT.
 - i. That the government should clarify what is meant by 'undue hardship' for instalment purposes in s228(1)(c), Inheritance Tax Act 1984 (IHTA 1984).
 - j. That the company purchase of own share rules, which can only currently be used to raise funds to pay IHT within two years of a death and only by individuals, should be extended:
 - I. To payments of IHT made in 10 annual instalments following a death (as offered by the government) for APR- and BPR-eligible assets
 - II. To payments of IHT on APR- and BPR-eligible assets due from trustees on trust 10-year and exit charges.

- III. To include a one-off advance clearance procedure that applies to multiple purchases of own shares in different years, which are made as and when the company has sufficient distributable reserves, in order to fund the 10 annual instalments due from the same estate.
14. As an attendee at HMRC's APR/BPR forum, ICAEW was advised by HMRC staff to respond to question 1 of the original consultation to raise non-trust comments. The government's response to the consultation has completely ignored the detailed comments provided by ICAEW and other representative bodies, as it considered them to be outside the (deliberately narrow) scope of the consultation.
 15. We are very disappointed that the only meaningful change announced on 21 July 2025 is that the £1m allowance will be uprated in line with CPI from 6 April 2030 (recommendation 1.c. above).
 16. We urge the government to revisit our proposals, particularly the lack of transferability between spouses and to provide some form of transitional relief or tapering for taxpayers who are elderly or with a limited life expectancy. There should also be measures that will facilitate the payment of IHT without estates incurring a double charge to income tax or capital gains tax when they need to extract funds from a business.

SPECIFIC COMMENTS ON THE DRAFT LEGISLATION

Schedule 1 - para 4 – 100% allowance for individuals

17. ICAEW maintains that the £1m 100% allowance should be transferable between spouses, in order to:
 - a. Align it with the nil rate band and residence nil rate band, both of which are transferable to a surviving spouse or civil partner. Such transferability was introduced to avoid the need for complex and costly trust structures.
 - b. Support taxpayers who do not expect to survive seven years in order for any lifetime gifts to be exempt from IHT, and those who lack legal capacity to alter their Wills. These taxpayers drafted their Wills on the expectations that they would get unlimited APR and BPR on eligible assets on their deaths. Their estates will now face unanticipated IHT bills and post-death [deeds of variation](#) can only be made where all beneficiaries of a Will agree to the changes.

Schedule 1 - para 5 – 100% allowance for trusts

18. It would be helpful if the heading of new s124F could read 'trust maximum allowance (post-29 October 2024 settlements)' to differentiate it from s124G.
19. The wording of s124F needs to be rewritten in clear English, as it's almost impossible to follow the layers of terminology.
20. As we understand it, S124F requires a trust's 100% allowance to be based on the lower of:
 - a. the amount of chargeable transfers of value into this trust after 5 April 2026 made by the settlor, where the assets that were settled qualified for APR and/or BPR and used up the settlor's personal 100% allowance (under the new s124D). In other words, however much of the £1m 100% band the settlor uses on the transfer into this trust ('s124D relief claimed by settlor on a transfer into a trust'), becomes the amount of the 100% relief that the same trust can claim against its future periodic or exit charges ('the trust's input allowance').

Or

- b. £1 million minus the 'previous totals of relief claimed by the settlor' (being the total of trust input allowances calculated on previous transfers to this settlement, or to any other settlement after 29 October 2024 which was made by the same settlor). At the trust's first 10 year or exit charge that occurs after 6 April 2026, the amount that a particular trust can claim 100% relief on will be reduced by any s124D claims made by the same settlor on settlements they established after 29 October 2024 (by virtue of schedule 1 para 14(5)).

21. It would have been helpful if the explanatory notes had provided worked examples.

22. It is essential that HMRC provides clear guidance on the mechanics of this section.

Schedule 1 - para 6 – indexation of allowance

23. We welcome the amendment to uplift the £1m allowance by CPI from 6 April 2030.

Schedule 1 - para 7 – application of s131 relief

24. ICAEW welcomes the removal of s131(2A), which is a specific provision for APR and which is no longer needed.

Schedule 1 - para 8 – rate between 10-year anniversaries

25. As noted at paragraph 41 of [ICAEW REP 30/25](#), we consider that a more equitable approach would be for BPR/APR to be included when calculating the rate on all trust exit charges.

Schedule 1 - para 10 – Scottish agricultural leases

26. ICAEW welcomes the amendment to ensure all Scottish leases can qualify for APR.

Schedule 1 - para 13 – temporary relaxation of ownership and occupation conditions

27. ICAEW welcomes this provision, which permits property added to a trust after 30 October 2024 to qualify for APR/BPR if there is an exit charge before 6 April 2026, where the minimum ownership and occupation periods would not be met by the trustees. We are happy that the value transferred into the trust will not reduce the trust's £1m 100% APR/BPR allowance that is available for periodic and exit charges that arise from 6 April 2026 onwards.

Schedule 1 - para 14 – commencement provisions

28. Paragraph 14(6) should reference the new s124G(2) definition of a 'qualifying pre-commencement settlement' that is added by para 5, so that it reads something like:

"Where property is comprised in a qualifying pre-commencement settlement (as defined at s124G(2)) before 30 October 2024."

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see [TAXGUIDE](#)).