NAVIGATING TAX CHANGES

The UK's agricultural sector is facing a seismic shift as the government's planned overhaul of Agricultural Property Relief (APR) and Business Property Relief (BPR) comes into effect in April 2026. These tax changes have raised profound concerns for the many intergenerational farm businesses which operate on razor-thin margins. Industry leaders are questioning how farms will shoulder the additional tax burden without resorting to asset liquidation. An outcome that would weaken Britain's domestic food security and increase its dependence on volatile global supply chains.

In response to these concerns, the Rural Policy Group, in collaboration with law firm Whitehead Monckton, convened a forum of senior agribusiness figures and professional advisers to examine the potential impact of the tax changes and discuss strategic solutions to protect the UK's farming future. The focus of the discussion was clear: ensuring the long-term viability of UK farming while meeting fair fiscal obligations to the Exchequer.

Mark Lumsdon-Taylor, Head of Sustainability ESG at MHA and Rural Policy Group President: "The recent reforms to agricultural property taxation introduce an additional overhead cost to further erode the sector's already constrained margins.

"Policy engagement needs to be underpinned by robust financial analysis, highlighting the sector's vulnerability and the necessity of sustained investment to ensure stability and growth. Without such support, the cumulative pressure of rising costs could pose significant risks to the resilience of the food supply chain".

The Threat to Family Farms

The reduction in APR is expected to accelerate consolidation in an industry already under strain with a rapid series of mergers and acquisitions. It is the survival of smaller family farms, long the backbone of Britain's famed landscapes and rural heritage, which is most at stake. There was palpable frustration among attendees, who felt the policy change disproportionately undervalues the sector's contributions to food security, public health and meeting the government's own environmental sustainability initiatives such as net zero.

However, amidst the uncertainty, there are opportunities. Some industry voices suggested that the tax reforms could serve as a catalyst for earlier succession planning, driving much-needed innovation, efficiency, and restructuring within the sector. The challenge now is how farm businesses adapt strategically to ensure both resilience and continuity.

Establish a Clear Valuation

For many farms, property and asset valuations have not been updated for decades due to the previous stability of agricultural property tax relief. With the upcoming changes, obtaining an up-to-date valuation is now critical for assessing the business's potential tax exposure. Arranging a valuation with a land agent should be the first step in reviewing estate and business plans.

One of the key challenges for HMRC will be determining which assets form part of a deceased's taxable estate versus those held in separate legal entities. Given the complex nature of agricultural holdings and HMRC's limited resources, these assessments could take years to resolve, potentially leading to prolonged legal challenges. While difficult for those involved, these cases will provide valuable precedents for the wider industry, helping farm businesses refine their estate planning strategies.

Strategies for Farm Business Resilience

Fair value in the supply chain: farm businesses are often price takers in the food value chain. The additional tax burden is an unaffordable increase in overhead costs which will further erode margins, making it essential that primary producers work collectively to ensure the true costs of food production are reflected in farm-gate prices.

Overseas relocation: some larger agribusinesses are considering restructuring operations to move production overseas, where tax regimes and workforce availability may be more favourable to efficient and fairly-rewarded farming. One industry leader remarked that the UK is becoming increasingly inhospitable for profitable farming, prompting serious discussions about relocating production sites and importing food back into the UK.

Farm collectives and mergers: consolidation will be a defining feature of agriculture over the next 30 years as smaller farms are absorbed into larger corporate entities. Alternatively, more farms may explore informal collectives. Shared ownership of high-cost machinery offers potential efficiencies by taking value out of individual businesses and offsetting the risk of investment in the context of declining returns.
However, businesses heavily invested in government schemes such as the Sustainable Farming Initiative (SFI), must be clear on the terms and conditions of the schemes, as payments may not be able to be moved across the fence line. In these circumstances, it would be important to consider which course of action best serves the business.
Reassessing SFI participation: some SFI schemes offer limited financial returns, exacerbating the "asset-rich, cash-poor" dilemma many farm businesses face. Given the tax implications of changes to APR and BPR, businesses should critically assess whether participating in these schemes aligns with their long-term financial sustainability.

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.Investment Strategies
The introduction of inheritance tax on agricultural land, buildings, and machinery presents a significant disincentive to investment. Investing in appreciating assets that do not directly enhance cash flow could lead to increased tax liabilities without the corresponding liquidity to cover them. Future investment strategies must prioritise generating cash returns rather than simply expanding asset value.

As one industry figure put it, "No more buying the neighbour's field unless it can generate cash".

Capital expenditure plans across the sector are already being reconsidered. The risk is that reduced investment will stifle efficiency gains, slow progress toward net-zero targets, and widen the competitive gap between UK agriculture and its international counterparts.

Tax Mitigation Strategies
Review business structures: many businesses will explore spreading asset values across corporate structures, including holding companies and multiple ownerships, to distribute asset values across different entities and individuals. While some see this as a necessary evolution, others predict a shift toward incorporation of smaller units rather than traditional farm partnerships.

Trusts: placing assets into trust could provide tax benefits but must be balanced against the need for leadership and control within the business.

Granting long-term tenancies: this strategy could help devalue assets, making them less attractive for taxation purposes.

Exploring APR and BPR interoperability: ensuring businesses leverage all available inheritance tax reliefs effectively.

Earlier ownership transfers and gifting: the seven-year rule on gifting offers a route to reduce IHT liabilities, encouraging earlier succession planning and promoting efficiency, innovation, and generational continuity. However, uptake requires a shift in mindset and feeling confident in the in the next generation taking on the farm at a younger age. A healthy retirement is uncommon in the farming community and would be a significant cultural shift.

Structuring shareholdings: in many cases shares in a family business hold no external value can reinforce family control while mitigating tax exposure.

Paying the Tax
Despite best efforts, many farm businesses will still face new tax liabilities and need to diffuse the financial impact.

Life insurance policies: while costly, insurance can provide a buffer against sudden tax liabilities. Older farmers have struggled to obtain coverage and younger farmers have received quotes running to tens of thousands of pounds per year. Even for younger farmers, it is only an option if there is predictable profit in the business to cover the cost of the policy year after year.

Paying in installments: the option to spread tax payments over ten years is available, though it carries risks if cash flow issues arise. Inheritance tax on agricultural property can be paid in interest-free installments, although it has been proposed that interest will be applied at 9% if a payment is missed. Instalment plans could be a risky option for farm businesses at the mercy of the weather and world commodity markets.

Liquidating assets: selling land is an unpalatable yet unavoidable reality for some, reinforcing the need for careful financial planning.

Selling up: some families may decide that the next generation does not wish to farm, making asset liquidation a viable, albeit difficult, choice. One industry voice commented that they don't want their ability to pay the mortgage to be dependent on the weather. Rewards in farming have disincentivised the younger generation and a tax liability will reinforce that decision.

A Note of Caution
Don't act in haste! The full legislative text is expected in July 2025 and will contain a raft of information and technical details that will inform personal estate and business planning. Making significant changes beforehand could be premature and counterproductive. A tax specialist in the room said: "It's bad tax advice to make changes before reading the legislation".

Don't let the tail wag the dog! While tax mitigation is crucial, it should not dictate business strategy. A profitable, sustainable farm operation should be the priority.

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In Conclusion

The APR changes could reshape the agricultural sector, and uncomfortable comparisons were made to the decimation of the mining industry's transformation in the 1980s. For smaller farms, the additional tax burden could be insurmountable. There will be business casualties, and for some individuals, the financial strain and disappointment will be too great to bear.

A higher level of food insecurity and food price inflation is inevitable as agricultural land shifts to more profitable uses, investment slows, and the UK's reliance on imports increases.

The loss of productive land will expose UK consumers to price gouging as international competitors seek to take advantage of our weakened food production capability. In seeking to close a tax loophole, the government has, in effect, placed an additional tax on food and diminished the engine of green economic growth.

However, farmers have always demonstrated resilience. The sector will adapt, even if the farmer of the future becomes more of an asset manager than a traditional grower. The industry must now focus on strategic adaptation to weather the storm ahead.

Register Your Interest in Future RPG Roundtables

Rural Policy Group will be holding a roundtable in late summer to discuss the APR legislation which is due to be published in July.

Register your interest in joining the roundtable in London by emailing: katie@ruralpolicygroup.com

Become an RPG Member

Join the growing community of agrifood professionals to connect with other business leaders, develop professionally with regular briefings and events, gain insight into the changes and challenges in your operating environment and influence the political discourse around food and farming.

You will also have access to advice and guidance from a network of hand-picked professional services practices with a demonstrable commitment to supporting British food businesses.

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