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Inheritance tax (IHT) takes up a disproportionately prominent place in the UK political sphere relative to the number of people it affects. This is particularly apparent in the recent controversies surrounding reforms to Agricultural Property Relief (APR) and Business Property Relief (BPR). These reliefs greatly reduce inheritance tax liabilities for farms and family businesses. The 2024 Autumn Budget triggered opposition from both farming organisations and professional bodies when it introduced proposals to restrict full relief. This resulted in a revised policy announcement in December 2025, wherein, from April 2026, individuals will be able to benefit from 100% relief on up to £2.5 million of agricultural and business assets, with spousal transferability, while assets above the threshold will receive 50% relief. (HM Treasury, 2025, p. 5).

APR and BPR play an economic role, with these reliefs affecting land values, investment incentives and succession planning for farms and businesses, they do not simply reduce tax bills at death. This essay argues that although the 2026 reforms reduce the concentration of relief for the wealthiest estates, they do not fully address the structural tension identified across the literature: the fact that there is a disparity between high and rising land values and the low, volatile incomes generated by farming (Mumford, 2007, p. 569).

What APR and BPR are designed to do

Agricultural Property Relief is applicable to agricultural land and buildings used for farming, and Business Property Relief applies to qualifying trading businesses and business assets. For most of the past thirty years, both reliefs have allowed up to 100% of the qualifying value to be excluded from inheritance tax. This stability has enabled farming families to plan their businesses on the assumption that their assets would not trigger large tax liabilities on death. The Institute of Chartered Accountants emphasises that multi-generational strategies have been formed around this relief (Institute of Chartered Accountants in England and Wales, 2025, p. 2)

The case for reform primarily concerns the concentration of relief. In the 2022/23 tax year, estates claiming over £1 million made up 30% of APR claims but received 80% of the total relief and similar patterns can be observed for BPR (Masala, 2025, p. 11).

The revised policy announced in December 2025 was a drastic change from the original proposal. It ensured that mid-sized family farms could be unaffected by raising the threshold from £1 million to £2.5 million per individual and enabling spousal transferability. A married couple may bequeath assets worth up to £5.65 million tax-free in some instances (HM Treasury, 2025, p. 16).

How inheritance tax relief affects land markets

Although APR and BPR are triggered at death, their effects on the economy are felt throughout life, especially their impact on land values. Economic theory suggests that land value reflects contextual factors such as social development, scarcity, and location, rather than the effort of individual owners. Some classical political economists describe land value as an “unearned increment”, not generated by the landowner, but by the general population (Andelson, 2000, p. 429).

Empirical evidence supports this interpretation. Research for the Wealth Tax Commission shows that 53% of farmland transactions in 2019 included non-farmer purchasers, indicating that agricultural land is increasingly held by “lifestyle buyers”, rather than those engaged in the act of commercial farming (Clarke & Fu, 2020, p. 4).

This fact helps to understand why the value of farmland has increased so sharply, even as farming incomes remain relatively modest. The land is not simply valued for what it produces, but also for its tax benefits, therefore the prices have become detached from economic returns. In this sense, APR and BPR operate as land-market policies- they shape who owns the land and why.

Incentives and capital allocation

APR and BPR affect how wealth is allocated across assets. Because agricultural land benefits from favourable tax treatment, it presents as an attractive investment even when income generated from farming is low. “For English farms, their return on capital employed is under 2%”(Institute of Chartered Accountants in England and Wales, 2025, p. 4), despite the high land values.

When capital is locked into land for tax reasons, it cannot be invested in more productive areas of the economy. This can negatively impact productivity growth and reinforce asset ownership being more integral to wealth accumulation than economic activity.

Equally, the stability of these reliefs has been coupled with long-term planning within farming families. A sudden change to IHT treatment could discourage investment and increase defensive calls for tax minimisation as opposed to business development (*ibid*).

Family farms and liquidity

A central economic issue raised by these reforms is the distinction between wealth and liquidity, with farms often said to be asset-rich but cash-poor. Evidence supports this claim, with a significant portion of UK farms operating on low to negative incomes, which are incredibly volatile, averaging £44,000 per year (*ibid*, p. 13).

IHT is required to be paid in cash. Although payments in instalments are permitted, modelling suggests that this can still be difficult on farm finances. An analysis by Strutt & Parker reveals that for medium to very large farms, IHT instalments could absorb 44-124% of annual profits (Strutt & Parker, 2025, p. 1).

However, independent analysis highlights a key nuance. CenTax uses HMRC income and inheritance tax data to find that 86% of the affected farm estates could pay their IHT with non-farm assets. They estimate that around 40 estates per year would have a residual tax bill exceeding 20% of farm income (Gazmuri-Barket et al., 2025, p. 38).

The 2026 Reforms

The reforms announced in December 2025 greatly reduce the amount of family farms affected by the changes to APR and BPR, addressing the most crucial concerns raised by farming organisations and professional advisers (HM Treasury, 2025).

The reforms achieve their objective. CenTax's estimation is that over 80% of tax raised will be from estates worth over £5 million, with the top 13% paying over half of the total additional tax (Gazmuri-Barket et al., 2025, p. 22).

However, the reforms leave some issues unresolved. They do not explicitly distinguish between active ownership of farmland and passive landholding. Additionally, the lack of in-depth impact assessment or consultation prior to the initial announcement undermined the policy process, leading to intense criticism in parliament and legal backlash (Masala, 2025, p. 20).

Political economy and stability

Other than their immediate fiscal impact, the reforms raise questions about the credibility of policy in asset-heavy sectors. Farming involves long-term investment, low margins, and a reliance on multi-generational planning, with strategies formed decades in advance and based on an expectation of stable tax policies (Institute of Chartered Accountants in England and Wales, 2025, p. 1).

The process through which the reforms were initially announced amplifies these concerns. The parliamentary and legal backlash highlighted a lack of impact assessments or consultation prior to the 2024 Autumn Budget proposal. Taking a political economy perspective, this is important because predictable policymaking is key where assets are neither liquid nor divisible (Masala et al., 2025, p. 1).

The backlash and subsequent increase in the relief threshold can be read as a response to financial concerns and a crisis in policy trust. The implementation of the new threshold acknowledges that previous estimates did not consider mid-sized family farms where land values and income are disproportionate (Institute of Chartered Accountants in England and Wales, 2025, p. 3).

There is an undercurrent of tension between fiscal objectives and the symbolic role of farming in UK political culture. Mumford's sociological analysis of IHT shows that opposition to IHT is often driven by values rather than the actual number of estates affected or empirical evidence (Mumford, 2007, p. 570).

Policy design and economic alternatives

There are many ways in which IHT relief for agriculture could be improved, one of which is to tie relief to active use, like the Republic of Ireland where relief depends on active farming or relevant qualifications (Institute of Chartered Accountants in England and Wales, 2025, p. 2).

Another approach could be to reduce pressure on lower margin farms by addressing liquidity more directly. This could be done through valuation based on earnings rather than market value (Clarke & Fu, 2020, pp. 15-16). Although it would be politically challenging, a clearer differentiation between agricultural and market value could reduce incentives for land hoarding (Andelson, 2000, p. 19).

Conclusion

The reform of APR and BPR illustrates the difficulty of using inheritance tax as an economic policy tool in the field of agriculture. These reliefs affect land markets, investment incentives and succession planning, not just tax implementation at death.

The 2026 reforms are a significant improvement on the original proposals and protect most family farms, partially by reducing the concentration of relief for the wealthiest estates. However, they do not successfully address the disparity between high land values and low farming incomes. Without addressing liquidity constraints and distinguishing between active and passive landholding, IHT reform risks generating more controversy without tending to the root causes of the issue.

A more effective approach would be to consider APR and BPR as cogs in a bigger machine for land and capital allocation, finding a middle ground between fairness and economic prosperity. Exemption is not what ultimately matters to family farms, but a stable system that allows businesses to continue functioning without encouraging unproductive ownership or warping incentives.

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