

## **Family Farms and IHT – Discussion Paper for UK Rural Communities**

Draft discussion paper January, 2025

**Why and how rural communities throughout the United Kingdom should join collectively in support of family-owned farms, with the sole objective of preventing the implementation of the Government’s plans to change inheritance tax relating to such farms.**

### Why Every UK Rural Community Should Act in Unison

The majority of villages and their local rural communities in our country owe their very existence to farming in general and farming families in particular (see Note 1 below).

The viability of farms and their ability to support farmers and all those individuals and small businesses who depend on agriculture, is critical to the economic health of their local communities and villages.

Immediately following the recent budget and its proposed changes to inheritance tax for family farms, there was much comment and expressions of protest from and within the farming community in general, from the NFU, and from a handful of others. Newspapers and broadcast media covered this backlash, all of which resulted in a few weeks of noise. The government weathered that particular squall and has refused to address any of the points raised by all of the aggrieved parties.

Incidentally, at least one County Council has made well-meaning but, in all likelihood ineffectual noises in support of farmers. Devon County Council has “demanded withdrawal of family farm tax” and is writing to the Chancellor of the Exchequer “outlining the detrimental effect on the future of farming in Devon, food security, environmental stewardship and the need to sustain rural communities”.

This is not to say that the NFU and others who believe that the Government is very wrong in its plans, have failed to respond with objective and carefully researched arguments against the government plans. See Note 2 below, which summarises the analysis undertaken by the NFU. However, none of these efforts has been able to gain traction in any way within the mainstream media – newspapers and broadcasters.

It is likely that mainstream media does not see this as a “big” story, almost certainly because they perceive farming and rural communities as relatively insignificant by comparison with other issues of the day. In addition, it should be noted that without a concerted campaign aimed at maintaining an item in the forefront of the news, the news agenda quickly moves on. Consequently, this issue has slipped into the background.

It is also likely that the majority of MPs share this perception - very few with rural constituencies perceive their own farming constituents as carrying any meaningful political weight.

However, if a significant proportion of the UK's rural communities were to combine forces in a communications and lobbying campaign directed at MPs across all parties with rural constituencies, utilising the administrative and research capabilities within the NFU and other legitimately interested parties, then mainstream media will almost certainly sit up and take proper notice. If the media can be made to make this an ongoing story, then rural MPs will ultimately be motivated to get involved and at that stage government can more effectively be lobbied.

Initially, this discussion paper is designed to gauge support from the rural communities in and around the Blackdown Hills. If there is sufficient interest and support, we intend to develop a communications and plan, targeted initially at our local MPs. \

Next step: distribute this paper to a handful of rural communities via their respective Parish Councils, quickly and with a view to a group discussion shortly thereafter.

Membury Parish Council  
January 2025

**Note 1** Information and sources regarding rural communities in the UK:

Information:

Determining the exact number of rural communities in the United Kingdom is challenging due to varying definitions and classifications of what constitutes a “rural community.” However, some data can provide insight:

England: There are over 6,000 rural villages, with more than 4,500 having populations below 5,000.

Scotland: Rural areas comprise 98% of the landmass, with less than 17% of the population residing there.

Wales: Approximately 32.8% of the population lives in rural areas.

Northern Ireland: About 36% of the population resides in rural areas.

These figures highlight the significant rural presence across the UK, though a precise count of rural communities is not readily available.

Sources:

Gov.uk: “rural population and migration”

Gov.uk: “key findings, statistical digest of Rural England”

rsnonline.org.uk: “a rural village services grouping of the Rural Services Network”

Statista.com: “UK urban and rural population 2022/ Statista”

Lordslibrary.parliament.uk: “fact file: The rural economy - House of Lords Library”

Lordslibrary.parliament.uk: “rural communities: issues and support-House of Lords library”

Commonslibrary.parliament.uk: “Depopulation in rural areas - House of Commons library”

Post.parliament.uk: “issues facing rural communities”

Macrotrends.net: “UK rural population 1960 dash 2025/ MacroTrends

ncesc.com: “how many people are rural versus urban in the UK? - Geographic Pedia”

Tradingeconomics.com: “United Kingdom - rural population - 2025 data 2026 Forecast 1960-2023 historical”

Note 2: NFU Report 25.11.24 <https://www.nfuonline.com/updates-and-information/an-impact-analysis-of-apr-reforms-on-commercial-family-farms/>

The NFU has always been clear that the family farm tax must be stopped immediately. We have 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. Here we show the calculations in detail to prove why the Treasury is working off the wrong figures.

The government’s initial claim that only 27% of farms will be affected 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.

The analysis also finds that the majority of medium-sized working farms that will be hit by the liability will not be protected by the ten-year payment window because the resulting payments would still be unmanageably large relative to the economic returns they earn.

Put simply, the majority of farms don’t earn enough money to pay the potential Inheritance Tax Bill without selling off some of their land or business, which in turn makes the farm business unviable.

### **Report summary**

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

- The research finds that rather than the 27% suggested by Government, it is expected that 75% of commercial family farms will be above the £1m threshold.
- This is because once landowner claims on blocks of bare farmland and non-commercial farms are removed from the evidence base used by Government, historical claim values are adjusted to reflect current market conditions and the combined impact of claiming BPR alongside APR is considered, the proportion of farms impacted increases significantly to 75%.
- In addition, the research demonstrates that even if we consider an optimistic £2m threshold before the tax takes effect, for many medium-sized farms inheritance tax bills spread over 10 years would wipe out the majority of their returns, while for many large farms it would reduce returns by a half. At the £1m threshold, which will be the case for some, the tax bill would significantly exceed the average returns of a medium-sized farm and absorb most of a large farm's earnings.
- Looking at sector impacts, the tax charge resulting from a £1m threshold would wipe out returns for an average cereals farm and around half of returns for average dairy farms. Considering typical historic returns on an average cereals farm and factoring in the reduction in direct payments, a farm making a profit of £34k will be hit with ten annual IHT instalments of £53k, over 1.5 times its profits. Even at a £2m threshold the annual tax payments of £33k would equal farm profits.
- This tax would in turn undermine investment and innovation in the sector at the time it is needed most. Farmers need to act now to mitigate the impacts of the announced reduction to direct payments as well as the inflationary impacts of the budget on key inputs such as labour costs and fertiliser. Instead, farm businesses are being forced to divert profits to prepare for significant future IHT bills while any value adding investment will further increase the tax burden. This policy undermines the ability for business to invest in their long-term resilience, competitiveness and their environmental performance.
- The analysis suggests that the majority of estates protected by the £1 million threshold are too small to be viable working farms, and are likely to include a high proportion of landowners letting blocks of bare farmland rather than farmers, whereas the majority of medium sized working farms that will be hit by the liability will not be protected by the ten-year payment window because the resulting payments would still be unmanageably large relative to the economic returns they earn.