

22 January 2025

## Supplementary forecast information release

### Costing of changes to agricultural and business property relief

- 1.1 The OBR is releasing this information following a request for further detail in respect of the costing of changes to agricultural and business property relief, in our October 2024 *Economic and fiscal outlook (EFO)*. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.
- 1.2 This release briefly describes the measure, sets out the data sources and modelling used to estimate the costing, and discusses the main sources of uncertainty around this central estimate, following the OBR's policy costings process.<sup>1</sup> As set out in the *Charter for Budget Responsibility*, the Government is responsible for producing all policy costings. In the case of tax policies the costings are typically produced by HMRC. The OBR's role is to provide independent scrutiny and certification of whether the Government's policy costings are reasonable and central.<sup>2</sup>

#### Policy description

- 1.3 Under current inheritance tax (IHT) rules, agricultural and business property relief (APR and BPR) allow for a full exemption on qualifying agricultural land, business assets, and unlisted shares. From April 2026, a £1 million limit will apply jointly to the value of assets claimed under APR and BPR. Above this threshold, a reduced 50 per cent relief will apply. BPR on shares designated as 'not listed' on the markets of recognised stock exchanges, including the Alternative Investment Market (AIM), will be reduced to 50 per cent and will not count towards the £1 million limit.<sup>3</sup>

#### Data

- 1.4 IHT is levied on the estate of an individual on death. The main source of data for the costing is HMRC administrative data from 2021-22 on the composition of death estates from IHT400 forms completed by executors.<sup>4</sup> This data, the latest available, is used to estimate baseline IHT revenue and model the static impact of changes to thresholds.<sup>5</sup> Analysis by HMRC shows 2021-22 is a representative base year.

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<sup>1</sup> See our *Briefing paper No.6: Policy costings and our forecast*, March 2014.

<sup>2</sup> This means that the full datasets underpinning tax policy costings are generally held by HMRC. Therefore, requests for access to any datasets not available at the sources referenced in this note should be directed to HMRC.

<sup>3</sup> The Government has published more information about the changes. See HM Treasury, *Summary of reforms to agricultural property relief and business property relief*, October 2024 and HM Treasury and Department for Environment, Food and Rural Affairs, *What are the changes to agricultural property relief?*, November 2024.

<sup>4</sup> HMRC publish some IHT data, see HMRC, *Inheritance Tax liabilities statistics: commentary*, July 2024.

<sup>5</sup> The Chancellor has also provided data on historic APR and BPR claims, see Reeves, R., *Treasury Committee oral evidence: Impact and distributional analyses of the reforms to Agricultural Property relief*, [Letter to] Hillier, M., November 2024.

- 1.5 HMRC’s administrative systems do not currently differentiate between types of unlisted shares. To estimate the proportion of BPR claims, in number and value, that relate to shares ‘not listed’ on recognised stock exchanges, HMRC randomly sampled around 300 BPR claims in the administrative data.

## Modelling

### Static costing

- 1.6 The tax base for this measure consists of estates whose IHT liability is affected by the introduction of the £1 million limit or the reduced relief on AIM shares, including estates brought into paying IHT as a result of the changes.
- 1.7 The baseline for the costing is the pre-measures IHT forecast, taken from HMRC’s IHT microsimulation model (Table 1.2). The model estimates the population of estates being passed on using the IHT administrative data from 2021-22 mentioned above, whose number and value are predominantly forecast for future years using ONS population projections, and the equity price, house price and household cash deposit determinants from the OBR’s economic forecast (Table 1.2). The current IHT rules and thresholds are applied to estimate the IHT charge on estates, and therefore IHT revenue.<sup>6</sup>
- 1.8 The static costing of this measure amends the IHT model to incorporate the joint £1 million limit for APR and BPR claims, and applies an effective tax rate of 20 per cent on modelled claims above this threshold. AIM shares are split out based on HMRC’s sampling exercise, also assumed to be taxed at up to this rate. This is compared to the baseline estimate of IHT receipts, and the increase in IHT revenue constitutes the static costing.

### Behavioural response

- 1.9 Individuals have a wide range of tax planning options which could be used to respond to these changes. These are highly uncertain, and have been modelled via two top-down adjustments to the static costing:
- To account for a likely significant increase in the use of spouse exemption by married estates,<sup>7</sup> which account for 25 per cent of static revenue from affected estates, the additional IHT yield from married estates in the static costing has been scaled down using an increasing attrition assumption. This rises from 80 per cent in 2026-27 to 95 per cent at the forecast horizon.
  - To account for other tax planning channels, such as increased asset disposals and greater use of other reliefs and allowances, the additional IHT yield from unmarried estates in the static costing has been scaled down using an increasing attrition assumption, which rises from 5 to 20 per cent at the forecast horizon as individuals

<sup>6</sup> For more information on the OBR’s IHT forecast, see OBR, *Forecast in-depth: Inheritance tax*, April 2024.

<sup>7</sup> In general gifts between spouses are exempt from IHT. Therefore the costing assumes an increase in gifts between spouses of assets ineligible for the full exemption via APR or BPR. This pushes yield from the measure into the medium to long term, at which point the surviving spouse may also be able to benefit from the transfer of any unused nil rate and residence nil rate band.

have more time to restructure their affairs. The top-down approach is in line with other certified IHT costings and reflects the relative lack of academic evidence on the elasticity of IHT receipts to policy changes. Greater use of other reliefs, greater bequests to charity and potentially running down the value of estates are likely to be the main behavioural channels in the medium term.

## Interactions with other measures

1.10 The extension of the freeze to the nil-rate band and residence nil-rate band to 2029-30 has a small upward impact on this costing towards the end of the forecast period. No other measures affect this costing.

Table 1.1: Key parameters

Parameter	Value	Description
<b>IHT tax rates (per cent)</b>		
Standard rate	40	Tax rate on assets not qualifying for any reliefs.
Rate with full exemption	0	Tax rate on assets qualifying for APR and BPR at present, <sup>1</sup> and below the £1 million limit under the measure.
Rate with 50 per cent exemption	20	Tax rate on assets qualifying for APR and BPR above the £1 million limit, or on unlisted shares, under the measure.
<b>Tax base<sup>2</sup></b>		
Affected estates claiming APR only	130	Projected estates claiming APR only in 2026-27.
Affected estates claiming BPR only	1,440	Projected estates claiming BPR only (including on unlisted shares) in 2026-27.
Affected estates claiming APR and BPR	400	Projected estates claiming both APR and BPR in 2026-27.
Proportion of AIM shares in total value of APR and BPR claims (per cent)	13	Finding of HMRC sampling exercise in 2021-22. This equates to 20 per cent of BPR claims by value.
<b>Non-OBR determinants</b>		
ONS principal population projections	-	Number of estates projected in line with deaths in the UK.
<b>Behavioural assumptions (per cent)</b>		
Initial spouse exemption attrition	80-95	Loss of static yield from married estates in 2026-27.
Married estates' share of revenue	25	Average static yield from married estates over forecast.
Initial general attrition assumption	5-20	Loss of static yield from other estates in 2026-27.
Annual increase in attrition (ppts)	+5	Increase in attrition per year.

<sup>1</sup> In some circumstances under current rules, APR and BPR provide a 50 per cent exemption only.

<sup>2</sup> For more detail on average APR and BPR claims, see Reeves, R., Treasury Committee oral evidence: Impact and distributional analyses of the reforms to Agricultural Property relief, [Letter to] Hillier, M., November 2024.

Source: OBR

Table 1.2: OBR determinants used in this costing

	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Pre-measures IHT forecast (£ billion)	8.3	8.6	9.2	10.0	10.7	11.3
Equity prices (FTSE all-share index)	4,537	4,742	4,918	5,092	5,271	5,461
House price index (Jan 2015=100)	149.6	150.9	154.0	158.3	163.0	167.9
Household currency and deposit assets (£ billion)	2,227	2,292	2,361	2,437	2,519	2,607

Note: The difference between the pre-measures and post-measures IHT forecast is the direct effect of measures, such as the changes to APR and BPR, plus the indirect effect of the policy package on determinants that affect the IHT forecast.

Source: OBR

## Final costing

1.11 The central estimate for the costing is an increase in revenue of £0.5 billion by 2029-30, with the behavioural response reducing the static yield by around 35 per cent. There are upside and downside risks to the degree of attrition in the long term, and the yield from this measure is not likely to reach a steady state for at least 20 years. Any increase in gift-giving will increase attrition and reduce receipts after at least a seven-year period, while the potential proliferation of new tax planning strategies will do likewise. More generally, individuals tend to structure their affairs with a view to inheritance planning in their 50s and 60s, which will primarily affect the costing over the longer-term. In the medium term, it is likely to be more difficult for some older individuals to quickly restructure their affairs in response to the measure.

Table 1.3: Costing of changes to agricultural and business property relief

	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Static costing	0.0	0.0	-0.3	-0.7	-0.8	-0.8
Behavioural response	0.0	0.0	0.1	0.2	0.2	0.3
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Spouse exemption	0.0	0.0	0.1	0.1	0.2	0.2
Other attrition	0.0	0.0	0.0	0.0	0.1	0.1
Post-behavioural costing	0.0	0.0	-0.2	-0.5	-0.5	-0.5

Note: This table uses the convention that a negative figure means a reduction in PSNB.

Source: OBR

1.12 This policy costing was assigned a 'high' uncertainty rating.<sup>8</sup> The main driver of uncertainty is the behavioural response to the measure, given the range of options potentially available. This in turn adds uncertainty to the modelling of the behavioural responses. There is moderate uncertainty around the data used in the costing, with an established back series of administrative data for APR and BPR claims but less information on AIM shares.

<sup>8</sup> See the 'Policy costings uncertainty ratings database – October 2024' spreadsheet at OBR, *Policy costings*, November 2024.