Budget 2024

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Budget Shockwaves

The impact of Wednesday's budget could have far reaching implications for our customers and this note is to give the key headlines and initial reactions. Kite Business Consultants will be working with customers and their tax advisers to consider the implications in the coming days and weeks.

The Chancellor framed her budget through the lens of making tough decisions to 'fix the foundations' and 'rebuild Britain' whilst protecting working people. Whatever the political or economic reasons the result is a >£40bn increase in tax and expenditure. The details of the tax policy have exposed a number of controversial issues that will have far reaching impacts on parts of society. As can already be seen the reaction in press and social media the changes to Agriculture support and Inheritance Tax have sent major shockwaves through the countryside.

The Chancellor announced **reforms to Inheritance Tax (IHT)** which included new restrictions on agricultural property relief and business property relief. Initial estimates suggest the changes will see Inheritance Tax begin to be applied on farms with around 40 acres or more depending on location and valuation. These reforms will take place from April 2026 (or lifetime transfers from 30/10/2024) and will see:

1. The 100% rate of relief continuing for the first £1 million of combined agricultural and business assets (in addition to personal or non-business asset allowances)
2. A new, reduced, 50% rate of relief for all business assets thereafter.
3. This means an effective rate of 20% on all qualifying assets over £1m.

The Government will also extend the existing scope of agricultural property relief from 6 April 2025 to land managed under an environmental agreement with, or on behalf of, the UK government, devolved governments, public bodies, local authorities, or approved responsible bodies. Wider Inheritance Tax thresholds will be frozen until April 2030 and from April 2027 the tax will be applied to pension pots.

More broadly for agriculture, The Budget confirms DEFRA's overall budget will increase from £7.3bn in the current year to £7.5bn next year. Of that, **£2.4bn will be specifically assigned to farming** – with **£1.8bn distributed through ELMS**, and a further £60m for the Farming Recovery Fund. That maintains current levels of spending. The other significant item in DEFRA's budget will be a £2.4bn investment in flood resilience over the next two years.

Reacting to the announcements, NFU President Tom Bradshaw said: "This Budget not only threatens family farms but will also make producing food more expensive. This means more cost for farmers who simply cannot absorb it, and it will have to be borne by someone. Farmers are down to the bone and gristle, who is going to carry these costs?"

The initial shock to the announcement is stimulating many reactions and questions:

1. What is the future of multi-generational farming family businesses?
2. What will be the impact on land values, borrowing levels and cost of production in the long term?
3. How will banks/lenders react?
4. Will land markets remain driven by purchasing for IHT relief?
5. Will these changes lead to more affordable land purchase opportunities?
6. Is this an opportunity or concern for tenant farmers?
7. Will we move to a farm ownership model similar to that seen in Denmark?

We are working through the implications to support our customers, avoid any knee-jerk reactions, and take time to work through the risks and opportunities.

Summary of other Budget Announcements

1. **Business rates reform** – The Government has launched a discussion paper on proposed changes to the business rates system and has indicated an increased multiplier on properties with a rateable value of £500,000 and above.

2. **Employers' National Insurance Contributions (NICs) –** The rate of Employers' National Insurance Contributions will rise from 13.8% to 15%. The Secondary Threshold (point at which employers are liable to pay NICs on employee earnings) will also be reduced from £9,100 to £5,000 a year from 6 April 2025, until 6 April 2028, when it will be increased by CPI thereafter.

3. **National Minimum Wage** – The National Living Wage will rise by more than 6.7% from £11.44 to £12.21 an hour from April 2025. Reeves also announced the National Minimum Wage for 18–20-year-olds will also rise from £8.60 to £10.00 an hour. Over time, the Government intends to create a single adult wage rate.

4. **Carbon Border Adjustment Mechanism** – CBAM has been confirmed as progressing from 1 January 2027, which will apply to imports of fertiliser.

5. **Direct Payments** – Details of the phase-out of direct payments to farmers in England were confirmed – with recipients of up to £30,000 set to see 76% of their base amount removed in 2025. This is an acceleration from the 50% cut seen in 2024. All payments above the £30,000 threshold will be cut entirely.

6. **Land Stewardship** - Farmers with expiring HLS or Higher Tier agri-environment agreements this year will be offered an extension to their existing agreement.

7. **Fuel duty** – The government will freeze fuel duty rates for 2025- 26, a tax cut worth £3 billion over 2025-26 which represents a £59 saving for the average car driver. The temporary 5p cut in fuel duty rates will be extended by 12 months and will expire on 22 March 2026. The planned inflation increase for 2025- 26 will also not take place.

8. **Vehicles** - From 1 April 2025 for Corporation Tax, and 6 April 2025 for income tax, double cab pick-up vehicles (DCPUs) will be treated as cars for the purposes of capital allowances, benefits in kind, and some deductions from business profits.

9. **Income tax and NI thresholds** – The Government will not extend the freeze to income tax and National Insurance contributions thresholds. From April 2028, these personal tax thresholds will be uprated in line with inflation.

10. **Capital Gains Tax** – The lower rate will rise from 10% to 18%, and the higher rate will go up from 20% to 24%. These new rates will match the residential property rates, which are not changing.

11. **Pensions** brought back into the inheritance tax net from April 2027