



HM Treasury



HM Revenue
& Customs

Taxation of environmental land management and ecosystem service markets

Government response to the consultation and call for evidence on selected tax issues

March 2024



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Contents

Executive summary	7
Chapter 1 Introduction	8
Chapter 2 Summary of responses to Part 1: Call for evidence on the taxation of ecosystem service schemes	10
Chapter 3 Summary of responses to Part 2: Consultation on agricultural property relief from inheritance tax and environmental land management	13
Chapter 4 Government response and next steps	19
Annex A List of industry representatives, tax advisors, businesses, groups, and other organisations that responded to the call for evidence and consultation	23
Annex B Illustrative examples to show the effect of the policy design for extending the existing scope of agricultural property relief to environmental land management	26

Executive summary

The government is undertaking the most significant reform of agricultural policy and spending in England in decades to grow and maintain a resilient, productive agriculture sector over the long term and at the same time achieve ambitious targets for the environment and climate. Environmental Land Management Schemes will collectively pay farmers and land managers to deliver, alongside food production, significant and important outcomes for the climate and environment that can only be delivered by farmers and other land managers in the wider countryside. Similar initiatives are also being developed in Scotland, Wales, and Northern Ireland.

The government is also putting in place frameworks to support the development of high-integrity nature markets and support higher levels of private investment in nature.

At Budget 2023, the government published a call for evidence and consultation exploring elements of the tax treatment of environmental land management and ecosystem service markets.

Part 1 of the publication was a call for evidence on the tax treatment of the production and sale of ecosystem service units. Some tax advisors, industry representatives, and the Rock Review of tenant farming in England highlighted a desire to clarify the tax treatment in this area. The aim of this call for evidence was to understand the commercial operations and the areas of uncertainty in respect of taxation.

Part 2 of the publication was a consultation about the scope of agricultural property relief from inheritance tax. Concerns had been raised by some tax advisors and industry representatives that the current scope of agricultural property relief is one potential barrier to some agricultural landowners and farmers making long-term land use change from agricultural to environmental use. Part 2 also sought views on a recommendation in the Rock Review of tenant farming in England to restrict the application of 100 per cent agricultural property relief to longer tenancies of 8 or more years.

Following careful consideration of the responses to the call for evidence and consultation, the government has decided:

- to establish a joint HM Treasury and HMRC working group with industry representatives to identify solutions that provide clarity on the taxation of ecosystem service markets where existing law or guidance may not provide sufficient clarity
- to 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 Administrations, public bodies, local authorities, or approved responsible bodies
- not to restrict agricultural property relief to tenancies of at least 8 years

Chapter 1

Introduction

Environmental land management schemes in the UK

1.1 The government is undertaking the most significant reform of agricultural policy and spending in England in decades as it moves from the EU's Common Agricultural Policy to Environmental Land Management Schemes, designed for the countryside and environment. These reforms are essential to grow and maintain a resilient, productive agriculture sector over the long term and at the same time achieve ambitious targets for the environment and climate.

1.2 Food is still the primary purpose of farming, but farmers also play a crucial role in protecting and enhancing the natural environment. Through the Agricultural Transition in England, schemes are being expanded to pay farmers and land managers to provide environmental goods and services alongside food production. The Department of Environment, Food and Rural Affairs (Defra) published an [update in January 2024](#) providing more information on the Agricultural Transition Plan, including the Sustainable Farming Incentive (SFI), Countryside Stewardship, and Landscape Recovery. Similar initiatives are also being developed in Scotland, Wales, and Northern Ireland.

Ecosystem service markets

1.3 Nature markets enable farmers and land managers to attract private investment to increase the provision of ecosystem services, such as carbon sequestration and biodiversity. High integrity nature markets have a role to play in supporting the delivery of net zero and other environmental goals and targets. There are various ecosystem service markets involving the use of land to generate units related to carbon and other environmental impacts, including units for woodland carbon, peatland restoration, biodiversity, and other ecosystem services.

1.4 The government is also putting in place frameworks to support the development of high-integrity nature markets and support higher levels of private investment in nature. The [Nature Markets Framework](#), published in March 2023, detailed the government's ambition, shared with the devolved nations, to support the scale-up of high-integrity nature markets across the UK.

Consultation and call for evidence

1.5 At Budget 2023, HM Treasury and HM Revenue and Customs (HMRC) launched a [call for evidence and consultation](#) to explore elements of the tax treatment of environmental land management and ecosystem service markets. This consisted of two parts:

1.6 Part 1 was a call for evidence on the tax treatment of the production and sale of ecosystem service units. This aimed to explore commercial operations in the sector and identify any potential areas of uncertainty relating to taxation.

1.7 Part 2 was a consultation on the potential expansion of agricultural property relief from inheritance tax. This sought views on whether the current scope of agricultural property relief is a potential barrier to landowners and farmers making long-term land use change from agricultural to environmental use. The consultation also sought views on a recommendation in the [Rock Review of tenant farming in England](#) to restrict the application of 100 per cent agricultural property relief to longer tenancies of 8 or more years.

1.8 The call for evidence and consultation document was published on 15 March 2023 and closed on 9 June 2023. The government received written submissions from 98 respondents. These included industry representatives, environmental organisations, tax advisors, individual businesses, and individuals. The majority of the submissions received were in response to both Parts, but a significant minority were in response to Part 2 only. Responses varied significantly in detail and did not necessarily respond to every question. HM Treasury and HMRC officials also met with several stakeholders to listen to their views prior to the conclusion of the consultation. The government is grateful to stakeholders who submitted written responses to the consultation and those involved in meetings.

1.9 This document contains a summary of responses to the questions set out in Parts 1 and 2, and the government's response.

Chapter 2

Summary of responses to Part 1: Call for evidence on the taxation of ecosystem service schemes

Introduction

2.1 Part 1 sought views on ecosystem service markets, focusing on the tax treatment and how to provide clarity on key areas of uncertainty.

Summary of responses

Q1: What has been, or would be, the effect of ecosystem service payments on existing business models, such as farming or commercial timber production.

2.2 Respondents recognised that whilst ecosystem service markets are developing, Ecosystem Service Payments (ESPs) encourage more sustainable practices and businesses may refocus to diversify their income streams and supplement falling returns on agriculture. Most responses also cited that landowners were wary of the uncertainty on the tax treatment of ESPs, and this may be a barrier to change.

2.3 Several respondents explained that whether business models move towards ESPs will depend on the economic value of doing so when compared to carrying on the existing income generating activity. The economic value of the existing activity is likely to depend on the productivity of the land. Whilst they expect generation of ESPs to make up a small proportion of the income of farmers and commercial foresters, the degree to which business models shift may depend on the proportion of their land which is productive.

Q2: What are the main areas of uncertainty in the taxation of trading income for income tax and corporation tax in relation to the production and sale of units generated by ecosystem service markets? Please provide evidence and scenarios, including the relative scale of the concern by explaining where decisions have and have not been influenced by the uncertainty of the tax treatment.

2.4 Among many respondents there was agreement that while ecosystem service markets are developing, tax is one of several issues which could increase uncertainty.

2.5 Another key area of uncertainty that respondents reported was on when and how to claim certain reliefs. This was particularly evident in relation to 'stacking' of units, where farmers may use land to generate ecosystem services revenue and rear livestock or could be incentivised to do either. Many respondents reported uncertainty regarding the tax treatment of transactions entered into by sole traders and partnerships, with doubts around when receipts are considered capital or a split of both capital and revenue and then fall within the scope of income tax or capital gains tax.

Q3: Should the tax system account for the timing difference between the upfront and ongoing project costs, with the delay in receiving income generating units – for example, should the tax system provide tax certainty in respect of timing mismatches, which may require an override to the accounting treatment?

2.6 The absence of accounting standards was raised as a key issue, given its potential implications on tax reporting. Respondents were principally concerned with how to classify and measure up-front costs and initial returns from ecosystem services schemes, as well as how to account for maintenance costs and losses. Several responses highlighted this as an area that required improvement but noted a clear preference for tax treatment to follow from accountancy standards.

Q4: How could greater clarity be provided in these areas (e.g. guidance, law changes)?

2.7 There was a consensus amongst respondents that HMRC should issue guidance, including worked examples, to provide clarity on the tax treatment of the production and sale of ecosystem service units.

2.8 Some respondents suggested that changes in the law are also required, or at least could be used to remove doubt from the interpretation of existing legislation. Many of those acknowledged that this is dependent on the outcome of any agreement on the correct accountancy treatment and whether the current legislative framework would permit the application of general provisions such as sideways loss relief (on projects with high upfront costs) and special provisions for agriculture and commercial woodlands to ESP income.

Q5: Are there any other areas of uncertainty in respect of the broader taxation of the production and sale of units generated by ecosystem service markets? Please provide evidence and scenarios, including the relative scale of the concern by explaining where decisions have and have not been influenced by the uncertainty of the tax treatment.

2.9 Many respondents stated long-run versus short-run decisions and incentives were a key, including the robustness of schemes to future changes and the commitment to multi-year schemes, given economic and climate uncertainty. There were concerns that the value of land, assets and units generated from ecosystem services activities could be impacted by investors seeking to profit from new ecosystem service markets.

2.10 Respondents raised long-term uncertainty over reporting obligations which in turn complicate compliance and administration.

Q6: How could greater clarity be provided in these areas (e.g. guidance, law changes)

2.11 A minority of respondents expressed a desire for tax exemptions, carve-outs and expansion of existing reliefs to ecosystem service markets, including averaging relief.

2.12 Many respondents encouraged closer working between HMRC, accountancy bodies and those entering the market to understand the full range of circumstances arising from the schemes on an ongoing basis. The importance of HMRC guidance, with worked examples was further emphasised to combat the lack of clarity on taxation.

2.13 Respondents raised that this is likely to be a dynamically changing picture as the emerging market develops. This is tied to the suggestion by many respondents that the accountancy profession needs an agreed position on the treatment of the different schemes and agreements arising from those.

Chapter 3

Summary of responses to Part 2: Consultation on agricultural property relief from inheritance tax and environmental land management

Introduction

3.1 Part 2 of the consultation sought views on whether the current scope of agricultural property relief is a potential barrier to landowners and farmers making long-term land use change from agricultural to environmental use. The consultation outlined that several factors will affect decisions about how farmers choose to use their land. This includes financial factors related to the alternative sources of income available from different land use and management practices. It also outlined that actions taken by farmers to manage their land in an environmentally sustainable way should not normally have a bearing on the availability of agricultural property relief under the existing rules because the land would still be used for agricultural purposes and relief would continue to apply. The consultation also explained that owner-occupiers may continue to benefit from business property relief under the current rules if the land is still used in the business and the overall business is not one of wholly or mainly making or holding investments.

3.2 Part 2 also sought views on a recommendation in the Rock Review of tenant farming in England to restrict the application of 100 per cent agricultural property relief to longer tenancies of 8 or more years.

Summary of responses

Q1: What are the areas of concern in respect of agricultural property relief and environmental land management? Please provide evidence and scenarios, including the relative scale of the concern by explaining where decisions about land use change have and have not been influenced by the scope of agricultural property relief.

3.3 There was almost unanimous support for the extension of agricultural property relief. Only one response did not support any extension of the relief,

citing concerns about the potential impact on food security if a change to the scope of the relief leads to more land being taken out of agricultural production.

3.4 Most responses described concerns about the potential impact on the availability of agricultural property relief if land is taken out of agricultural production. Responses referred to a lack of understanding of how the current rules applied in these situations and whether relief would continue to apply. However, there was also some acknowledgement that the current scope of agricultural property relief and business property relief means that relief would continue to be available in many situations. Several responses identified the central concern in practice being where an agricultural landowner leases land to a tenant and the landowner risks losing agricultural property relief if land is taken out of agricultural production. It was suggested this would mean landowners could prevent tenants from entering into Environmental Land Management Schemes in England and equivalent schemes in Scotland, Wales, and Northern Ireland. This view was expressed by a range of respondents.

3.5 However, despite the concerns, there was very limited evidence provided to demonstrate the impact of the existing agricultural property relief rules on actual decisions about land use change.

Scope

Q2: Do you agree that the qualifying conditions for relief would need to be underpinned by live undertakings and ongoing adherence to those undertakings at the point of transfer?

3.6 There were mixed views on whether live undertakings or agreements under an environmental scheme should be a qualifying condition for any extension to agricultural property relief. Some supported this because it would provide an additional incentive to ensure that undertakings and agreements are adhered to and that environmental benefits are being delivered. This approach would be consistent with the approach in the existing land habitat provisions in the legislation.

3.7 However, some were concerned that there could be unfair consequences if relief ceases to apply if the undertaking or agreement had ended because of a breach. For example, some concerns were highlighted that a tenant could breach an undertaking, but this would result in the landlord losing agricultural property relief on the relevant land. Several were also particularly concerned if minor, temporary, or disputed breaches of undertakings or agreements under the schemes could lead to land no longer qualifying for the relief.

3.8 A significant number of respondents were also concerned about what would happen when undertakings or agreements came to an end. It was suggested that some individuals would either return land to agricultural use, where it was possible to do so, and so environmental benefits could be lost. It was suggested that others would not enter into agreements under qualifying schemes in the first place.

List of qualifying Environmental Land Management Schemes

Q3: Do you agree with the potential proposed approach to the list of Environmental Land Management Schemes that could qualify for relief

where the activities covered relate to land being taken out of agricultural use?

Q4: Could the government remove the list of existing enactments for land habitat schemes in the existing legislation? Are you aware of any land continuing to qualify for relief now under any of the existing enactments?

3.9 Responses agreed with extending agricultural property relief, at a minimum, to a specified list of Environmental Land Management Schemes in England and the equivalent schemes in Scotland, Wales, and Northern Ireland where the land concerned was taken out of agricultural use. This was considered to be simple and provide clarity. However, several responses thought the SFI in England should be included in the specified list even though it is not expected to involve land being taken out of agricultural production and so agricultural property relief would be expected to continue to apply. This was acknowledged, but some responses thought it would provide certainty and ensure relief is provided if the nature of this particular scheme changes in future.

3.10 Several responses emphasised there would need to be a provision in legislation to ensure that any specified list could be easily and quickly updated to include new schemes or reflect changes to existing schemes.

3.11 There were only a very small number of comments about the list of existing enactments for land habitat schemes under the existing legislation. None were aware of any land continuing to qualify for relief under any of the existing enactments and some highlighted that some of these enactments, subsequent to the publication of the consultation, were included in the schedule of legislation to be repealed as part of the now Retained EU Law (Revocation and Reform) Act 2023.

Agreements beyond the Environmental Land Management Schemes

Q5: What agreements that meet high verifiable standards and have robust monitoring could be added to any list of qualifying Environmental Land Management Schemes? Please explain, including any potential unintended consequences or tax planning opportunities that might need to be considered and how they could be addressed.

3.12 A large number of responses supported expanding the scope of any extended agricultural property relief beyond the three Environmental Land Management Schemes in England and the equivalent schemes in Scotland, Wales, and Northern Ireland. A very small number of responses disagreed with this because of concerns that it would provide private investors, with no background in agriculture, a wider range of opportunities to purchase farmland for tax purposes and take it out of agricultural production permanently with potential implications for food security.

3.13 There were a wide range of views about what could be covered by an extended list. Suggestions included any agri-environmental scheme run by the government, conservation covenants (in England), woodlands that have a UK Forestry Standard Management Plan, land subject to a written agreement with a regulated water company to provide specified environmental management actions, and land used for the provision of accredited, high-integrity ecosystem service markets.

3.14 Some respondents felt more generic eligibility criteria would be preferable to a specified list, commenting that this would prevent the need for continuous legislative updates to reflect scheme changes. Suggestions included the potential for hallmarks or an explicit definition of environmental activities that could be deemed as “agriculture” for the purposes of agricultural property relief.

3.15 Respondents recognised the need to ensure any extensions to the relief only applied where there are high verifiable environmental standards. Several responses referred to the ongoing work by the British Standards Institution (BSI), in partnership with Defra, to develop a suite of high-integrity nature investment standards. It was suggested that the relief could apply to any land covered by a code that met these standards. This was considered preferable to naming individual codes in a specified list and needing to consider whether each individual new code should be added.

Previous use of land

Q6: How could the government achieve its intention not to expand the scope of relief beyond agricultural land that was being used for agricultural purposes? What would the practical challenges be for those claiming relief and how could they best be overcome?

3.16 The consultation explained that the government’s intention would be for any extension to agricultural property relief to remove the barrier resulting from farmers and agricultural landowners changing land use. As a result, it would not be the intention to expand the scope of relief beyond agricultural land that was previously being used for agricultural purposes.

3.17 The central concern raised by respondents was the need to provide evidence that agricultural land had been used for agricultural purposes many years after land use change, including after potential changes of ownership. However, responses did not indicate this would be an insurmountable challenge and offered a number of potential solutions, including the use of the Rural Payment’s Agency database, Ordnance Survey maps, farm records, and application forms. Alternatively, some suggested that a clearance process could be introduced at the point of land use change to secure a certified agreement that the agricultural land was being used for agricultural purposes. Respondents highlighted the need for HMRC to provide clear guidance on what evidence would be required to demonstrate that the land was agricultural land that was being used for agricultural purposes at the point of land use change.

3.18 Some responses suggested that the relief should be extended to any land meeting the broader criteria, rather than just agricultural land that had been used for agricultural purposes. It was suggested this could incentivise other types of land to be converted to environmental use and support the government’s environmental objectives. Others suggested that the majority of qualifying land under extended provisions would likely be agricultural anyway and so the requirement to provide evidence of previous use many years before could lead to significant administrative burdens when, in reality, only a small number of cases would relate to land that would not have qualified for agricultural property relief.

Valuation

Q7: How could the environmental land be valued most appropriately? What would the practical challenges be and how could they best be overcome?

3.19 There was significant support for using the market value of environmental land subject to the special assumption of a restriction to its existing use.

3.20 A small number of responses suggested, unlike the current valuation of agricultural land for the purposes of agricultural property relief, hope and development value should be included in the valuation of land.

3.21 A small number of other respondents suggested that the agricultural value should continue to be used for valuation purposes. However, this was mainly from those respondents who felt that the definition of agriculture should be expanded to cover environmental land management.

Other design issues

Q8: Are there any other design issues that would need to be considered if the government decides to update the land habitat provisions in agricultural property relief?

3.22 The consultation explained that the government is not considering changes to business property relief and this was out of scope. However, several respondents made reference to business property relief, suggesting that either more clarity was needed to confirm whether it applied to environmental land management or that specific provision should be made to incorporate all forms of environmental land management explicitly within the scope of the relief.

3.23 Several respondents also indicated it would be important that any extension of agricultural property relief should apply to the farmhouse.

3.24 A small number of responses identified the need to clarify the position where agricultural land changes from agricultural production to environmental use, and whether the holding period for agricultural property relief would restart or continue. It was suggested that if the period restarted then this would be a barrier to land use change.

3.25 A small number of responses asked for clarification on situations where the land was subject to an agreement under a qualifying scheme and also attracted private finance.

Potential restrictions to agricultural property relief to encourage longer tenancies

Q9: What would the impact be of restricting 100 per cent agricultural property relief to tenancies of at least 8 or more years?

3.26 A minority of responses supported the proposal. These responses focused on the benefits of longer tenancies providing greater security to tenant farmers. It was suggested that longer tenancies can provide the security that tenants need to invest and grow their business. These responses did not generally address the concerns raised in the consultation about whether restricting agricultural property relief would actually deliver the intended outcome of a greater number of longer tenancies. However, it was suggested that any negative effect of a small contraction in the land available for tenant farming would be more than offset by the benefits of greater security for tenant farmers.

3.27 However, most responses were sceptical or opposed to restricting agricultural property relief to tenancies of at least 8 years. A common view was it would not lead to longer tenancies and risked being counterproductive. Responses indicated there could be a contraction in the land available for

tenancy because many agricultural landowners would choose not to let land to tenants for a long period and instead farm it in hand themselves, use contract farming, or use share farming in order to continue accessing the relief. For example, one response estimated a long-term reduction in size of the tenanted sector from around a third of England's farmed land to around a fifth.

3.28 Other comments included that it could create a barrier to the market for new entrants because there would be a lower appetite from agricultural landowners for taking on new tenants due to needing to enter into a tenancy of at least 8 years with individuals where there is no prior relationship or track record.

3.29 There were also concerns from a small number of respondents about how the rules would apply to tenancies under Agricultural Holdings Act 1986 because those agreements are one year rolling tenancies.

3.30 Specific concerns were also raised by some respondents about the potential impact in Scotland and Northern Ireland. It was highlighted that farming tenancies operate differently in different parts of the UK and restricting agricultural property relief to tenancies of 8 years would be incompatible with the approach in Scotland and Northern Ireland. For example, Scotland has Short Limited Duration Tenancies of not more than 5 years and Modern Limited Duration Tenancies of a minimum of 10 years, while land in Northern Ireland is often let each year on "conacre", essentially short-term seasonal grazing arrangements, rather than through tenancies.

3.31 More generally, some responses also highlighted the length of tenancies is often related to the size and nature of land being let and so generalisations about the average length of tenancies does not always reflect the diversity and different drivers of tenure length in the sector. Some responses also highlighted that some tenant farmers prefer the flexibility of shorter tenancies. For example, shorter tenancies can be beneficial to some new entrants looking to rent land on a short-term basis to gain experience without committing to longer term risks and can be more suitable to those looking for additional flexibility for growing seasonal rotational crops.

Q10: What exclusions would be necessary and how could these be defined in legislation if the government pursued this approach?

3.32 Several responses from tenant farmers indicated the only necessary exclusion from the restriction would be "for tenancies used on a rotational basis for the growing of high-value, specialist crops including vegetables and horticulture."

3.33 However, this view was not shared by others. While respondents that disagreed with the proposal to restrict agricultural property relief did not always provide a list, several suggestions highlighted the need for an exclusion for tenancy agreements with new entrants.

Chapter 4

Government response and next steps

Part 1: Call for evidence on the taxation of ecosystem service schemes

4.1 The government acknowledges respondents' participation in this call for evidence and understands it is vital that businesses and individuals have clarity and certainty about their tax obligations. The call for evidence has provided a helpful basis to respond to some of the emerging questions around taxation in developing ecosystem service markets.

4.2 **The government will establish a joint HM Treasury and HMRC working group with industry representatives.** The purpose of the working group is to identify solutions that clarify the tax treatment of the production and sale of ecosystem service credits and associated units. Defra will also be a part of this working group.

4.3 As announced at Budget 2024, the government will also update the underpinning legislation for the VAT Terminal Markets Order (TMO). This will allow for reform, including bringing trades in carbon credits within scope of VAT and the TMO in due course.

Next steps

4.4 The government will invite consultation respondents to register their interest in joining the working group by 3 April 2024.

Part 2: Consultation on agricultural property relief from inheritance tax and environmental land management

Extending agricultural property relief to environmental land management

4.5 The government agrees there are certain situations, particularly in relation to tenant farming, where the existing scope of agricultural property relief may be a barrier to land use change. As a result, and acknowledging the strong support from respondents, **the government will extend the existing scope of agricultural property relief to environmental land management from 6 April 2025.**

4.6 The **policy design will include the following main features:**

- **Extended relief will be available for lifetime transfers and transfers at death on or after 6 April 2025.**
- **Relief will be available for land managed under an environmental agreement with, or on behalf of, the UK government, Devolved Administrations, public bodies, local authorities, or approved responsible bodies.** There will not be a specified list and it will not be restricted to Environmental Land Management Schemes in England and equivalent schemes in Scotland, Wales, and Northern Ireland. The government believes this approach strikes the right balance.
- **Relief will be available where there is an agreement in place for the environmental land management scheme on or after 6 March 2024.** This includes an agreement entered into before 6 March 2024 if it remains in place on or after 6 March 2024.
- **Relief will continue to be available where an agreement has concluded if the land continues to be managed in a way that is consistent with that agreement.** This approach ensures landowners can receive agricultural property relief whether or not they make a decision to return the land to agricultural production at the end of an agreement.
- **Relief will only apply where the land was agricultural land for at least 2 years immediately prior to the land use change. There will not be a need to show the land was used for agricultural purposes and would have qualified for agricultural property relief before land use change.** HMRC will provide guidance on the necessary evidence in due course. This approach is consistent with the government's intention that the scope of agricultural property relief should not be a barrier to land use change, but also recognises the need to ensure the burdens of providing evidence are not onerous, particularly many years after the land use change.
- **The existing holding period for agricultural property relief will not be restarted by land use change.** This means, for example, if an owner-occupier had occupied agricultural land and used it for agricultural purposes for 2 years or more then converting a parcel of the same land to environmental use will not require the land to be held for a further 2 years to qualify for relief.
- **The valuation of the qualifying land will be the market value of environmental land subject to the special assumption of a restriction to its existing use.** Hope and development value, where relevant, remain elements of open market value but, consistent with the current valuation rules, will not be included in the value qualifying for agricultural property relief.
- **Consistent with the current rules, buildings used in connection with environmental land, including farmhouses, will qualify for relief where that building is occupied with, and that occupation is ancillary to, environmental land.** As required under the existing rules

for agricultural property relief, those buildings must be of a character appropriate to the environmental land to qualify for the relief.

4.7 Annex B provides some illustrative scenarios to demonstrate how the government expects this to apply in certain situations.

4.8 The government will also monitor the ongoing development of BSI Nature Investment Standards and following their introduction will consider extending agricultural property relief to accredited codes. It is important this work concludes and can be assessed before the government makes a commitment to extending agricultural property relief to this area.

4.9 The government will also take the opportunity to repeal the existing land habitat provisions in [s124C of the Inheritance Tax Act 1984](#).

4.10 The government will not make any changes to business property relief to deem environmental land management as a qualifying activity. The general rules will continue to apply. The availability of business property relief in any individual case will be decided on the specific facts of that case in the normal way but, as set out in the consultation, owner-occupiers may continue to benefit from business property relief if the land is still used in the business and the overall business is not one of wholly or mainly making or holding investments. As outlined in the consultation, land registered and validated to the Woodland Carbon and Peatland Codes to generate units will qualify in principle for business property relief in its own right. HMRC take the view that the activities necessary to create, manage and maintain the land for the purposes of generating units for use or sale will mean any business undertaking these operations will, in general, not be mainly involved in the holding or making of investments. Where the business in question is generating units under these Codes alongside other activities, the generation of units and the land employed for this purpose will generally be considered a non-investment activity. The units generated by the land in question, including pending issuance units, may also qualify for business property relief providing they are used in, or are an asset of, a qualifying business.

Potential restrictions to agricultural property relief to encourage longer tenancies

4.11 After careful consideration, the government will not restrict agricultural property relief to tenancies of at least 8 years.

4.12 Responses demonstrated opposing views on this proposal: those who support it as a way of delivering longer-term tenancies and those, representing the majority of respondents, who oppose it due to concerns that it will have the unintended consequence of significantly reducing the size of the tenanted sector over the long term and due to its impact on new entrants. It was generally felt that the risk was too great that this could lead to a significant contraction of the land available for tenant farmers because landowners would either take the land in hand themselves or enter into contract or share farming arrangements.

4.13 Having carefully considered both positions and weighing up the evidence provided by all respondents, the government has decided not to proceed with this proposal because it is vital for the future of agriculture that landlords continue to offer land for new tenant farmers. The significant risks of this proposal leading to a reduction in the size of the tenanted sector and reducing the number of tenancy opportunities for new entrants, combined with its incompatibility with

arrangements outside England, have informed the decision not to proceed with this as a way of delivering longer term tenancies.

4.14 However the government recognises that many established and progressive tenants do need to have longer tenure terms to give them security to invest and deliver environmental outcomes, therefore Defra will continue to work with the industry to find ways of delivering this in a way that also supports continued opportunities for new entrants.

4.15 The government is supportive of a flexible sector, with opportunities for both short and longer term tenancies to meet the needs of progressive established tenant farmers and new entrants looking to build experience gradually. The government committed to working with the industry in [the response to the Rock Review](#) to support longer-term tenancy agreements where they are beneficial for the tenant and landlord, but retaining flexibility. This includes the joint Defra/Industry Farm Tenancy Forum, whose members represent tenants, landlords, and professional advisors to identify and disseminate best practice and guidance in using the full flexibilities that the Farm Business Tenancy framework offers to deliver longer term agreements.

4.16 In response to other recommendations in the Rock Review, Defra has also undertaken work to ensure the Environmental Land Management Schemes in England are accessible to tenant farmers. This includes designing the SFI to be accessible for tenants on shorter terms, on rolling annual tenancy agreements and on longer terms. Defra has also changed the rules in SFI so that penalties are no longer applied for tenants who may have to exit a scheme early if their tenancy ends unexpectedly. In addition, SFI does not require the tenant to gain landlord consent to enter the scheme, although tenants should check the terms of their tenancy agreement before applying to SFI and, in the spirit of collaboration, communicate with their landlord about the SFI activities they will carry out. These changes have had a real impact with thousands of tenant farmers applying for SFI agreements. Defra has also taken these design principles into the development of its combined Environmental Land Management Scheme offer for 2024 to ensure more options are offered on shorter durations, further expanding access for tenants.

Next steps

4.17 Legislation will be included in a future Finance Bill in the normal way to extend the existing scope of agricultural property relief to environmental land management from 6 April 2025.

Annex A

List of industry representatives, tax advisors, businesses, groups, and other organisations that responded to the call for evidence and consultation

Agricultural Law Association
Albert Goodman LLP
Armstrong Watson LLP
Association of Taxation Technicians
Biodiversity Exchange Limited
Carter Jonas LLP
Central Association of Agricultural Valuers
Charity Law Association
Charles Russell Speechlys LLP
Chartered Institute of Ecology and Environmental Land Management
Chartered Institute of Taxation
Confederation of Forest Industries
Country Land and Business Association
Countryside and Community Research Institute
Court Consulting
Courtney Group
Credit Nature
Deloitte LLP
Duncan & Topliss
Environment Bank
Environmental Farmers Group and Old Mill
Essex County Council
Essex Local Nature Partnership

Evelyn Partners
Farmers Union of Wales
Federated Hermes
Finance Earth
Forestry Commission
Forsters LLP
Francis Clark
Hampton Estate
Historic England
Historic Houses
Institute for Family Business
Institute of Chartered Accountants in England and Wales
Institute of Chartered Accountants in Scotland
Johnston Carmichael
Kent Nature Partnership
Knepp Estate
Knight Frank
Land Partners LLP
Larking Gowan LLP
Law Society of Scotland
MA Partners LLP
National Farmers Union
National Farmers Union Cymru
National Federation of Young Farmers Clubs
National Trust
Natural England
Natural Resources Wales
Nature Scotland
Natwest Group PLC
NFU Scotland
Palladium
Rewilding Britain
Rivers Trust
Rock Review Tenancy Working Group
Royal Institution of Chartered Surveyors
Royal Society for the Protection of Birds
Rural Accountants Group
Saffrey Champness LLP
Savills
Scottish Land and Estates
Scottish Land Commission
Society of Trust and Estate Practitioners
South East Nature Partnership
Taylor Wessing LLP
Tellus Natural Capital
Tenant Farmers Association
Tustins Group Ltd
Ulster Farmers Union
Wendling Beck LLP

Wildlife and Countryside Link
(The) Wildlife Trusts
Wrigley Solicitors LLP

Annex B

Illustrative examples to show the effect of the policy design for extending the existing scope of agricultural property relief to environmental land management

Extended relief will be available for lifetime transfers and transfers at death on or after 6 April 2025

B.1 John owns 20 acres of farmland which he has leased to William, a tenant farmer since 2015. In January 2023, William puts 5 acres into a qualifying environmental land management scheme, permanently changing the land use away from farming.

B.2 John dies on 1 January 2025. Under the current agricultural property relief rules the 5 acres of land in the scheme would not qualify for agricultural property relief on John's death, as it had not been used for agricultural purposes for the final two years of the required seven-year qualifying period up to his death. The value of the remaining 15 acres of land used for agriculture purposes throughout would continue to qualify for agricultural property relief.

B.3 If John had died on or after 6 April 2025, the environmental management of that land in accordance with a qualifying agreement would be treated as if it had been used for agricultural purposes. John's estate could claim agricultural property relief on the value of the entire 20 acres of land leased to William.

Relief will be available for land managed under an environmental agreement with, or on behalf of, the UK government, Devolved Administrations, public bodies, local authorities, or approved responsible bodies.

B.4 Tahir is a farmer and keen conservationist. His farm includes a piece of marshland, which is now unsuitable for farming due to climate change. Tahir sought private finance to restore the marshland and support wildlife and in return agreed to take the land permanently out of agricultural production. On Tahir's death it will not be eligible for agricultural property relief as the change of use and the environmental management of the marshland was not under an environmental land management scheme run or administered on behalf of the UK government, a Devolved Administration, or another qualifying body.

B.5 Richard farms 50 acres of his own land for many years. He decides to put 10 acres of his land into an environmental land management scheme to restore a piece of peatland, which was previously used by his sheep for grazing. Under the 20-year agreement, Richard can no longer use the land for grazing. A few years later, Richard was able to use the peatland to generate carbon credits which he sold to private investors to help fund the conservation of the site. On Richard's death, the 10 acres of land in the scheme are treated as if it had continued to be used for agricultural purposes for the required 2-year qualifying period up to his death. The private investment in land (also covered by the qualifying scheme) does not affect this. Richard's estate could claim agricultural property relief on the value of the entire 50 acres of land.

Relief will be available where there is an agreement or undertaking in place for the environmental land management scheme on or after 6 March 2024. This includes an agreement or undertaking entered into before 6 March 2024 if it remains in place on or after 6 March 2024.

B.6 Bob farms some agricultural land which he then leases to Philip, a tenant farmer who enters 50% of it into a qualifying environmental land management agreement in April 2017, and farms the remainder. Bob dies on the 10 June 2025 and at the date of death, 50% of the land is still being managed by Philip under the agreement. In addition to claiming agricultural property relief on the land farmed by Philip, Bob's estate will also be able to claim relief on the land in the scheme as the agreement was entered into before 6 March 2024 and remained in place after that date. From April 2017, the land is treated as if it was used for agricultural purposes so meets the requirement for relief in that it was owned by Bob and occupied by Philip in the seven-years to Bob's death.

Relief will only apply where the land was agricultural land for at least 2 years immediately prior to the land use change. There will not be a need to show the land was used for agricultural purposes and would have qualified for agricultural property relief before the land use change.

B.7 Alayah has a pitch and putt golf course, part of which she converts for environmental use. She registers that part of the land under an environmental land management scheme and environmentally manages the land under the scheme from June 2025 to her death in July 2028. Alayah won't get agricultural property relief because the land was not agricultural land for at least two years prior to the change in land use. It doesn't matter how long the environmental activities are undertaken after the change up to her death; the land will never qualify for agricultural property relief through environmental use.

B.8 Tom has owned a 100-acre farm for 15 years. In April 2024, he decides to register 20 acres of this land and manage it environmentally under a qualifying environmental land management scheme. This land was poor quality pasture not used for grazing at the time of the change. Tom dies in June 2026, and his estate claims agricultural property relief on the environmental land. As this land was agricultural land for at least 2 years immediately prior to the change in use, it is eligible for relief. The environmental management of the land from April 2024 onwards is treated as agricultural use for the required 2-year period up to his death. If Tom had died within 2 years of the change of use, the 20 acres of land in the scheme would not qualify for relief on his death.

B.9 Linda owns pastureland that was part of an old airfield. She has leased it to Jack, a local farmer, for the last 7 years for grazing sheep. Jack has approached Linda for approval to manage the land environmentally under an environmental land management scheme, instead of using it for grazing sheep. Linda is in ill health and understands that on her death the value of the land leased to Jack for grazing would qualify for agricultural property relief and is concerned that she would lose this relief if the land use was changed. Linda agreed with Jack's proposal in April 2025 and 2 years later, on Linda's death, the land qualified for agricultural property relief. The environmental management of the land from April 2025 onwards is treated as agricultural use so combined with the previous use for grazing, the land was treated as used for qualifying purposes for 7 years up to Linda's death.

The existing holding period for agricultural property relief will not be restarted by land use change.

B.10 John owns 20 acres of farmland which he has leased to William, a tenant farmer since July 2015. In January 2023, William puts 5 acres into a qualifying environmental land management scheme, permanently changing the land use away from farming.

B.11 On John's death in January 2026, his estate contained the 20 acres of land leased to William.

B.12 Of this, 15 acres consisted of pastureland used by William for agricultural purposes for 10.5 years. The condition that leased land is used for agricultural purposes for at least 7 years up to the deceased death is satisfied. Therefore, the value of this land will qualify for agricultural property relief.

B.13 The remaining 5 acres of land were used by William for purposes qualifying for agricultural property relief; firstly, for agricultural purposes for 7.5 years and secondly, as environmental land managed under a qualifying scheme for 3 years, so 10.5 years in total. The condition that leased land must be used for a qualifying purpose for 7 years allows periods of different qualifying uses to be cumulated. Therefore, the value of this land will also qualify for agricultural property relief.

Relief will continue to be available where an agreement or undertaking has concluded if the land continues to be managed in a way that is consistent with that agreement or undertaking.

B.14 Sarah has an agreement in place for an environmental land management scheme and discovers that she has made a minor breach of this agreement in how she deals with the environmental management of the land. The breach does not lead to the ending of the agreement. Under the new proposals it will not have any effect on agricultural property relief eligibility.

B.15 Humphrey entered into an environmental land management agreement under which 5 acres of his 50 acres farm is converted to woodland (and not used for agriculture) and managed environmentally for a period of 20 years. At the end of the agreement, Humphrey decides that the woodland be maintained as it was under the agreement, and did so up to his death, 2 years later. The woodland is treated as if the scheme agreement had continued up to until his death, so that the value of the land qualifies for agricultural property relief.

B.16 Hilary is party to an environmental land management agreement that is now coming to an end, and she is not going to renew it. She has decided to return the land to agricultural use as before. Providing the normal rules for agricultural property relief are followed her estate can claim agricultural property relief on this restored agricultural land. If Hilary died 1 year afterwards, the required two-year period of qualifying use can be satisfied by combining the qualifying periods of environment use and agricultural use.

The valuation of the qualifying land will be the market value of environmental land subject to the special assumption of a restriction to its existing use

B.17 Matthew owned and farmed land for 30 years prior to his death in July 2027. He had converted part of the farm to environmental use under an

environmental land management scheme in March 2023. The scheme concluded in March 2026 but Matthew continued to manage the land environmentally until his death. On his death, all the land qualifies for relief. In line with existing rules, the relief for the land which continued to be farmed will be based on the agricultural value of the property if it were subject to a covenant prohibiting its use otherwise than as agricultural property. The relief for the environmental land will be based on the value of the land if it were subject to a restriction to its existing use.

Consistent with the current rules, buildings used in connection with environmental land, including farmhouses, will qualify for relief where that building is occupied with, and that occupation is ancillary to environmental land

B.18 Anne runs a 100-acre farm and lives in a farmhouse situated with the farmland. She has registered 30 acres in an environmental land management scheme and this land is managed environmentally. Anne passes away in July 2026. As well as relief for agricultural land, relief is also available in respect of a farmhouse if it is occupied with, and of a character appropriate to, the agricultural property. Where part of the land is managed environmentally in one of the qualifying schemes, it will be treated in the same way as land occupied for agricultural purposes, and the farmhouse will qualify for agricultural property relief under the new proposals if it is occupied with, and of a character appropriate to, all of the qualifying land.

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