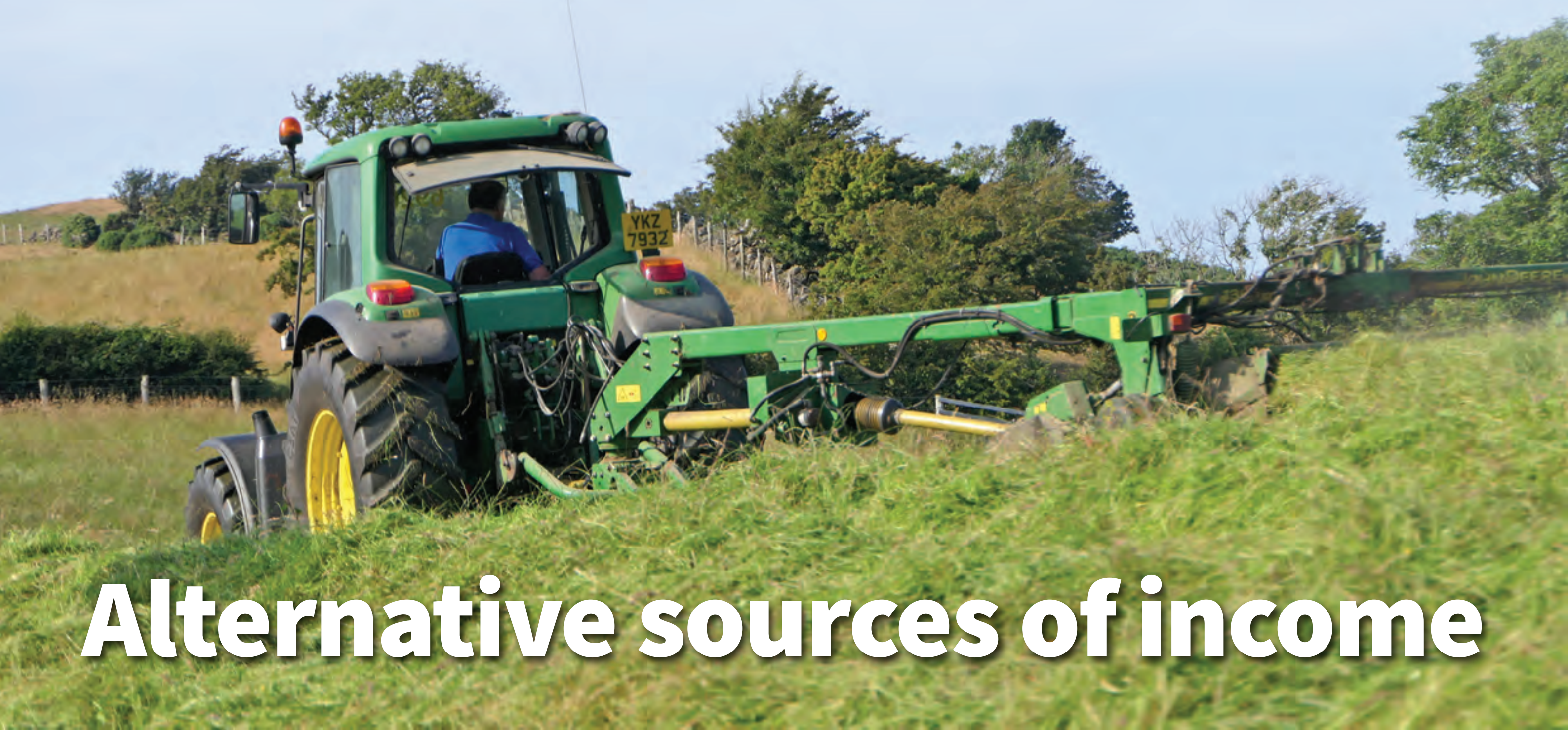
DEDICATED NEWS AND SUPPORT FOR FARMING FAMILY BUSINESSES FROM
ENSORS CHARTERED ACCOUNTANTS

SPRING/SUMMER 2024
EPISODE 18

LIFE ON THE FARM



Alternative sources of income

Henry walks into the farm office, David is knee-deep in paperwork...

Meet the
Barleymow family

Every issue we will be following the fortunes of the Barleymow family and the issues they face as a family farming business.

George

Henry *m* Mary — John *m* Sarah

David *m* Carolyn

Mark — Emma

Henry: *Still looking over those cashflows for the next two years?*

David: *It's not brilliant Dad. We're OK, but we've been spoilt with a couple of cracking years from the 2021 and 2022 harvests. The 2023 harvest outcome looks as though it will be all right but not as good as those earlier years. As for the 2024 harvest – what with the wet autumn and winter – expectations are not good at all, especially with the current prices. It's incredible how much prices have dropped and there's not too much optimism for the years ahead either...*

Henry: *That's what I feared. Perhaps we need to look at doing things differently.*

David: *Yes, I think we should look at maybe taking up some of the options under the Sustainable Farm Initiative (SFI). They're financially quite attractive, especially for land which doesn't grow us a good crop or even as part of our rotation, as some options could give us a better return than growing a break crop...*

Grandad walks into the office whistling...

George: *Why the long faces?*

Henry: *Morning Dad, David's just talking about the new environmental schemes we could take advantage of.*

George: *Hmm, you mean taking land out of crop production?*

David: *Yes Grandad, for certain options available and...*

George *(interrupts): But we've always farmed this land for maximum crop output – why would you change that?*

Henry: *Because Dad, it doesn't look as though farming in the way we've always known will be that profitable in the period ahead. Surely if we can improve our financial position, we need to consider these options?*

Continued overleaf ➤

George: *I can't see how we'd be considered to be "farming" anymore – surely we'd lose all our tax advantages?*

David: *Not quite Grandad. I've spoken to Ensors about this – the Chancellor has announced we can still get Inheritance Tax (IHT) relief on land managed under environmental schemes, as long as those schemes are with the government, or approved responsible bodies, including local government. Mind you, this doesn't kick in until 6th April 2025, but I assume none of us are looking to drop off our perches between now and then?*

George: *I wasn't planning to...*

David: *Good! And have you heard of Biodiversity Net Gain (BNG)?*

Henry: *Oh yes! Isn't that similar to SFI?*

David: *Kind of, generally the contract is not with the Rural Payments Agency (RPA) but with other organisations required to offset the environmental effects, typically from some development project, which can include houses. The monies received from this can be very good although there is a bit more of a market in negotiating different rates of payment. We'd need to get some help in any discussions with potential organisations that might want some BNG scheme on our land, which can be for 30 or more years in some cases.*

George: *So what's the tax position for that then?*

David: *It's a bit more complicated Grandad and would depend on how any deal was structured. Sometimes a deal could involve a large upfront payment and perhaps smaller amounts each year, or at regular intervals. Ensors said there's little guidance or precedent currently but some of this could possibly fall under Capital Gains Tax (CGT) and some under income tax. Bit of a mixed bag really.*

Henry: *What about the land value itself?*

David: *Well, based on what the Chancellor said, if this land is taken out of food production and the BNG contract is with one of the approved responsible bodies, then it could still be eligible for Agricultural Property Relief (APR) for IHT purposes. Clearly the devil is in the detail for this type of arrangement.*

George: *It always is, lad.*

Henry: *So, we've talked about SFI and BNG. Anything else?*

David: *There is something...*

George: *Uh oh!*

David: *I've had an approach from someone trying to get planning permission for a solar farm across some of our land. They're looking at something between 150 and 200 acres of our land...*

George: *Solar? How's that going to feed the bloomin' nation?*

David: *The income it would generate Grandad, would be far more than growing crops.*

Henry: *We can't afford to put up a solar farm there; it'd cost millions.*

David: *No Dad, all we'd do is provide the land. The solar developer builds it and takes the money for generating the power, but we'd get a pretty good rent per acre over 30 years or so and this is often index linked with inflation each year so would only go up.*

George: *Hmm, sounds too good to be true to me...*

David: *There are downsides; it reduces the area of our farm that we'd actually be farming and the income generated from the rentals is not considered to be trading income from the farming activity.*

Henry: *What's the IHT position on the value of that land?*

David: *Ensors said it wouldn't qualify for APR... even if we let sheep graze around the solar panels.*

George: *Scuppered, I knew it!*

David: *Not necessarily Grandad, Ensors reckons there's still a chance we'd get Business Property Relief (BPR) for IHT by using the precedent set by the Balfour Case. This sets out several tests determining whether we are mainly a trading business OR an investment business. Rentals from letting our land as a solar farm would fall as an investment activity. Ensors can go through the detailed rules with us, but it's likely a solar farm would tip us in the wrong direction and we'd lose the IHT advantage. They said we might want to consider moving ownership of this land to the youngest generation before it came out of agricultural use and went into solar development to reduce any imminent IHT exposure.*

George: *Sterling advice there from Ensors. Let's get an appointment in the diary... right after one of you makes me a cuppa!*

TECHNICAL ARTICLE

Budget update

The Spring Budget contained more surprises than initially anticipated and there were many announcements that will affect farming and rural businesses.

Extension to Agricultural Property Relief from 2025

The headline announcement for farmers was that, after successful CLA lobbying, land managed under a qualifying land management scheme will qualify for Agricultural Property Relief (APR) for Inheritance Tax (IHT) purposes. This is welcome news and provides clarity to farmers taking land out of crop production in favour of a land management scheme.

While this is not set to form part of the next Finance Bill, the Government has confirmed that with effect from 6 April 2025, APR will be available for land managed under an environmental agreement with, or on behalf of, the UK government, Devolved Administration, public bodies, local authorities, or approved responsible bodies. Therefore, this will not solely be restricted to the Environmental Land Management Scheme (ELMS) already available to enter into, and could cover any equivalent scheme, so long as the body providing the scheme is an approved party.

There are, of course, some restrictions to benefiting from APR on land put into environmental land management, as follows:

- The land will only qualify for APR with effect from 6 April 2025 so long as, for two years prior to being put into a qualifying land management scheme, the land was used for agricultural purposes. Therefore, if land is already under ELMS, and was used for agricultural purposes for the two years prior, it would immediately qualify for APR on 6 April 2025. Landowners who have not held land for agricultural purposes for two years prior, would not be able to simply enter into a scheme and obtain APR on this land.
- As this only comes into effect from 6 April 2025 for lifetime and death transfers, land held under ELMS gifted prior to this, would not have the benefit of APR on the gift (unless the land would qualify in its own right, as being used for agricultural purposes).

Edging closer to guidance on the tax implications of entering into Ecosystem Service Payment agreements?

As of 12 February 2024, Biodiversity Net Gain (BNG) is now compulsory on all major developments, with small developments and nationally significant infrastructure projects being caught from 2 April 2024 and November 2025 respectively. With the approach of this new legislation, there has been a general increase in rural businesses being approached for BNG and Carbon sequestration offsetting purposes, however HMRC has refrained from commenting on the tax treatment of such eco credits, which means the treatment is generally unclear.

HMRC, the Treasury and Defra, alongside industry representatives, will seek to clarify the tax treatment.

Furnished Holiday Lets abolition

In a blow to many rural businesses, the Furnished Holiday Lets (FHL) tax regime will be abolished with effect from 6 April 2025.

Historically, FHLs have been treated as a trade for income tax and capital gains tax purposes, and an investment activity for IHT purposes, unless sufficient additional services were provided (akin to a hotel) enabling it to qualify for Business Property Relief (BPR).

With these changes, there will be many common planning points lost and some unanticipated tax issues, such as:

- FHL profits will no longer qualify as relevant earnings for pension contribution purposes, meaning many individuals could face being unable to make contributions in excess of the standard net amount of £2,880 if the main trade makes a loss.
- With many rural businesses running FHLs with additional services in a bid to obtain BPR, this could be in jeopardy. There may be some potential to pursue treating the former FHL as serviced accommodation to retain the trade status, however this will most likely be a point for the Courts.
- FHL businesses have also been able to benefit from Capital Allowances, so there may be some balancing charge implications on the cessation of the FHL regime.
- Where a mortgage had been secured on a qualifying FHL property, mortgage interest was relievable in full. Now that FHLs will fall into the general rental property regime, mortgage interest will be restricted to a basic rate tax reducer.
- CGT planning opportunities will be lost, as the ability to roll over into FHL property will disappear, and the sale of an FHL will no-longer qualify for Business Asset Disposal Relief.

One benefit, however, will be that reporting of property income will be more straightforward from 2025-26 onwards, as there will be no need to ringfence FHL losses.

Top rate of residential CGT reduced to 24%

Leading on from the above, another announcement was the reduction in the top rate of residential CGT from 28% to 24% with effect from 6 April 2024. The lower rate will remain at 18%. If you are in the process of selling a property, you may wish to hold off on exchanging (as exchange is the date of sale for tax purposes) until after 6 April 2024.

Remember that when selling residential property, you may be required to complete a standalone CGT return within 60 days of completion.

National Insurance changes from 6 April 2024

In a welcome boost to the self-employed, the main rate of Class 4 NIC will be 6% with effect from 6 April 2024. This comprises of the 1% cut announced in the Autumn Statement and a further 2% cut announced in the Budget.

Furthermore, with effect from 6 April 2024, the requirement to pay Class 2 NIC will be abolished and anyone with trade profits above the small profit threshold will automatically receive a qualifying year for state benefit purposes. Anyone with trade profits below the small profit threshold can voluntarily pay Class 2 NIC to secure their qualifying year. The easiest way to see your current number of qualifying years is to view your Personal Tax Account.

Employees will also benefit from a further 2% NIC cut with effect from 6 April 2024, on top of the cut that came into effect in January 2024.

Meet the team

Agriculture specialists

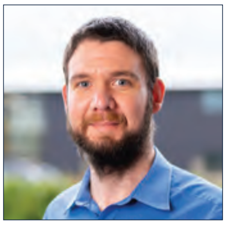
Graham Page
PARTNER
01284 722300
graham.page@ensors.co.uk

Carl Page
PARTNER
01728 603005
carl.page@ensors.co.uk

Neil Meekings
PARTNER
01284 722346
neil.meekings@ensors.co.uk

Elaine Baxter
DIRECTOR
01284 722326
elaine.baxter@ensors.co.uk

Hugh Simpson
DIRECTOR
01284 722300
hugh.simpson@ensors.co.uk



Wayne Horrex
SENIOR MANAGER
01284 722327
wayne.horrex@ensors.co.uk

Chrissie Deller
SENIOR TAX MANAGER
01223 428339
chrissie.deller@ensors.co.uk

> “Ensors have an excellent understanding of how a rural agricultural estate operates and as such are able to work closely with clients and fellow professional advisors to ensure maximum benefit.”
>
> Charles Loyd – Strutt and Parker

Technical specialists

Danny Clifford
CAPITAL TAXES & TRUSTS PARTNER
01473 220083
danny.clifford@ensors.co.uk

Laura Krickova
VAT DIRECTOR
01206 321029
laura.krickova@ensors.co.uk

To keep up-to-date with changes in the accounting and tax world as they impact upon the agricultural industry, please visit our blog page online: **www.ensors.co.uk/insights-resources/**

Some of the most recent blogs include:

- **The impact on farming and rural businesses following the Spring Budget**
- **Capital allowances, a basic overview**
- **Back to basics on Balfour**

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