



Agricultural Spotlight

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Our Agricultural Spotlight is back with a bang this Winter 2021 and will be returning every quarter to keep you up to speed on the latest news and advice on the farming and agribusiness sector's current hot topics.

COVID-19 has had a huge impact on many sectors, and agriculture is no different. But with over 90 years' experience working with agricultural businesses, we can provide expert advice to help you enhance the potential of your farming business.

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Could your SEISS claims leave you in hot water with HMRC?

The Self-Employment Income Support Scheme (SEISS) was a scheme established by the government to support people who are self-employed or a partner in a partnership agreement through the coronavirus pandemic.

As a result, many farmers took advantage of the scheme during the very uncertain times caused by COVID-19.

The scheme has been rolled out over five rounds and claims for the fifth grant closed on 30 September 2021.

However, with the scheme drawing to a close, the government has recently started to aggressively reclaim monies which were wrongfully claimed, leaving many farmers in a vulnerable position.

The two most common forms of wrongful claim include claiming when COVID hadn't impacted on a farm business and claiming when the business affected is a limited company.



No COVID impact

Although the SEISS was set up as a COVID-support scheme, the early rounds of grant funding didn't require the applicant to demonstrate their business had been hit by the pandemic.

As a result, many farmers put in a claim.

Claims under the fourth and fifth round of the scheme do, however, require evidence that COVID has made a material impact on trading profits and/or revenues.

Many farmers would struggle to demonstrate this, especially arable farmers when the wheat prices have remained strong, so claims under the fourth and fifth round of funding could be regarded as suspect.

And as the government continues to aggressively reclaim these, if you have made a claim it might be time to take professional advice.

Limited company

As more farms have diversified away from their core activities in recent years, parts of the business may no longer conform to the tradition sole trader or partnership agreement.

Some of those diversification projects such as caravan and campsites have been very badly hit by the pandemic.

Whether or not a claim made under the SEISS for such activities will be wrongful or not depends on how the diversification side of the business is set up.



For example, we have seen instances where the diversification into other areas has been set up through a limited company. When the HMRC letter regarding SEISS has arrived people have not always been aware that they cannot claim relief for the loss of earnings of the company trade, although this has been the hardest hit.

Therefore, we have seen clients claim SEISS based on the drop of trade in the company rather than the farming activities and these amounts are now having to be repaid.

Professional advice

If you've claimed under SEISS and you're not sure if your claim is legitimate or not, especially if you've claimed under rounds four or five of the scheme, it might be wise to seek professional advice.

Voluntarily paying the money back could save you some very awkward conversation with HMRC.

Whitley Simpson is one of the top 100 accountancy practices in the country with more than 90 years' experience in agriculture. To speak to us about reviewing your SEISS claims or anything else, contact Ian Parker on IanP@whitleystimpson.co.uk or call (01295) 270200.



The importance of a properly worded grazing license

Of all the legal and property agreements entered into by farmers and landowners, the lowly grazing license might seem a long way down the list of priorities.

But treating it that way is false economy. A poorly worded grazing license – one that is written without any consideration for the tax implications – can lead to the loss of relief of Capital Gains Tax (CGT) and Inheritance Tax (IHT).

Poorly drafted agreement may also gift more rights to the grazier than a farmer might want, making it far harder to remove grazing rights when required.

Therefore, it makes sense to get professional advice when drafting a grazing license, to ensure all the potential pitfalls of this simple agreement are avoided.

Landowner must remain the occupier

To retain CGT and IHT relief, the landowner must legally remain the occupier of the grazing land in question for agricultural purposes, and this must be clearly set out in the wording of the agreement. To ensure this is the case, the landowner must fulfil two conditions. These are:

- They must retain significant responsibility for maintaining the land.
- The grazing license is an agreement of less than one year.

Maintaining the land

To continue to qualify as the occupier of the land, the landowner must retain responsibility for producing the grass crop and for the majority of maintenance work carried out on the land. These activities must be documented and receipts for expenditure kept.

The landowner may enter into an agreement for the grazier to carry out these duties, but the grazier must be paid at a commercial rate for this work and the landowner must retain all the decision making about what work needs to be carried out.

Ideally, the landowner should also graze their own animals on the land at various points in the year, or if they don't have any, help in the day-to-day duties of the grazier, such as checking water troughs and putting out supplementary food.



If these conditions are not observed and documented, the grazier may be considered the legal occupier, and this will mean monies collected from them in lieu of grazing will be considered a passive/rental income. As such, the land may not qualify for CGT relief if sold.

Equally, if the grazier is considered the legal occupier of the land, the land will no longer qualify for Agricultural Property Relief for IHT.



Less than one year

As well as retaining responsibility for the grazing land in question, the landowner must ensure that the grazing agreement is for less than one year. Usually, this means they are issued for 364 days.

There must also be no right of renewal.

Failing to observe this might mean the grazier can claim the arrangement is in fact a tenancy, giving them the security of a tenure and once again making them the occupier of the land.

Well written license

A well written license is the key to avoiding the issues outlined above. The license must set out the rights and responsibilities of each party and evidence that these responsibilities are being met must be collected. It must also be explicit about the length of the agreement.

By doing this, the landowner will remain the occupier of the grazing land and important tax relief will be retained.

If you would like any advice on reviewing an existing grazing license or drafting a new one, contact Whitley Stimpson director and agricultural accountancy expert Martin Anson on (01295) 270200 or email MartinA@whitleystimpson.co.uk.



Solar farms – a bright idea for farmers?

As the UK pushes towards its target of carbon net zero by 2050, the number of solar farms being developed is increasing exponentially year on year.

With rents as high as £1,000 per acre, having one on your land can seem like an extremely attractive proposition for farmers.

However, care needs to be taken when considering such a move, particularly in relation to the future of the farm. Solar farms are not considered an agricultural use of land. As a result, there are some significant tax implications of developing one as part of your enterprise.



Grazing small livestock

One confusion around solar farms is that fact farmers can continue to graze small livestock such as sheep around solar panels. Many think this means the land automatically retains its status of being in agricultural use.

However, this isn't the case and even by grazing livestock, farmers won't necessarily retain Inheritance Tax relief via the Agricultural Property Relief because of the impact of the solar rent on overall farm income.

Given that solar farms are proposed for a minimum of 35 – 40 years and in all likelihood will be replaced and retained after that, this is a serious consideration.

Ian Parker, director of Whitley Stimpson and an agricultural accountancy expert, advised farmers to tread lightly when it comes to considering giving over land to a solar farm development.

He said: "Farmers need to be careful because the rental income from solar panels is not an agricultural activity and so the value of the contract would not be covered by APR for IHT purposes.

"It may be covered by Business Property Relief (BPR) but this must be constantly monitored to ensure that the rental income does not become more than 50 per cent of overall income in the farm. If this happens, it would be considered passive letting/rentals income rather than trading which could lead to the loss of tax relief.

"As Basic Payments reduce further over coming years, this will become a major consideration for many farmers."

If you're considering a solar farm on your land, contact Ian Parker for expert advice on on (01295) 270200 or email IanP@whitleystimpson.co.uk

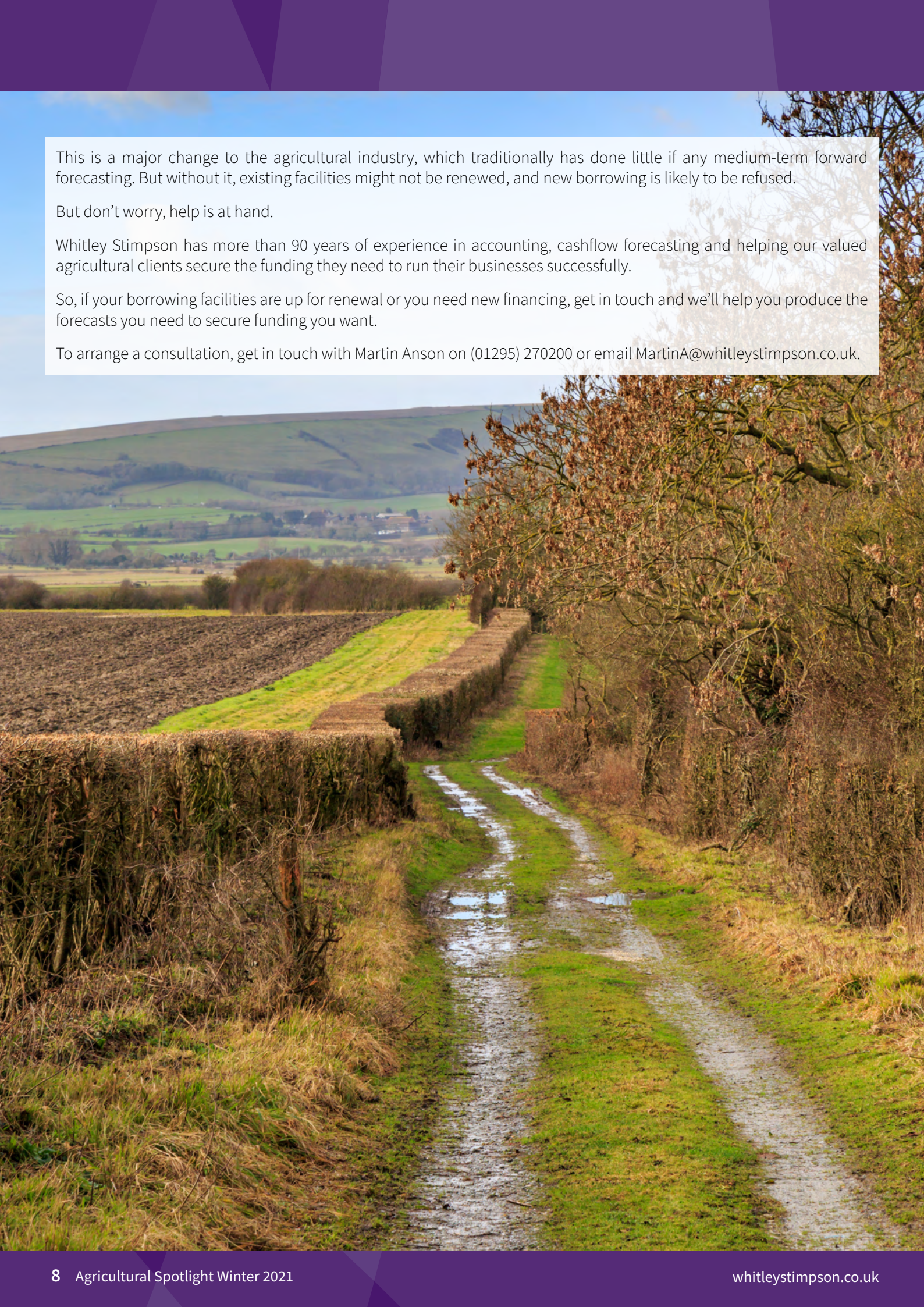
The importance of cashflow forecasts



Traditionally, bank finance for farming businesses has been secured on the assets of the enterprise. With land often wholly owned by families and passed down the generations, this has meant those assets were enough to renew overdraft facilities or secure new lending.

However, as with practically all aspects of farming life, this is now changing as banks tighten up their lending criteria.

Typically, we're now seeing banks not only ask for the last two or three years of accounts, they also want to see detailed cashflow forecasts showing how the money will be used and how the debt will be serviced.

A photograph of a rural landscape. In the foreground, a muddy, rutted path leads through a field. To the left of the path is a tall, dry hedge. To the right is a grassy area with some trees. In the background, there are rolling green hills under a blue sky with some clouds.

This is a major change to the agricultural industry, which traditionally has done little if any medium-term forward forecasting. But without it, existing facilities might not be renewed, and new borrowing is likely to be refused.

But don't worry, help is at hand.

Whitley Stimpson has more than 90 years of experience in accounting, cashflow forecasting and helping our valued agricultural clients secure the funding they need to run their businesses successfully.

So, if your borrowing facilities are up for renewal or you need new financing, get in touch and we'll help you produce the forecasts you need to secure funding you want.

To arrange a consultation, get in touch with Martin Anson on (01295) 270200 or email MartinA@whitleystimpson.co.uk.

Farming and capital allowances – the advantages and pitfalls

Capital allowances are a useful form of tax relief for businesses that need to invest in expensive plant and machinery to operate successfully, including many farm enterprises.

There are a number of different types, but they all essentially fulfil the same function – to enable businesses to offset expenditure on plant and machinery against the profits of the business, either entirely or partially, to reduce the company's tax burden.

To qualify for capital allowances, a business or individual must own the asset they are claiming against. Capital allowances cannot be claimed for plant or machinery that is hired and real care must be taken if they are being claimed for cars. However, these purchases are subject to a different set of rules, so it is always worth checking out the best way to manage them to maximise tax efficiency and cashflow.



Type of capital allowance

Currently, there are three types of capital allowance open to UK businesses. These include Annual Investment Allowance (AIA), Writing Down Allowance (WDA) and super capital allowance. Of these, AIA and super capital allowance are the most relevant to farmers.

Annual investment allowance

AIA was introduced in 2008 to enable businesses of any size and sector to claim tax relief on expenditure on plant and machinery. In January 2016, the level of relief was set at £200,000, enabling businesses to offset 100 per cent of an investment up to this amount.

However, to stimulate the economy the UK government increased AIA to £1m from January 2019 for a two-year period.

This was a welcome change for farmers, particularly given the large price tags tractors, combine harvesters and other farm machinery attracts, and provided significant tax efficiencies.

But from January 1st, 2022, AIA was set up to revert back to the original limit of £200,000, removing those extra tax breaks. However, in the recent budget, the £1m AIA was extended until March 31st, 2023.

This change would have disproportionately affected the farming community as the majority of farmers are sole traders and partnerships. As a result, they only qualify for AIA or WDA rather than other tax breaks open to limited companies.

By keeping the level at the £1m this has reduced the need for farmers to rush into purchases particularly whilst there are significant supply chain issues when ordering plant and machinery.



Super capital allowances

The picture is somewhat rosier for incorporated farm businesses, as these have access to super capital allowances when investing in plant and machinery.

Similar to the AIA allowances, super capital allowances were introduced to stimulate the post-COVID economy and incentivise investment in plant and machinery. Also, like AIA, they have been introduced on a temporary, two-year term, meaning qualifying farmers have until March 31st, 2023, to take advantage of them.

Super capital allowances are so-called because companies can offset up to 130 per cent of the cost of qualifying plant and machinery against profit. If therefore, for example, a company invests £1m in plant and machinery, under the super capital allowance regime it can deduct £1.3m from its taxable profit – a big saving.

Super capital allowances apply in year one (the same year the asset was purchased) and to qualify, the following criteria must be fulfilled:

- The business falls under the corporation tax regime – super capital allowances are not available to sole traders, partnerships, or LLPs.
- The contract for plant and machinery (including fixtures installed under a construction contract) was entered into after March 3rd, 2021, and the expenditure incurred after April 1st, 2021.
- The business must be purchasing new assets. Secondhand assets are treated in a different way.
- The asset must be owned by the business, not hired or leased.

Super capital allowance and hire purchase

Whereas super capital allowances can't be claimed on hired or leased assets, it can be claimed on assets bought on hire purchase where the business owns the asset at the end of the term. This can also create significant cashflow benefits.

This is because super capital allowances apply in year one, whereas on a hire purchase agreement the expenditure in year one is only a fraction of the total cost of the plant or machinery. Therefore, the business benefits from the full tax relief long before the asset is fully paid for.

Another consideration is lead time, which can be lengthy on expensive plant and machinery, especially given the challenges of the past two years. To qualify for super capital allowance, the asset must be in use by the end of the basis period (the business's financial year) in which it was ordered.

So, if you order a new tractor in August, your year end is October, and it isn't due to be delivered until the following January, you will be unable to claim super capital allowance on that purchase until the following October year end.

For help, guidance, or support, get in touch

Negotiating the various types of capital allowance that are applicable to farming can appear difficult. But there are benefits to be had, particularly in the short term while the higher AIA threshold still applies, and the super capital allowance scheme is open, so it is worth considering.

If you would like any advice or guidance on the most tax efficient way of purchasing vital plant or machinery, contact Whitley Stimpson director and agricultural accountancy expert Ian Parker on (01295) 270200 or email IanP@whitleystimpson.co.uk.



Basis period reform – how HMRC’s latest income tax proposals may have a disproportionate impact on farmers

In April this year, the Government announced plans to overhaul the way trading income is taxed.

If enshrined into law – and that is looking to be highly likely – the Basis Period Reform will affect organisations or individuals with a trading income that is subject to income tax including sole traders and partnerships, which make up the bulk of farm enterprises in the UK.

What is more, there is a real risk some farmers could face increased or accelerated tax burdens.

The plans include a move away from taxing businesses on their own basis period – in effect their own financial year – to a system where everyone is taxed in line with the current tax year, the 12 months up to March 31st or April 5th.

These proposals are being introduced to pave the way for the government’s Making Tax Digital for Income Tax agenda, which requires all businesses to report financial performance at the same time and is due to be introduced in either 2023/24 or 2024/25 depending on how quickly it can be rolled out.

How will the plans affect farmers?

There are some practical issues around farmers having to submit tax returns for March 31st or April 5th. Many farmers will be caught up in lambing or calving during this time, leaving little time for tax calculations and meetings with accountants.

However, Ian Parker, a director here at Whitley Stimpson Ltd and an agricultural accountancy expert, says there are larger issues at stake for farmers to consider.

Ian said: “Although the changes proposed by HMRC might not be so onerous for a lot of small businesses, the way many farm incomes are generated means there is a real risk of an increased tax burden for farmers, which could impact significantly on cashflow.

“Arable farmers, for example, sell their crops later in the year and then also receive support payments in December, which means there is a lot of income during these months, but for the remaining nine or 10 months in the year, they may well make a loss.

“If a farm’s current accounting date does not conform to the tax year, then profits will need to be apportioned across two accounting periods. Depending on a business’s accounting date, that could lead to overlap profits where several months end up being taxed twice in the same year which accelerates when tax is due for payment. Given the way farm payments are structured, that could have a devastating impact on cashflow and the viability of the business.”

Changing accounting dates

One solution might be to alter your accounting date in line with the tax year in advance of the changes, and on the surface this might sound attractive. However, Ian warned this is also not without pitfalls.

“Changing your accounting date is an option, but farm businesses need to tread carefully,” he said.

“If a business extends their accounting period to bring it in line with the tax year, it could be taxed twice for the period of the extension and so careful planning is required as to identifying the optimum time to change. Although this means they will eventually get the amount they have paid twice back, it could still impact negatively on the cashflow of the business, making farming life that much harder.”

Although different types of farm business will be affected differently by the proposed changes, having professional support could be the difference between a smooth transition and paying significantly more than you owe.

To speak to us about how Basis Period Reform might impact your business, or any other tax related agricultural issue, get in touch with Ian Parker on (01295) 270200 or email IanP@whitleystimpson.co.uk.



Talk to someone who understands the real issues

Accounting for agriculture, farming and rural business is a specialist area that requires expertise and an understanding of the industry. Our dedicated team come from farming backgrounds and offer a clear understanding of the issues facing farmers.

We provide professional knowledge and hands-on experience in the agricultural sector. We have worked with agricultural businesses for over 90 years, providing the expert advice that is required to help you enhance the potential of your farming business.

Meet the agricultural team



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