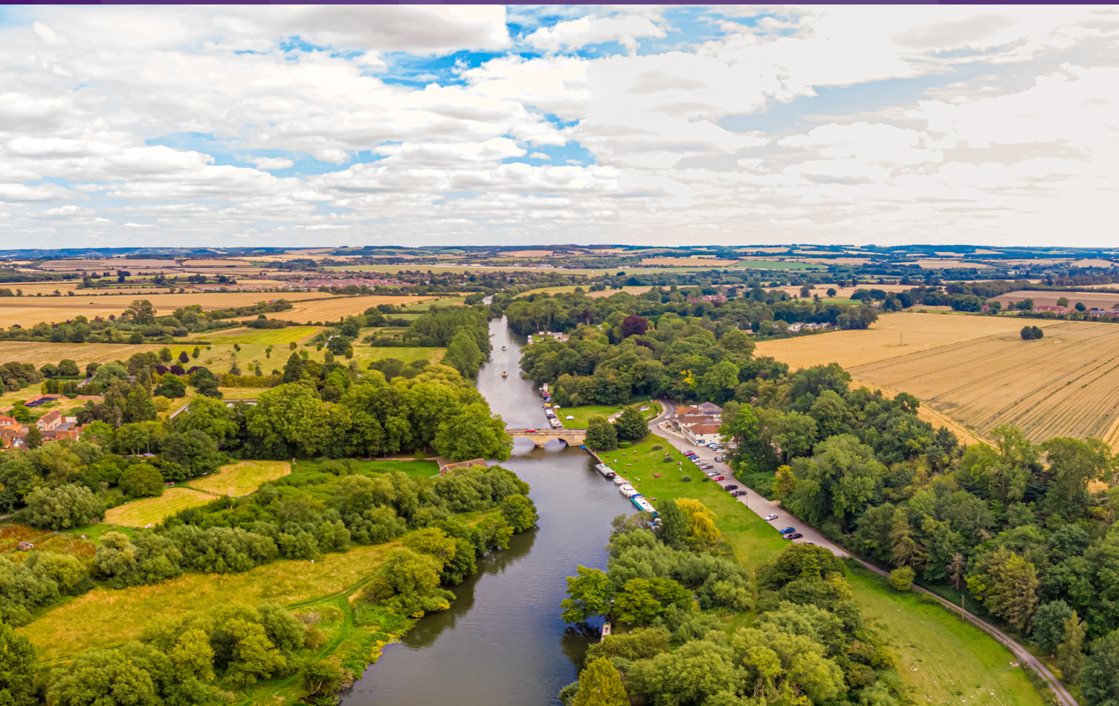
Whitley Stimpson

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS



Agricultural Spotlight

Summer 2022 | Issue 24

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Welcome to the Summer 2022 edition of Agricultural Spotlight. As we went to press many are hoping for rain after the recent hot weather to help with the summer crops and to support crop yields. With input costs rising at the fastest rates seen in a generation this may be a critical time for some farmers.

This quarter focuses on the 2022 Spring Statement and how this may affect the rural community along with key changes to Basic Payment Scheme payments and red diesel restrictions.

We hope it provides valuable information to help you.

The Spring Statement – A damp squib for the countryside?

The Spring Statement was seen by many as an opportunity for Chancellor Rishi Sunak to help with the spiralling costs of farm inputs, as well as supporting the less affluent members of the rural community to cope with the cost-of-living crisis.

Sadly, such optimism soon turned to dismay when Mr Sunak took to the commons floor to deliver his proposals.

Yes, there were some minor concessions that were broadly welcomed, providing a modicum of relief for those most impacted by the tumultuous times in which we live.

But the headline-grabbing policies, the tax breaks a Tory government might be expected to pull out the bag when we're all suffering, were conspicuous only by their absence.

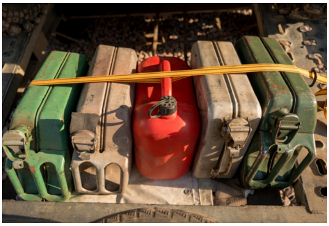
So, what exactly did the Chancellor deliver on March 23rd this year?

The main points include:

- A five pence reduction in fuel duty from 57.95p to 52.95p.
- Raising the National Insurance threshold from £9,880 to £12,570.
- Cutting the basic rate of income tax from 20 per cent to 19 per cent from 2024.

So, exactly how helpful are these?

Fuel duty



The five pence reduction in fuel duty was broadly welcomed by everyone who runs a vehicle.

But Ian Parker, Director on our agricultural team here at Whitley Stimpson, says it's unlikely to make any material difference to farmers whatsoever.

Ian said: "Farm inputs costs are soaring to unprecedented levels. The price of fertiliser has reached eye watering highs over recent months due to the war in Ukraine and the disruption in manufacturing and supply that has caused. Energy prices are also sky high.

"Plus, the cut is the equivalent to just a one pence reduction in duty on red diesel.

"So, whereas this is certainly a welcome step, it is somewhat cold comfort for farmers who are wrestling with sky high costs at one end and squeezed margins at the other as supermarkets try to beat down prices."

National Insurance

Although the rise in the threshold for national insurance is likely to have very little impact on farmers, it is good news for farm workers and less affluent members of the rural community.

The change means thousands of lower paid workers will be taken out of national insurance contributions, or will see their contributions reduced, while still enjoying all the benefits.

However, many have criticised the Chancellor for not putting off the hike in national insurance of 1.25 per cent that took effect in April. This adds extra cost to farm businesses at a time when other costs are huge.

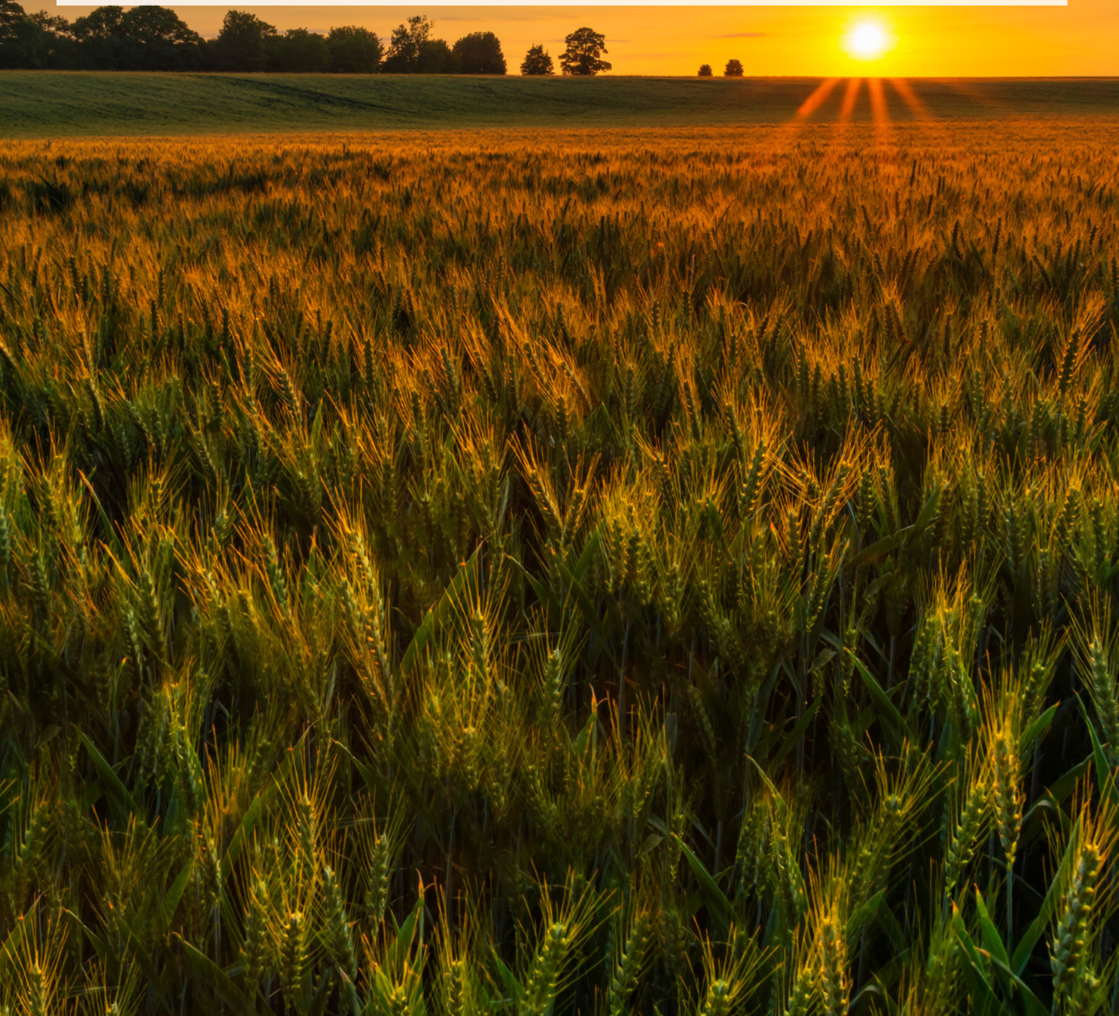
Ian Parker said: “The hike in national insurance will impact on both farm workers and farm business, so whilst the cut in the threshold for national insurance is welcome, it feels a bit like giving with one hand, and taking with the other. He also highlighted that whilst the rate of National Insurance has increased by 1.25% this is actually an increase of 10.4% which the Government are far less keen to publicise!”

Ian added that the overall reduction in income tax was good news for everyone, but taken as a whole, the Spring Statement had been a bit of a damp squib for rural communities.

“There is so much more we feel Mr Sunak could have done to help the countryside,” he said.

“It feels like a missed opportunity.”

For advice on the changes announced in the Spring Statement, or tax or financial issues generally, get in touch with Ian Parker on 01295 270200 or email IanP@whitleystimpson.co.uk.



Government announces plan to help farmers with rising input costs

The government has announced a new measure to help farmers firm up their cash flow as input costs continue to spiral to unprecedented levels.

The plan, announced in early May, will see payments under the Basic payment Scheme (BPS) made in two instalments across the year instead of one for the remainder of the Agricultural Transition Plan, which ends in 2028.

The scheme is being introduced to provide financial assistance to farmers reeling from huge hikes in the price of fuel, fertiliser, and feed costs, due to the war in Ukraine and turmoil in global markets.

Starting from this year, it will see 50 per cent of the overall payment made in July and the remaining 50 per cent in December.

Announcing the plan, Environment Secretary George Eustice said: “We have decided to bring forward half of this year’s BPS payment as an advance injection of cash to farm businesses from the end of this July.

“It will give farmers some additional cashflow earlier to provide some confidence. We will also make this a permanent change to the way we pay BPS in future with twice yearly instalments going forward.”

Ian Parker, Director of Whitley Stimpson and agricultural financial expert, welcome the announcement, saying it would provide some short-term hope to farmers who were growing increasingly worried about the future.

“The global energy prices, lack of supply in the marketplace, the ongoing war in Ukraine, and reduced support payments have all combined to create a perfect storm for many UK farmers,” he said.

“Although the government’s announcement doesn’t mean any more money in real terms, it does at least mean farmers will be able to even out their cash flow across the year by receiving two payments rather than just one.

“With judicious financial planning, this should help to ensure they ride out the worst of the storm and until the world starts to return to normal. However, he added a word of caution that farmers do need to budget carefully as it will be a shock at the end of the year when a much smaller BPS payment arrives than the ones that they have historically been used to.”

For advice on financial planning, tax planning, or anything else, contact Ian Parker on 01295 270200 or email IanP@whitleystimpson.co.uk.

Join our **Agricultural** team

Our accountants have been helping and advising the farming community from our Oxfordshire offices for over 90 years and we are looking for the next generation of talented people to join our team.

Whether you’re starting out in your career or maybe you’re already a qualified accountant looking to specialise in the area you know well, we would love to speak to you.

Please contact our HR team for an initial chat:

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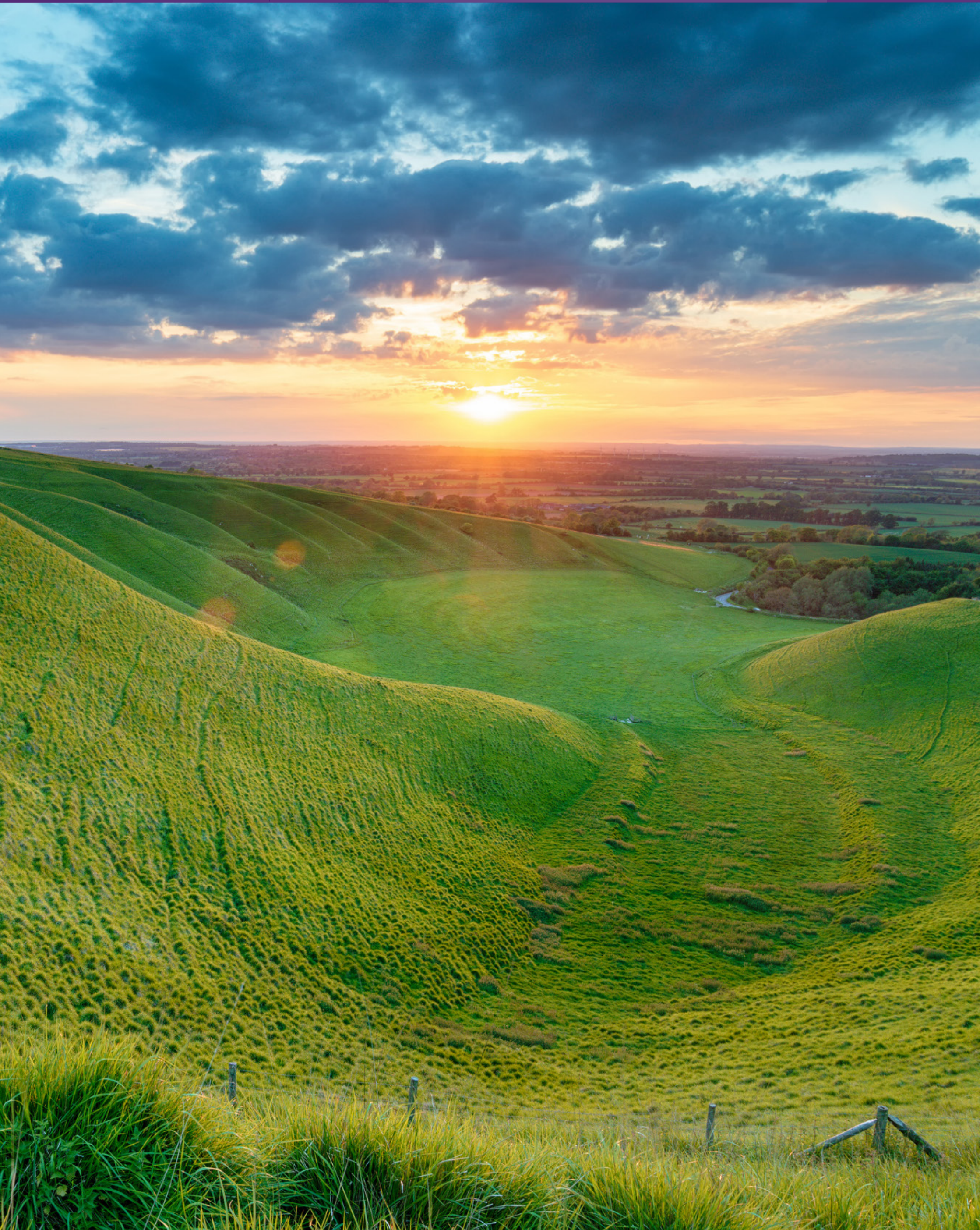
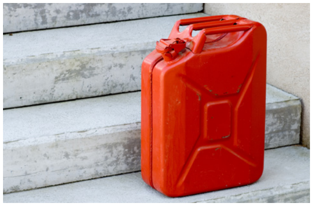


How changes to red diesel regulations are impacting farming

With the war in Ukraine still raging, the price of farm inputs has been dominating the headlines for what seems like months.



Among all this noise, it would be no surprise if you had missed another important announcement earlier this year about another volatile yet essential input – fuel.

We are of course talking about government restrictions to the use of red diesel, otherwise known as rebated fuel.

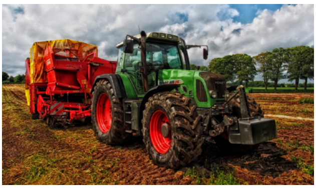
As we're sure you'll know, this fuel, which takes its name from a red dye used to differentiate it from higher rate white diesel, is intended for use in vehicles and machines that are not routinely used on the roads.

Lower rate of tax

Historically, rebated fuel has been taxed at a significantly lower level than white diesel, which is used to power road-going vehicles. In fact, there have been times when the level of rebate was 100 per cent although currently it sits at 20 per cent, providing significant relief for the agricultural industry, construction, and a range of other sectors too.

But as of April 1st, this year, all that changed.

Change in the law



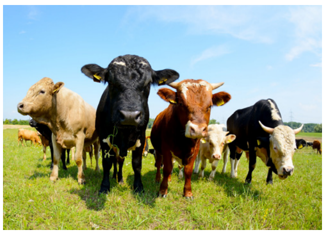
Sadly, this was no April Fool's joke. The change in law placed significant restrictions on which vehicles could continue to use red diesel and which had to switch to its more expensive white counterpart.

It has been brought in to help the government reach its climate change targets, in the belief that having to pay much higher prices for white diesel will convince those businesses with a heavy reliance on diesel to invest in more environmentally friendly solutions.

The main change the new legislation has ushered in is replacing the on road/off road distinction with an 'allowed use vs non-allowed use' stipulation. Essentially, what this means is red diesel will still be able to be used for allowed activities, but not those classified as non-allowed.

The construction industry, for example, has been particularly affected by the change as construction has been deemed a non-allowed use for rebated fuel. Whereas before April 1st, 2022, construction companies could use red diesel in bulldozers and other plant on a building site because it was classified as off road, as construction is now classified as non-allowed use, they can no longer do this. Instead, they are forced to use white diesel to power all their vehicles, plant and machinery, adding potentially tens or even hundreds of thousands of pounds to their annual fuel bill.

Agricultural and allowed use



As a sector, however, agriculture has got off relevantly lightly. Agriculture, horticulture, forestry, and fish farming are classified as allowed uses for red diesel under the new rules.

This means red diesel can be used for growing and harvesting crops and rearing animals for the production of food, wool, leather, fur, or other substances.

The rules state that rebated fuel can also be used in agriculture when cutting verges or hedges that border a road, clearing snow, gritting, and assisting in the clearing up of a flood.

Conditions of red diesel use for farmers

Unsurprisingly, there are some conditions on the continued use of red diesel, even for farmers. One of these is ensuring you're using the right type of vehicle. According to HMRC, vehicles must be classified as agricultural vehicles to use it, and these fall into one of four types, including:

- A tractor.
- A single seat vehicle, weighing less than 1,000kg designed primarily for off-road use.
- A vehicle only used for agricultural, horticultural or forestry purposes, that is licensed to use public roads only when passing between two areas of land occupied by the same person, which are less than 1.5km apart by road.
- A vehicle with permanently attached or built-in machinery used for handling or processing agricultural materials, such as combined harvesters, crop sprayers, forage harvesters, pea viners, etc.

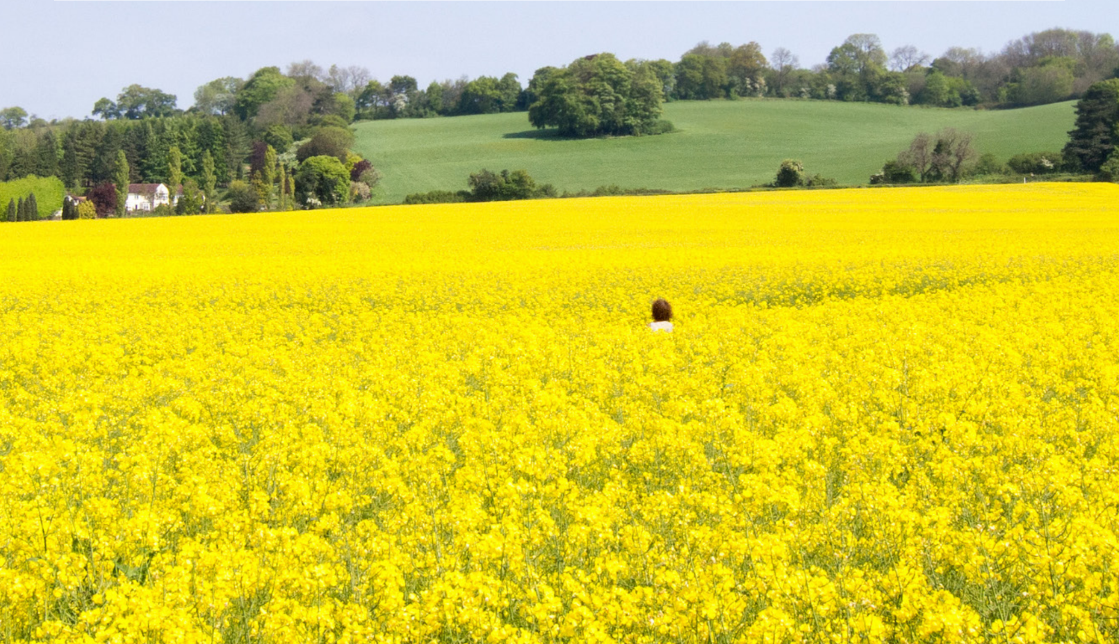
Exempt activities

Not all activities carried out on a farm are legitimate reasons to use red diesel. Those for which it cannot be used include:

- The breeding, rearing, or keeping of animals used in sport or recreation.
- Dealing in agricultural products.
- Flood protection.
- Peat or loam extraction.
- Exploitation of wild animal or fish stocks.
- Construction of buildings or other structures related to agriculture.
- The transportation of livestock, agricultural produce, implements, inputs or waste, other than where it is incidental to an agricultural operation being performed on the land.

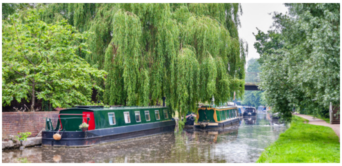
Under the new rules, agricultural contractors have the same rights as farmers to use red diesel.

If you would like to discuss this, or any other form of diversification, get in touch with Whitley Stimpson director Martin Anson on MartinA@whitleystimpson.co.uk or call 01295 270200.



Don’t let staycations become too taxing

With the staycation looking like it is here to stay, and the rapidly decreasing support payments, diversifying into agritourism may be a temping option for many farmers.



Certainly, this could be the case as many farmers already support the income they derive from their agricultural activities by hosting holidaymakers on camping and caravan sites, in holiday cottages, or in specially converted farm buildings.

But the decision is not without its considerations, and mainly these are around tax. In this article, we look at the main issues surrounding holiday lets.

Business rates

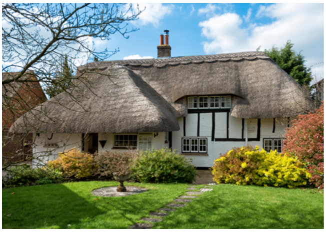
Holiday lets are subject to business rates if they are available to be let for short periods for at least 140 days per year. In recent years, single holiday lets have been able to claim Small Business Rates Relief, meaning often there are no business rates to pay.

If, however, your holiday let doesn’t meet this criterion, and is mainly used as a second home for you and your family, business rates will not apply, and you will be charged council tax.

Recently, HMRC have announced they will be cracking down in this area, meaning if you are claiming your holiday let is available when it is not to avoid the council tax, expect a knock at the farm door.

Inheritance Tax

Prior to 2008, many people bought holiday lets as a way of sheltering part of their estate from the tax man. This was because after two years of ownership, holiday lets were subject to Business Property Relief, and therefore Inheritance Tax Relief.



However, in 2008 HMRC published a change in their view of the availability of BPR and were successful in enforcing via the tax courts.

As a result, holiday cottages no longer benefit from relief on Inheritance Tax in the same way as agriculture land and buildings.

This is because they are classed by HMRC as an investment activity rather than a trading business.

There has been one occasion where a tribunal went against HMRC in this view, when the owner of the holiday lets argued they should be eligible for BPR. However, the case hinged on the extra services the owner provides, which were significant enough for the tribunal to agree that on this occasion, the holiday lets constituted a trading business.

In this case, the owner provided services far more than what is normal for a holiday let owner.

VAT

Holiday letting is considered a service by HMRC, rather than the renting of a building. As such, prices are subject to VAT if the letting is carried out by a VAT-registered business.

One way of mitigating this is to place the holiday let in a separate legal entity to the farm business, thereby removing it from the VAT burden altogether.

However, the businesses must be kept entirely separate for this to work, otherwise HMRC can decide to aggregate them, which could leave you paying a large VAT bill for the VAT you didn’t charge out on the holiday let property.

Income Tax

It is important to remember that profits from holiday lets are treated differently to those from your farming business because they are treated as property income. This means you cannot offset any losses from your holiday cottages against your farm profits, but they can be offset against future profits on the same property.

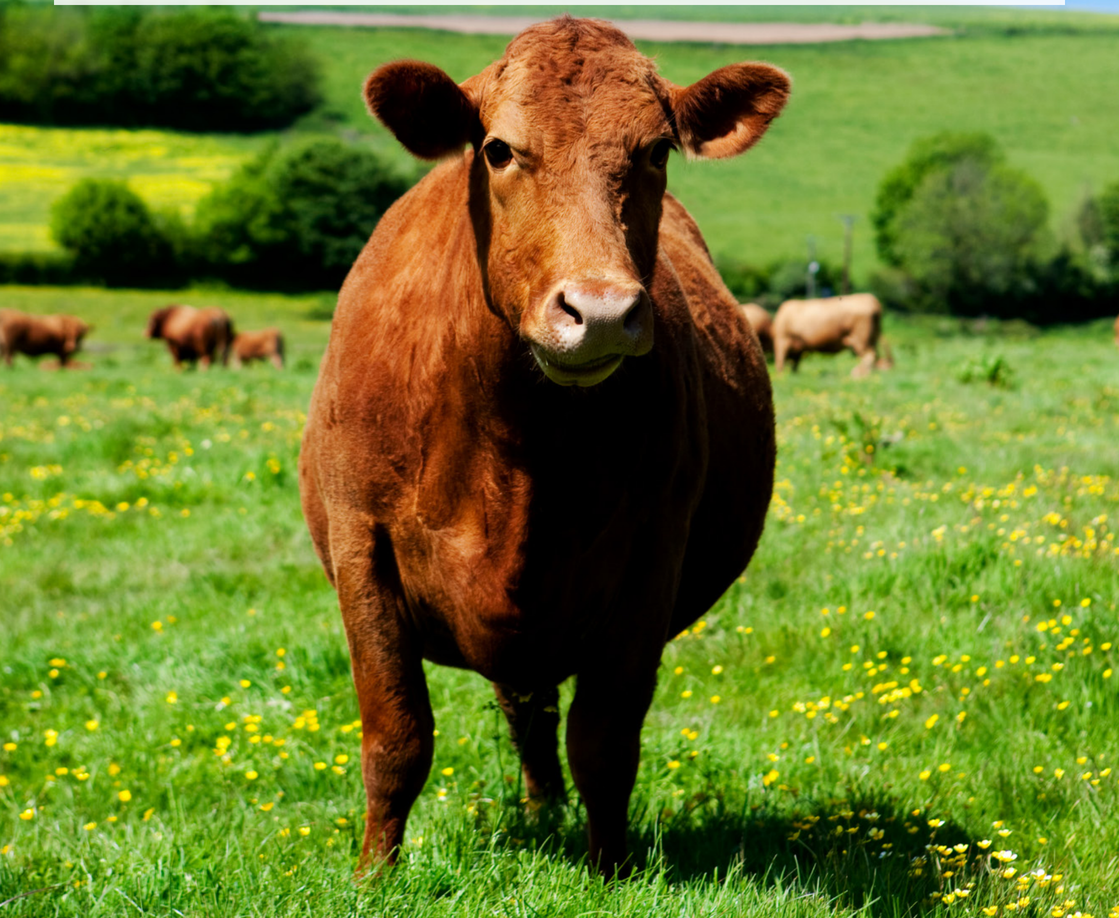
However, profits from holiday lets can be considered when deciding on the level of pension contributions that you are able to make.

Professional advice

Although there are certainly benefits of entering the agritourism market, understanding the tax implications of holiday lets is key to making this type of diversification pay.

We would recommend anyone considering it to take professional advice and ensure everything is structured in the most tax efficient way.

If you would like to discuss this, or any other form of diversification, get in touch with agricultural expert Martin Anson on MartinA@whitleystimpson.co.uk or call 01295 270200.



Unpacking the facts about self-storage

Letting out agricultural land and buildings for storage seems on the face of it a relatively trouble-free way of making extra income from un or underused assets.

Many people think such an arrangement would be simply a case of leasing the assets to the tenant under a standard letting of the property agreement.

Sadly, as with most things tax-related, it is a little more complicated than that.

That's because around 10 years ago, HMRC changed the rules around the VAT treatment of self-storage facilities, removing the VAT exemption that had existed up until that point. This meant that any income generated from providing self-storage facilities was automatically subject to VAT.

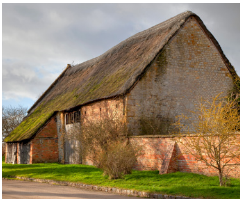
But rather than clear up any confusion, this simply served to make things more complicated and open to interpretation.

Type of storage facility

The first thing to consider when trying to understand if providing self-storage will incur VAT is the type of facilities itself.

According to HMRC, for the income generated to be subject to VAT, the storage facility must be fully enclosed. This would include barns with side walls, grains stores, commercial units, shipping containers, or commercial units, but would exclude Dutch barns due to their lack of side walls. Equally, open air plots of land are also exempt.

Self-storage meaning



The next thing to consider is the meaning of self-storage. This may seem obvious, but as with so many things tax-related, it is a little more complicated than it first appears.

From a VAT perspective, self-storage simply means storage, as in the facility is used for the purpose of storing goods. So, if that is the sole purpose of the building or unit, the matter is relatively simple – income generated is subject to VAT.

The problem comes when a barn or other agricultural building is used for storage, and other purposes, by the person renting the facility.

For example, if the facility is rented for a commercial activity of which the storage of products is included, the VAT position would revert to leasing/letting of the property arrangement, which is exempt from VAT.

Exceptions to the rule

To make matters more complicated, there are some exceptions to the way the VAT treatment is applied. These include:

- Where the storage relates to supplies to connection persons or charities.
- The storage of live animals.
- Open air storage, either on an open plot of land, or where the storage facilities are not fully enclosed.

Ian Parker, Director at Whitley Stimpson and agricultural tax expert, said negotiating the tax landscape around self-storage is a challenge.

He said: "On the face of it, self-storage appears a very simple way for farmers to make the best use of under-utilised buildings and land, and this certain can be the case.

"But the taxation rules surrounding this, particularly those relating to VAT, are complicated and open to interpretation.

"We would always recommend speaking to an expert before offering any facilities for self-storage, to ensure you don't fall foul of HMRC's regulations."

To speak to Ian on this issue, or any other agricultural tax enquiry, get in touch 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.

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