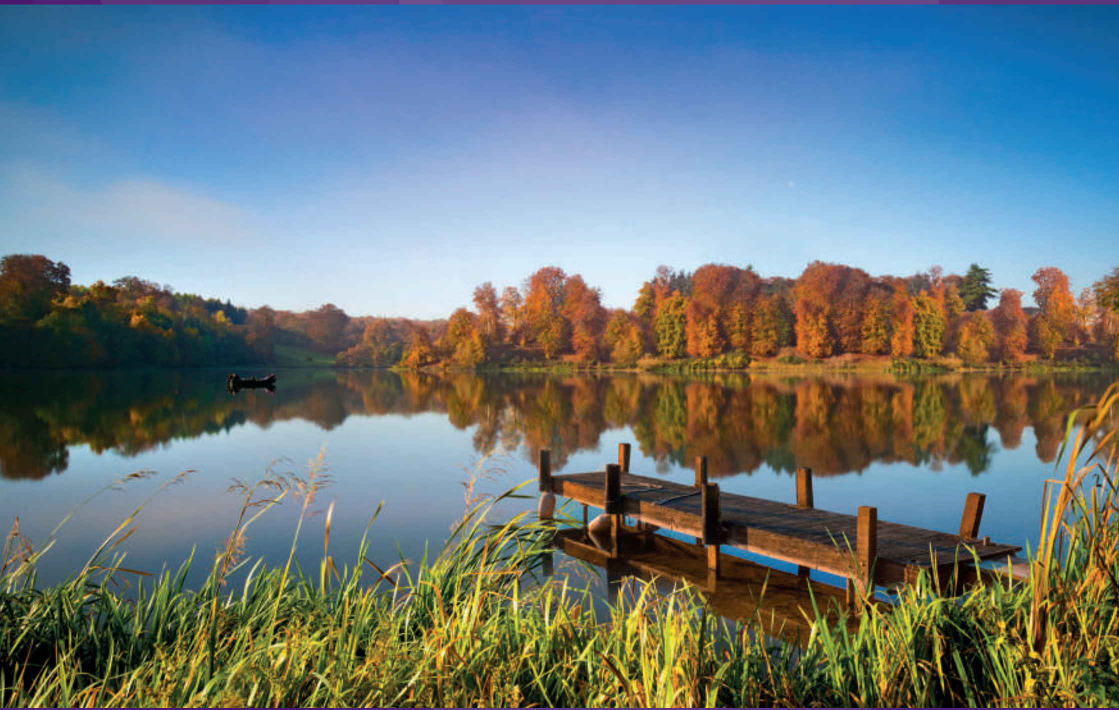
Whitley Stimpson

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS



Agricultural Spotlight

Autumn 2023 | Issue 29

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Welcome to the Autumn 2023 edition of our Agricultural Spotlight.

In this edition, we cover a diverse range of topics affecting the farming and agricultural sector. From how new laws will help to streamline the process for divorcing couples to exploring the Government's stance in enlisting UK farmers to combat climate change, and the enduring impact of staycations on the agritourism sector, even after the pandemic. Lastly we have provided a comprehensive guide to addressing succession planning, including key considerations and insight into taxes and asset transfers.

We hope you find these articles informative and valuable for your agricultural endeavours. If you have any questions or need further assistance, feel free to reach out to our experts mentioned in the articles. Thank you for being part of our agricultural community and stay tuned for more insights in the future!

Strong views aired on proposal to extend farm tenancies

Government proposals aimed at extending farm tenancy agreements could have the opposite effect, key agricultural groups have said.

As per a recommendation in the Rock Review, the government is consulting on restricting Agricultural Property Relief (APR) to tenancies of eight years or more, in a bid to encourage landlords to offer longer leases.

But The Country Land and Business Association (CLA) and the Central Association for Agricultural Valuers (CAAV) have both poured scorn on the measure, suggesting landlords will reduce longer leases to eight years or take land out of agricultural use in favour of environmental schemes.

Jeremy Moody, CAAV secretary and advisor, said:

"This does nothing for existing tenancies, reduces opportunities for would-be tenants, while many landowners could then see fiscal advantage in taking environmental options themselves rather than letting land out."

Major step in the right direction

However, the Tenant Farmers Association (TFA) welcomed the proposal, describing it as a major step in the right direction.

The association had argued for the threshold to be 10-years before landlords qualified for APR but agreed to move forward on the basis of an eight-year term.

"Landlords will continue to be free to let land on whatever terms they desire. However, they will only obtain the taxation relief if they let for longer terms," the organisation said.

Vision for the tenanted sector

The Rock Review is an independent report by the Tenancy Working Group setting out a vision for the tenanted sector. The document highlights a number of challenges facing tenant farmers and makes recommendations to DEFRA on how these can be met.

Ian Parker, partner at Whitley Stimpson and agricultural tax expert, gave a cautious welcome to the proposal.

Whereas there is a risk landlords might look for alternative land uses due to the change in tax position, he said he felt this will be marginal.

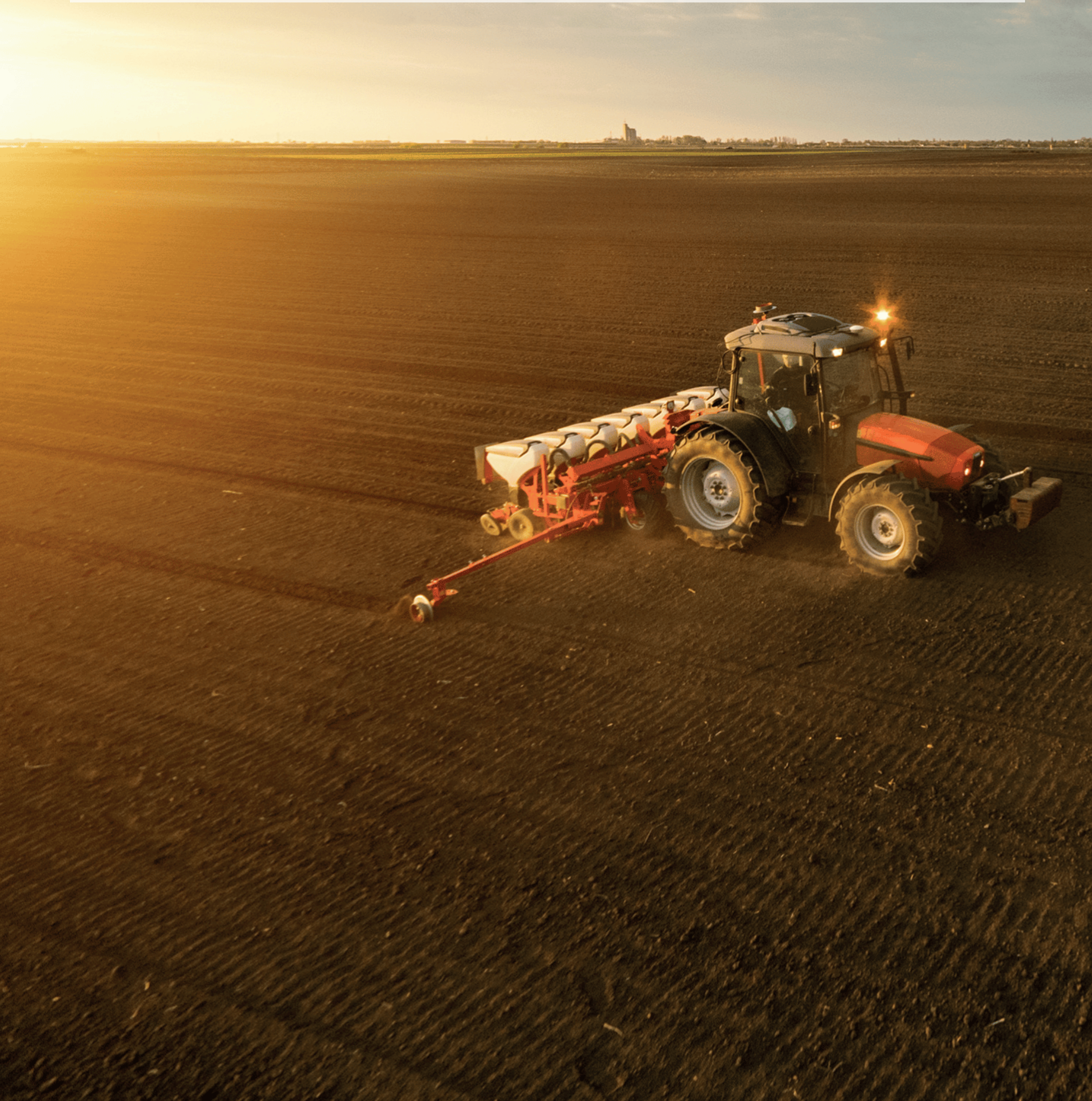
"Maximising inheritance tax relief is a still a major priority for landlords and whereas the number of attractive environmental schemes seems to increase on an almost daily basis, they are often not considered as an alternative to APR," Ian said.

"If the proposals are to become law, it is hoped they will be drafted in such a way as to ensure both landlords and tenants are protected."

However, Ian encouraged any landowners concerned about the loss of APR, or interested in finding out more about how the various environmental schemes might impact on their tax position, to seek advice.

He said: “Whereas we are confident any change in law won’t impact adversely on the tenanted sector, landlords wanting to review their options and resulting tax position are welcome to get in touch.”

To speak to Ian on this subject or any other agricultural tax issue, contact him on (01295) 270200 or email ianp@whitleystimpson.co.uk.



New laws for divorcing couples

Divorce is rarely something to celebrate, but recent changes to the law will go some way to making separating easier and more tax efficient, especially for farming couples.

From April 6, 2023, a major change in the way Capital Gains Tax is levied on couples going through a break up was introduced, which will help to give both parties some peace of mind in an otherwise miserable situation.

Previously, separating couples wanting to exchange assets such as investments, personal possessions, or property other than the main residence, needed to have done so before the divorce was completed and in the same tax year as when they decided to separate, to avoid paying Capital Gains Tax. This meant that if they decided to separate in January, they could have had only until April 6 of the same year to transfer any assets between each other.

The new law, however, does away with these conditions and enables divorcing couples to exchange assets on a no gain/no cost basis for up to three years after ceasing to live together or for an unlimited period if the transfer occurs as part of formal divorce proceedings.

This change has been introduced to provide couples with more time to reach a formal settlement without incurring Capital Gains Tax liabilities for the transferring spouse, and to create a fairer and more manageable process, particularly for those involved in complex asset division during divorce proceedings.

Welcome relief for farming families

Ian Parker, partner and agricultural tax expert at Whitley Stimpson, said the change would be particularly welcomed by farming families.

He said: "Dividing the assets of a farming business, particularly if both parties are directors, can be a difficult and long-winded undertaking that couples might not want to do when emotions are high and feelings of loss are raw.

"Having an extended time to do this, as this change of law allows, will enable couples to come to terms with what has happened before addressing the issue of the farm business assets and deciding on the best outcome for all parties, without the extra worry of being hit with a large Capital Gains Tax bill."

If you are going through a difficult situation and need to discuss the best way forward for your farming business, get in touch on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Green farmers hit by tax blow

You couldn't make it up!

It will come as news to no one that the government wants UK farmers to get involved with schemes that will see part of their land 're-wilded' to help tackle climate change.

With pressing environmental issues to consider, ministers have set ambitious targets of getting 75% of farmers involved in what it describes as low carbon practices – turning farm land over to woodland, wetlands, or scrub – by 2030.

But there is a major catch and one which is likely to have a very chilling effect on these schemes.

Farmers who get involved in them lose their inheritance tax benefits for the land converted to an environmental purpose, meaning their children will have to stump up a tidy sum on their death.

With inheritance tax running at 40%, this could run into thousands of pounds, putting many small family farms out of business.

Ian Parker, partner and agricultural tax expert at Whitley Stimpson, branded the situation 'ludicrous'.

He said:

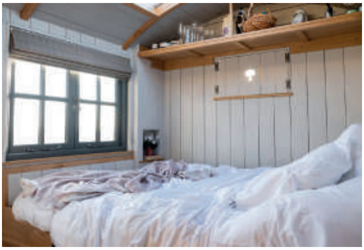
"The family farm is the fabric of our countryside and the only reason that has been able to exist is because the tax laws have allowed for the farm to be passed down the generation without a crippling inheritance tax burden.

"Expecting farmers to play a fundament role in tackling climate change but then punishing them with tax hikes seems incredibly unfair and will certainly discourage many from getting involved.

"The government needs to have an urgent rethink of this strategy if it is serious about getting three quarters of farmers signed up to one of these schemes in just over six years' time."

Are staycations still powering the UK agritourism sector?

It is no secret that the COVID pandemic and resulting restrictions on international travel prompted hundreds of farmers and landowners to diversify into the agritourism sector.



From humble pop-up campsites to shepherds huts, lodges, and expensive barn or farm cottage conversions into plush holiday accommodation, for a time it seemed like everyone with an acre or two of land was trying to cash in on the staycation boom.

But now, with the pandemic little more than a distant memory for many of us, has the investment in agritourism continued and does the sector still provide a viable form of diversification?

Whitley Stimpson partner and agricultural tax expert Ian Parker says it does.

At the lower end of the market, a major boost this year has been the permanent extension of Permitted Development Rights from 28 days to 60 days, meaning farm businesses wanting to set up seasonal diversification projects can do so profitability without needing to apply for extra planning permission.

The change was announced in June this year – just in time for the main holiday season – but applies only in England, with Wales and Scotland still adhering to 28 days.

Ian described this as a huge boost for English farmers.

“The impact of extending Permitted Development Rights is just starting to be felt as we come to the end of the summer holiday season,” he said.

“But early signs show it has been a big success, enabling English farmers and landowners to capitalise on a welcome change to the law.”

Elsewhere, bookings have remained strong as holidaymakers are still opting to explore closer to home than before the pandemic.

Ian said: “One change we’ve seen among our farming clients who offer holiday accommodation is that people have returned to booking an annual foreign holiday, but will chose to have shorter breaks in the UK, often picking tranquil, rural locations.

“This has benefited glamping and bricks and mortar farm accommodation, which continues to do well even despite the cost of living crisis.”

Complicated tax position

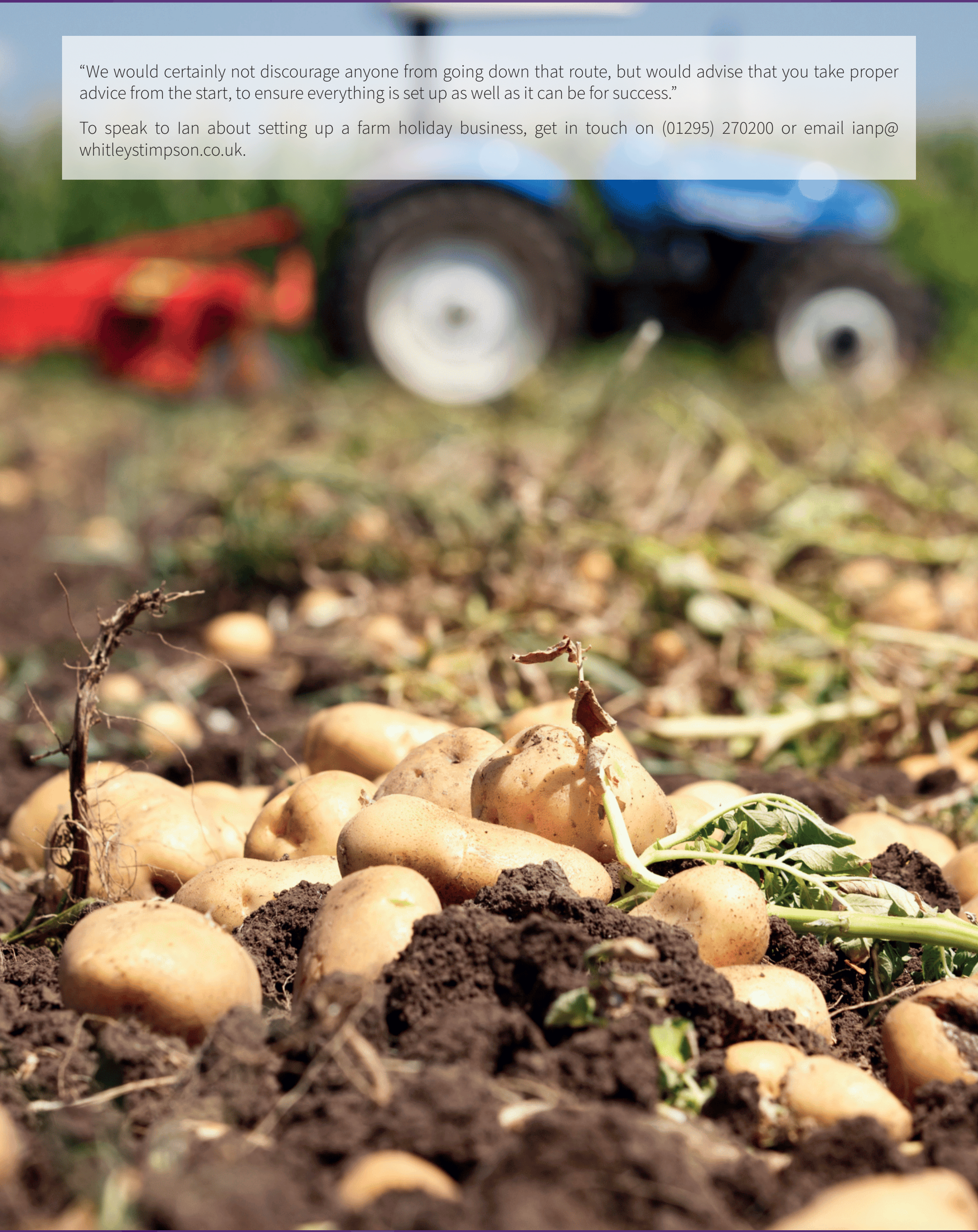
However, Ian advised farmers and landowners considering setting up an agritourism project for next year to take advice before proceeding, particularly in relation to tax.

Slip ups in the day-to-day management could be costly, he warned, with issues such as VAT on deposits, understanding in which tax year income should be accounted for, accounting for cancellations, and VAT flat rate vs standard rate, often catching new businesses out.

He said: “All signs point to the fact the staycation is here to stay, and with the current confusion around farm payments it is understandable that agritourism is a very attractive form of diversification for farmers.

“We would certainly not discourage anyone from going down that route, but would advise that you take proper advice from the start, to ensure everything is set up as well as it can be for success.”

To speak to Ian about setting up a farm holiday business, get in touch on (01295) 270200 or email ianp@whitleystimpson.co.uk.



Succession planning – a guide for getting started

For many farmers, succession planning remains a difficult conversation to have. As a result, it is all too often placed on the back burner, sometimes for many years, until due to ill health or age related decline, it can no longer be avoided.

Or, in the event of a sudden death, no succession planning is in place at all, causing extra stress and worry for the remaining family at an extremely difficult time.

Neither of these situations are ideal and can easily be avoided if the issue is discussed in a timely manner. To help facilitate this challenging but vital conversation, we have produced our summary of what succession planning involves, to help guide farming families through the process.

Key areas to consider

Before starting a conversation around succession planning, there are some key areas that need to be considered. We feel the most important include:

- Is the land you farm owned or tenanted? If tenanted, on what type of lease?
- Who owns the assets of the farm?
- What direction do you see the farm taking going forwards?
- How will each family member be involved in the farm/farming operations in the future?
- Do you plan to diversify away from general farming activities?

Understanding these points will enable you and your advisors to better understand what you want to get out of the succession planning process and put a plan in place to achieve that.

It is also important to understand the tax implications of succession planning and ensuring that you receive the right advice. The two key taxes to consider throughout this process are Capital Gains Tax (CGT) and Inheritance Tax (IHT).

CGT is likely to be involved if you plan to give away some of the farming/business assets to the next generation whilst you are still alive. However, much of this CGT can be deferred by making appropriate claims for Holdover Relief so it is important to receive expert advice before doing anything, to ensure it is carried out in the most tax efficient way possible.

IHT should not be a major issue so long as the correct planning is done at this stage – another reason to address succession planning sooner rather than later.

Agricultural and Business Property Relief ensures that the farm and other business assets can be passed on to future generations without significant tax liabilities being payable, so again, it is important to work with an expert on this, to ensure everything is correctly put in place.

Once you have completed your succession planning exercise you should be able to tick the following boxes:

- Your Will has been updated to tie in with your succession plans and every family member involved also has one.
- You have planned for the practical issues such as payment of any tax liabilities, your retirement income and housing needs.
- You have agreed with all family members concerned the timing of the handover so that there are no hidden surprises.
- You have communicated your plan to all external stakeholders of your farming business such as the bank, suppliers, and your customers.
- Any partnership/shareholder agreements are consistent with the family's wishes and Wills.

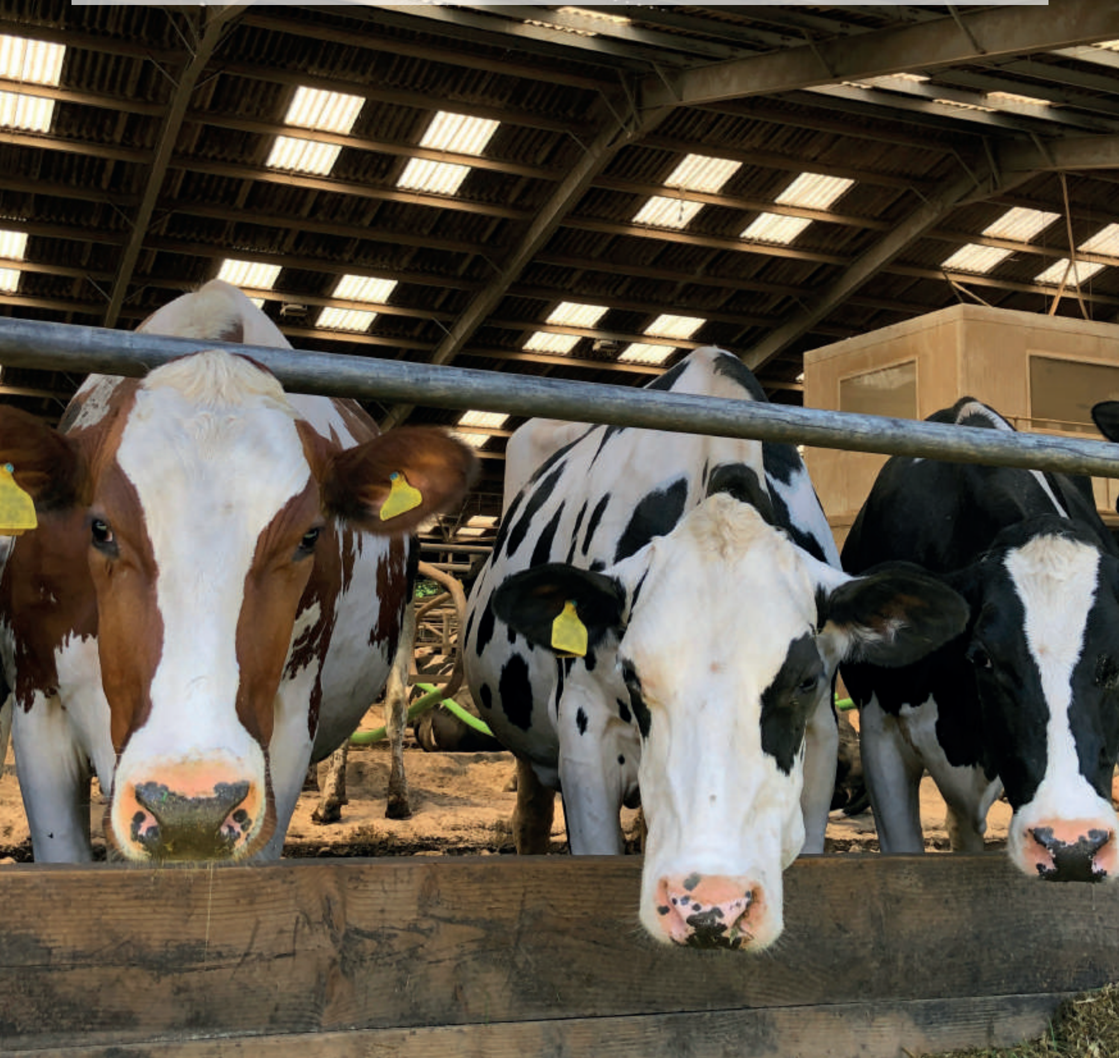
Summary

At Whitley Stimpson, we understand succession planning can be a difficult topic to raise within a farming family and that putting it to one side for another day can feel like the easier option.

But this approach rarely works out for the best and with a robust plan in place, all family members can sleep more easily knowing that when the time comes, the transition of the farm across to the next generation will occur in an efficient and worry-free way.

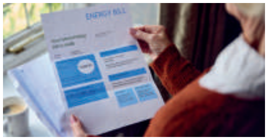
Our experienced team can take you through this difficult process in a sensitive and respectful way.

To discuss succession planning for your farm, get in touch with Ian Parker on 01295 270200.



Concerns over energy suppliers fuelling fertiliser prices

Keeping an eye on costs is vital to running an efficient and successful business. Over the past few years, this has been a particular challenge for farmers as the war in Ukraine drove energy prices, and as a result fertiliser prices, to unprecedented highs.



Sadly, as winter approaches, farmers will need to brace themselves for a further spike in energy costs as a series or global events are set to impact the gas and oil markets.

The only consolation is that prices are not expected to reach levels seen in summer 2022.

Turbulence in the gas market has come about due to maintenance in the Norwegian gas fields – a big supplier of gas to the UK – and the threat of strike in gas production facilities in Australia, which supplies international markets.

This has set the gas prices on an upward trajectory, resulting in a 20% increase in the spot price of urea in August this year.

As a result, nitrogen fertiliser prices rose for the first time this year in July, according to AHDB.

Sadly, the bad news for farmers doesn't end there.

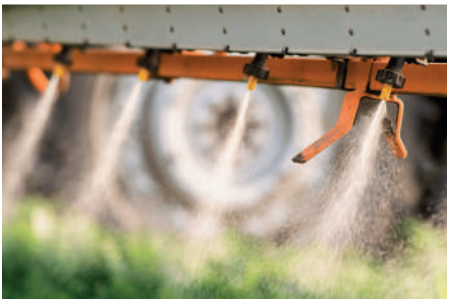
A cut in oil production in Saudi Arabia and Russia has pushed up the price of crude, which will be felt downstream by farmers in the form of red diesel price hikes.

In August, gas oil prices rose to 84ppl in response to the news, up from around 70ppl in June.

No time to panic

Ian Parker, partner and agricultural tax expert at Whitley Stimpson, said that while rising input costs are a concern, it is no time for farmers to panic.

He said:



"Although news of cost inflation will not be welcomed by farmers, the forecast energy and fertiliser rises are much more modest than those seen last year at the height of the Ukrainian war.

"This will be helped by the fact that Europe's gas reserves are 90% full – they highest percentage on record for this time of year – which should mitigate further price rises over winter.

"Farming business will certainly have to manage their costs, but those that successfully negotiated the unprecedented prices of last year should be in a good position to do this.

"Anyone who is concerned about the impact of the rises should seek support now, to limit the impact they will have on the viability of their business."

For advice on cash flow management, business planning, or any other aspect of financial management, 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 our agricultural experts

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