Whitley Stimpson

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Agricultural Spotlight

Spring 2024 | Issue 31

PARTNERS IN YOUR PROGRESS

whitleystimpson.co.uk

Contents

Welcome to the Spring 2024 edition of our Agricultural Spotlight.

In this edition, we delve into the announcements made during the Spring Budget by Jeremy Hunt, aiming to understand the party's proposed initiatives for supporting the farming community should they succeed in the next election. We explore the eligibility criteria for glamping pods qualifying for capital allowances. Additionally, we look at the swift U-turn made by the government subsequent to the proposal to strip double cab pick-ups of their goods vehicle status for capital allowance and benefit in kind purposes.

We trust these articles will prove informative and beneficial to you. Should you have any enquiries or require additional support, please don't hesitate to contact our experts mentioned in the articles. We appreciate your continued involvement in our agricultural community, and we look forward to bringing you our next edition in Summer.

Spring Budget – Did Jeremy Hunt do enough to reassure farmers?

With the sun having set on party conference season, we now have a clearer picture of what the main parties will do for farming and rural communities if they succeed at the next general election.

With an election looming and a change of government looking likely later this year, Jeremy Hunt took to the dispatch box in March to deliver his Spring Budget in a last-ditch attempt to change the Tories' fortunes.

In what could be his last budget address, the Chancellor laid out his plans to steer the country out of the economic doldrums. He aims to build a richer and fairer Britain, in a bid to pull off a coup to rival the party's shock 1992 election victory.

But what was in it for farmers and rural communities, and did Mr Hunt make any pledges that could reverse the declining support the Tories face in the countryside?

Ian Parker, director of Whitley Stimpson and agricultural tax specialist, takes a look.

Extension to Agricultural Property Relief (APR)

Ian welcomed the provision to extend APR to land entering certain Environmental Land Management schemes from April 2025. This has been a concern for farmers, Ian said, as confusion had existed as to whether accessing this funding would lead to a loss of inheritance tax relief down the line.

"This is good news for farmers who will be relieved to see this announcement," he said.

"It opens up more opportunities for farmers to choose how to use their land and will put a lot of minds at rest."

However, Ian warned this could lead to more productive agricultural land being taken out of food production.

He said: "Of course, incentivising farmers to invest in habitat-restoration schemes rather than growing food could have significant impact on food security.

"It could also see more land sold to non-farming organisations that simply want to access the government funding available, rather than any form of food production. This would be a shame and certainly compromise food security in the UK."

Tax breaks

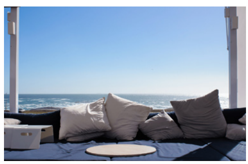
Elsewhere, Ian welcomed the 2% cut in National Insurance contributions, saying it could bring an instant tax benefit to farm workers, sole traders, and partnerships. Slashing Capital Gains Tax (CGT) on residential properties from 28% to 24% could also help wider rural communities, Ian said, as it had been designed to bring more residential property on to the market and encourage the sale of second homes.

"If this works as intended it will hopefully result in more local homes being available to local people," Ian said.

"But only time will tell if that is the case."

Furnished holiday lettings

One area Ian warned could have serious implications for farmers, and the landowners who have diversified into tourism, is the Chancellor's intention to abolish the Furnished Holiday Lettings (FHL) tax regime.



Owners of FHL have been able to claim full mortgage interest relief and benefit from capital allowances, but as of April next year, this will be abolished, bringing FHL into line with long-term lettings.

According to Jeremy Hunt, the aim of the move is to free up more properties for local people on long-term lets. It is expected to generate around £245m in extra tax for the government, which will be used to fund the cut in National Insurance.

But Ian Parker said the change unfairly impacts on farmers and landowners who have converted disused agricultural buildings into holiday accommodation that wouldn't be suitable for long-term residential lets.

He said: "This has serious implications for farmers and landowners who have diversified into agritourism, making the best out of old and disused buildings to generate extra revenue.

"Investing in this type of activity has been beneficial to this point, but removing the tax regime for FHL makes the returns on this type of activity much less attractive, especially if you factor in the cost of converting old buildings.

"Whereas in some areas, this policy might be effective in releasing more rental properties on to the market, it also has the potential to stifle rural investment, job creation, and reduce diversification opportunities."

A mixed bag

Overall, Ian described the budget as a mixed bag for farmers and the wider rural economy.

"Whereas the provisions around APR will reassure farmers looking to access funding from environmental schemes, it has the power to reduce food production and security," he said.

"And the removal of the FHL tax regime will actually damage some farms and rural businesses.

"Sadly, Jeremy Hunt is unlikely to have gone far enough to really turn the countryside blue again, and the Tories are likely to feel the impact of that at the polls."

If you want to speak to anyone about the provisions of the budget, or require any advice on tax or financial planning, contact Ian Parker on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Judge divorces wedding venue from Business Property Relief (BPR)

Claiming BPR from inheritance tax is a valuable tool in enabling family businesses to continue to operate down the generations.

But it can constitute murky waters to navigate, particularly in relation to farm diversification projects.

The deciding factor on whether an activity qualifies is if it simply constitutes an investment or a trading business. Investments are not eligible for BPR whereas trading businesses can be, although this isn't always guaranteed.

Holiday cottage

An often-quoted example of this is the holiday cottage. If a farm converts a barn into a holiday cottage, or has a disused workers cottage on the farm, they may opt to turn it into holiday accommodation for an extra revenue stream.

This would normally constitute an investment as it takes little active work to ensure a holiday cottage is available for guests yet can generate significant quantities of income. Under these conditions, it wouldn't qualify for BPR.

However, in a case where the owner is particularly active in servicing the accommodation, keeping it clean, keeping the garden looking pristine, providing extra services to the guests such as washing laundry, cooking meals, etc., this may be regarded as a trading business and as such, attract BPR. Each case is judged on its individual merits.

Wedding blues

A recent case regarding a wedding venue, however, was rejected by a tax tribunal for BPR because the judge ruled the business mainly involved the use of the property rather than the provision of services.

The case relates to the late Helen Butler and the business in question was a share in a limited liability partnership (LLP) called Tufton Warren Farm LLP. The estate had a potential exposure to IHT of £1,671,235.

Whilst the LLP carried on various farming and commercial enterprises, the most significant activity of Tufton Warren Farm LLP was a wedding venue business operating from a historic barn on the farm, called Clock Barn.

Tufton Warren put in a claim for BPR for the wedding venue but despite significant investment in renovations, a commercial kitchen, preparation room and toilets, and staging around 95 weddings per year, this was rejected by a first-tier tax tribunal. HMRC took the view that the wedding venue business constituted an investment and as such, did not qualify for BPR.

Outside caterers

This decision hinged on the fact the wedding business contracted out catering to Galloping Gourmet, an external business, in the two years leading up to Mrs Butlers death.

Customers were required to pay the caterers directly, and Galloping Gourmet took on much of the liaison with suppliers and other stakeholders in the weddings. In the eyes of HMRC, this meant the Tufton Warren Farm LLP's main contribution to the business activity was to supply a venue for the weddings – a service it determined as an investment.

When Helen Butler's untimely death triggered a chargeable transfer of value, the investment exclusion meant IHT became due in full and despite Mrs Bulter's estate challenging the ruling, the decision stood.

Summing up, the judge at the tribunal said that the Clock Barn business has always fallen on the village or community hall side of the spectrum, and away from the fully serviced conference venue.

He said: “Before the appointment of Galloping Gourmet as caterer, the level of business activities undertaken by the LLP may have been of more significance, but I find that it still fell to be treated as a business of holding investments.”

Reflecting on the results, Martin Anson, director at Whitley Stimpson and agricultural tax expert, said it was vital farm businesses diversifying into new areas understood the requirements of BPR, or they could be in for a nasty shock in the event of a death.

He said: “The Butler case goes to show that where BPR does and doesn’t apply is not fixed. There is no easily defined line that differentiates the two.

“Anyone considering diversifying their farm business must take professional advice on this and other tax issues because the consequences of a wrong decision could be extremely costly.”

For more advice on tax planning for a farm business or a new diversification project, contact Martin Anson on (01295) 270200 or email martina@whitleystimpson.co.uk.

When do glamping pods qualify for capital allowances?

With Permitted Development Rights in England now extended to 60 days for caravan and camping sites, many farmers and landowners are looking at agritourism as an attractive and simple form of diversification.

One area that is proving particularly popular among British holidaymakers is so-called glamping, attracting people who love the idea of an outdoor break, but want something either more substantial or more luxurious than a basic tent.

The good news for farmers and landowners is that in a recent test case, it was established that basic glamping pods qualified for capital allowances under the annual investment allowance (AIA).

This makes them even more attractive as diversification options; however, when considering investing, it is imperative you choose the correct type. Otherwise, the financial benefits you thought you might be in line for may not materialise!

Residential holidays for schools

The case revolves around a tour operating business which was providing residential holidays for schools.

The business invested in 26 pods and subsequently made a claim for plant and machinery capital allowances under the AIA. HMRC rejected this claim, prompting the business to take the issues to a tax tribunal.

Of the 26 glamping pods, 20 of them were for student accommodation and as such were the most basic, built only for sleep and shelter. They had electrical hook-ups for lighting and were sited on a pre-existing hardstanding area on a wooden frame attached to breeze blocks cemented to the ground.

A critical point is that the pods were anchored to the ground, but not fixed.

The remaining six pods were for teachers and these were better equipped, benefiting from a small kitchen, running water, and flushing toilets. This meant they were fixed to the ground.

The tribunal ruled that the basic student pods were eligible for AIA because they were not substantial enough to be considered buildings and were not fixed. As a result, they could not be considered living accommodation. The teacher pods, however, were fixed to the ground and could in theory be lived in, and therefore did not attract AIA.

Ian Parker, director of Whitley Stimpson and agricultural tax expert, said this was an important case for farmers and landowners considering diversifying into agritourism.

He said: “In this case, both types of glamping pod looked identical, but that had little bearing on whether or not they qualified for AIA. The differentiator was whether the pods were moveable or not.

“The student pods were, so were eligible for AIA, but the teacher pods were not.

“This has significant ramifications for farmers and landowners wanting to diversify into glamping.”

Ian added that to ensure pods qualified, it would be necessary to demonstrate they were moveable and not fixed and this could be done by periodically moving them to different areas of the farm.

“By moving pods around and keeping a written record and photographic evidence of doing this will ensure any claims for capital allowance have the best chance of success,” he said.

For advice on setting up a diversification project, get in touch with Ian on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Sunak announces extra funding at NFU Conference

Prime Minster Rishi Sunak mounted a charm offensive at this year's NFU Conference, telling farmers he was determined to ensure they are 'treated fairly' and acknowledging their 'central role' in British life.

In a bid to win back political support, he also announced further grant funding of £427m for the sector, including £220m to fund technology and innovations such as rooftop solar, to safeguard land for food production.

The announcement comes after a poll conducted by the Country Land and Business Association (CLA) in December 2023 revealed that support for the Conservative Party has collapsed in rural areas since the 2019 general election, with Labour taking a lead in the polls for the first time.

Mr Sunak's performance at the NFU Conference was therefore viewed as an opportunity to try to reverse this trend in an election year through a shower of supportive messages and the promise of extra cash.

The Prime Minster used his keynote address to announce:

- A total of £427m grant funding for agricultural, ensuring the government delivers on its commitment to maintain the farming budget for England at £2.4 billion per year
- A £220m fund to be invested in future-focused technology and productivity schemes to ensure farmers can access new equipment, including kit which increases automation to reduce reliance on overseas workers and supports processing, packing, and retailing on farms
- A doubling of the management payments for the sustainable farming incentive scheme, putting up to an extra £1,000 in farmers' pockets
- A cutting of red tape around permitted development rights so farmers can easily develop buildings and diversify earnings through farm shops, commercial space, and sporting venues
- New regulations to go before Parliament for the dairy sector, ensuring reasonable and transparent contracts
- Similar regulations for the pig sector to come later this year, with the egg sector expected to follow
- Supply chain fairness for the poultry sector.

Ian Parker, director at Whitley Stimpson and agricultural tax expert, described the announcements as positive, adding that the Prime Minister will have gone some way to reassure UK farmers, many of whom will have one eye on the ongoing protests across Europe.

Ian said: "Rishi Sunak came out with a raft of measures that should help to support British farmers now and in the longer term as they transition to more efficient, profitable, and sustainable practices.

"As well as this, his rhetoric was that of support. Of course, you would expect this as he was speaking at the NFU Conference, but as he represents a rural constituency, he will at least have some understanding of what farmers are going through."

However, Ian was less convinced the measures would make a huge difference at the polls.

"With surveys indicating farmers have lost faith in the Tories and are looking to put their votes elsewhere, it is difficult to know if this package of measures has done enough to make them reconsider," Ian said.

"I think the Tories will have to do more for farmers and the wider countryside if they want to rely on their votes come the election."

If you want to discuss any of the measures set out in the Prime Minister's speech, or any other financial or tax issues, get in touch with Ian Parker on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Double cab chaos – the tax hike that never was

U-turns aren't always easy in a pick-up truck … unless you happen to be the government, of course!

And although HMRC managed the issue with all the subtlety of an L200 moving at speed across a ploughed field, at least they ended up facing the right direction.

I am of course talking about the announcement that double cab pick-ups were to lose their goods vehicle status and to be treated like cars for capital allowance and benefit in kind purposes, and the spectacular U-turn that occurred just seven days later.

Thankfully, the government acknowledged that the move 'could have an impact on businesses and individuals in a way that is not consistent with the government's wider aims to support businesses, including vital motoring and farming industries' and quickly rolled back on its original decision in super-quick time.

Based on payload

Originally, the tax regime for double cab pick-ups was based on payload, with anything under one tonne being classified as a car, and anything a tonne and over as a van.

But with double cab pick-ups growing in popularity as a leisure and family vehicle, the government sought to close what it considered to be a loophole of people buying such vehicles through businesses when not needed for work duties.

The change in tax treatment, which was due to come in on July 1, was to be introduced to stop this from happening.

However, lobbying by motoring groups led to the government conducting one of the speediest U-turns in history.

Just seven days after its original announcement, the government rolled back on its pledge and decided to leave double cabs as they are.

Ian Parker, Whitley Stimpson director and agricultural tax expert, said the decision not to reclassify the vehicles was welcomed by farmers.

He said: "Farming and the construction industry rely on pick-ups to keep moving day in, day out.

"To reclassify them as cars would have really hit these industries hard. Yes, they have become popular as leisure vehicles, but punishing people who really need them for work because of this would have been unfair.

"We're delighted the government saw the pitfalls in this policy before it was too late and took decisive action to sort it out."

The U-turn ensures a continued and consistent treatment of double cab pick-ups for capital allowances, benefit in kind, and VAT purposes, with pick-ups that have a payload of one tonne or more. Pick-ups with a payload of less than this will continue to be treated as cars.

For tax advice on running vehicles through your business, contact 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

Ian Parker
Director
ianp@whitleystimpson.co.uk

Martin Anson
Director
martina@whitleystimpson.co.uk

Banbury

01295 270200

ban@whitleystimpson.co.uk

Penrose House
67 Hightown Road
Banbury
Oxfordshire
OX16 9BE

Bicester

01869 252151

bic@whitleystimpson.co.uk

Claremont House
1 Market Square
Bicester
Oxfordshire
OX26 6AA

High Wycombe

01494 448122

hw@whitleystimpson.co.uk

29-31 Castle Street
High Wycombe
Buckinghamshire
HP13 6RU

Witney

01993 700010

wit@whitleystimpson.co.uk

13-15 High Street
Witney
Oxfordshire
OX28 6HW

ICAEW CHARTERED ACCOUNTANTS

xero sage intuit quickbooks