Whitley Stimpson

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Agricultural Spotlight

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Welcome to the Winter 24/25 edition of our Agricultural Spotlight.

In the run up to the budget, there was much speculation around how it would impact on farmers and the wider agricultural industry. Despite assurances from DEFRA Secretary Steve Reed that the government wouldn't remove inheritance tax relief, rumours persisted that APR would be scrapped or significantly curtailed.

Yet few actually believed after all the pre-election assurances that such a move would be enacted, let alone in the new government's first budget.

Sadly, all were wrong. In an announcement that stunned the sector, Rachel Reeves removed this vital tax relief with a metaphorical swipe of a pen, and in doing so, put the entire future of Britain's family farms, not to mention food security, at risk.

But the news doesn't stop there. With a budget that impacts on agriculture in so many ways, we couldn't let it pass without dedicating most of our winter newsletter to the announcements, how they will impact on our loyal farming customers, and what you can do to avoid the worst impacts.

So, read on to find out more about how the budget will affect your business, and if you have any questions or concerns, please do get in touch.

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Budget Special – Inheritance Tax Relief Scrapped

With acres of coverage dedicated to last October's budget, anyone with even a passing interest in agriculture will know of Labour's plans for a tax raid on family farms.

By removing the Agricultural Property Relief (APR) inheritance tax exemption above a £1m threshold, the government has potentially sounded the death knell for countless family farms, as well as casting a dark shadow over tenant farmers.

Pressure is continually mounting for the Labour Party to reverse the controversial decision following the recent nationwide protest.

So far, however, DEFRA secretary Steve Reed is standing steadfast, insisting the budget has delivered for farmers and that almost three quarters will be unaffected by the change – a claim disputed by the NFU.

The announcement, made by Rachel Reeves in her first budget address, means that on the death of the farm owner, the next generation will incur a tax bill of 20% on all agricultural assets above the £1m threshold.

As most family farms are worth several millions, bills of hundreds of thousands of pounds are likely, an amount most will be unable to afford without selling off land and making the farm unviable.

But the issue doesn't stop with family farms – tenant farmers are in the firing line too. Large estates will certainly be hit by the new tax, which means selling off land or converting it more profitable uses could impact significantly on the tenanted sector.

Industry reaction

Reaction from farming and rural leaders was swift and condemning.

The NFU described it as a "disastrous budget" for family farms that would "snatch away the next generation's ability to carry on producing British food".

CLA President Victoria Vyvyan said: "Labour has made repeated assurances over the last 12 months that it would not tamper with inheritance tax reliefs, and its decision to now rip the rug from under farmers is nothing short of a betrayal."

Tim Bonner, Chief Executive of the Countryside Alliance, added: "The Chancellor's decision to introduce an effective rate of 20% inheritance tax on agricultural property over £1 million has thrown family farms under the bus."

Any light at the end of the tunnel?

The removal of inheritance tax relief is a very real problem for family farms and one that has the potential to have a devastating impact on individual farming families and the industry as a whole.

And whereas we fully support calls for a u-turn on the policy, if this is not forthcoming, then finding ways to manage the new tax burden must be a priority.

Thankfully, there are a number of things that can be brought into play. These will certainly not help everyone as each circumstance is individual, but they may give some peace of mind to those worried about the situation. They include:

- Married couples.

If a farm is in joint ownership then both parties can claim APR up to the £1m level, effectively doubling the amount of relief applying to a farm. If property is involved, there is an extra £500,000 relief per partner, meaning a farm worth £3m would potentially pay no inheritance tax on the death of the owner.

- Payments are spreadable

Farmers will not be required to pay the inheritance tax burden in a single, lump sum, as soon as the farm transfers to the beneficiaries. Rather, it can be spread over 10 years, making it more affordable (although no less frustrating). Although, where it is deferred, interest will also be payable.

- Seven year rule

If the farm is transferred to the next generation before the death of the owner, and the owner lives for another seven years, then inheritance tax does not apply, subject to not falling foul of the gifting rules.

It is this last point that Whitley Stimpson partner and agricultural tax expert Ian Parker believes will concentrate the minds of older farmers.

He said: “If there is one positive to come out of the removal of inheritance tax – and I have to admit it is a stretch to say that – but it is that farmers should be much more proactive at succession planning.

“The situation may well spell the end of farmers holding on to all the assets and the cheque book until well past retirement age, and instead handing the farm to the next generation long before they pass away.

“If the policy is not reversed, proper succession planning will become business critical, otherwise the farm is unlikely to reach the next generation intact.”

Ian added that anyone worried about inheritance tax should seek professional advice sooner rather than later.

“Whether it is succession planning, tax planning, or looking at how to spread tax payments to protect the farm, seek the advice you need to help put your mind at rest,” he said.

“This budget comes on top of a lot of changes and challenges for farmers and will cause huge amount of unnecessary worry. But the situation might not be as bad as you think, so seek advice to get a full and clear picture.”

To speak to Ian, call (01295) 270200 or email ianp@whitleystimpson.co.uk.

Budget Special – Rising employment costs

Scrapping inheritance tax relief was not the only measure in the budget that will hit farmers hard.

Rising employment costs will have an impact too, on an industry already struggling with tight profit margins, inflated input and energy prices, and extreme weather.

Yet none of these things prevented Chancellor Rachel Reeves from increasing employer NI contributions by 1.2% to 15% and a near 7% rise in the national living wage to £12.21 per hour.

There are bigger rises for workers aged 20 and under.

The hikes are likely to deter farmers from employing much-needed staff at a time when labour shortages continue to blight the industry.

They may also make employers think twice about whether they can afford to give existing staff pay rises, further impacting on rural prosperity.

Ian Parker, Whitley Stimpson partner and agricultural tax expert, said farmers cannot pass rising employment costs on to customers in the way other sectors can, meaning they are left with no option but to absorb them.

But in a sector where margins are often paper-thin, the extra costs could push some farm businesses to the brink.

Ian said: "When it comes to operating a successful business, be it a farm or any other type of enterprise, positive cash flow is essential.

"But because of the way farm businesses are funded, managing cash flow is one of the biggest challenges for farmers.

"Employment costs impact directly on this, pushing up the monthly outgoings and disproportionately affecting farms.

"Although it is certainly important to support employees with appropriate remuneration, with this and all the other provisions in the budget that affect farmers, many will take this as another body blow."

Ian advised seeking advice if increased employment costs feel like a burden too far for some farmers.

"Balancing cash flow can be tricky but there is likely to be a range of things farmers can do to make meeting monthly overheads more comfortable," he said.

"It is a difficult time to be a farmer, but don't suffer in silence. If your finances are weighing heavy on your mind, reach out to someone who can help."

For more information on managing cash flow, employment costs, or taxation, get in touch on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Budget Special – Benefit in Kind becomes heavy load for double cabs

In spring 2024, we wrote an article about the Conservative government's u-turn on reclassifying double cab pickups as cars rather than commercial vehicles.

The news was seen as a sensible decision at the time, as the Benefit in Kind (BIK) payments would skyrocket on these useful vehicles, impacting agricultural as well as other sectors such as construction.

Rachel Reeves, however, has taken a different route.

She used the budget to reclassify double cab pickups as cars for tax purposes, which will significantly increase operational costs for farmers who rely on these vehicles and trade through a limited company structure.

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 a problem arose due to double cab pick-ups becoming popular as leisure and family vehicles and being bought through businesses to save costs.

Whereas this may be considered a legitimate concern – especially when bought by businesses that do not need them for work – the change is more directed at raising tax revenue than it is closing a loophole.

And by doing so, it adds to the budget provisions that will have a detrimental impact on farmers, who use these vehicles as a legitimate and practical work truck, capable of negotiating difficult terrain while carrying a heavy load.

Significant bearing on Benefit in Kind

The change will have a significant bearing on how much individuals will have to pay if they choose a double cab pickup as a company car, tax expert Ian Parker said.

For example, it puts a double cab Ford Ranger 2.0-litre diesel with carbon dioxide emissions of 230g/km in the highest BIK tax bracket (37%).

This leads to a BIK charge of about £22,200/year and a tax bill of £4,400/year for a 20% taxpayer and £8,880/year for a 40% taxpayer.

Ian, who is a partner at Whitley Stimpson, said: "When the Conservatives initially proposed this, they rolled back on the commitment within seven days because it was pointed out to them how costly it would be for the agricultural and construction sectors.

"Sadly, this point was not taken up by the current government.

"Whereas it is understandable that the government want to clamp down on people enjoying the tax benefits of these vehicles when using them for leisure purposes, but by doing it in this way, they are discriminating against a large number of people who use them for legitimate work purposes."

For advice on commercial vehicle tax, contact Ian Parker on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Tax Change for Furnished Holiday Lets (FHL)

We've been following the fate of FHLs over recent months as the government looks to remove favourable tax exemptions.

So if the bad news from October's budget isn't quite enough for you, don't worry, there's more to come.

In July last year, the Labour Party released a policy paper setting out proposed tax changes to include in the Finance Bill 2024-25.

Low and behold, a number of measures scraping tax relief for FHL appeared, bringing them into line with let residential property, which will take effect from April 6, 2025.

The main changes include:

- Income tax

FHL are subject to full income tax relief on the finance costs of the property. But from April next year, these will be removed bringing them in line with the rented residential property.

Capital allowance for items such as cookers, washing machines, and beds, are also being removed.

Profits from an FHL are currently treated as earned income for the purposes of pension contributions, which is particularly useful for an individual with limited other earnings. However, this will also be removed from 6 April 2025.

- Capital gains tax (CGT)

Currently, there are a number of reliefs for CGT purposes that apply to FHLs.

They include Business Asset Disposal Relief – the gain on a disposal of a FHL may be charged to CGT at 10%; Rollover relief – the gain on another qualifying asset may be rolled into the purchase of a FHL, or the gain on the disposal of a FHL may be rolled into the purchase of another qualifying asset, and; Business asset gift relief – the gain on the gift of a FHL can be held over for CGT purposes.

From 6 April, 2025, however, these reliefs will no longer be available.

- Inheritance tax

Although the policy paper made no announcement on IHT, with the changes to APR for family farms, it is unlikely FHLs will escape the removal of IHT at some point in the future.

Explore your options

Ian Parker, agricultural tax expert and partner at Whitley Stimpson, is advising farmers with FHLs to get on the front foot and explore their options before the new regulations come into effect.

According to Ian, the options include:

- Accept the new tax arrangements and continue with holiday lets
- Let the accommodation on a "normal" residential tenancy arrangement
- Sell the holiday lets and distribute the cash to children/other family members
- Pass the cottages to children/other family members

However, he added there were issues with each of these approaches, and the best option will be different in each individual case.

He said anyone concerned about FHLs should speak to an expert.

“There are a number of options to discuss which will help put farmers’ minds at rest,” Ian said.

“If this issue is a concern for you, get in touch and we can look at the best way forward.”

To discuss FHLs or any other form of tax planning, contact Ian 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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