Hawsons Chartered Accountants
Latest News

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Agriculture Insight

In this issue:

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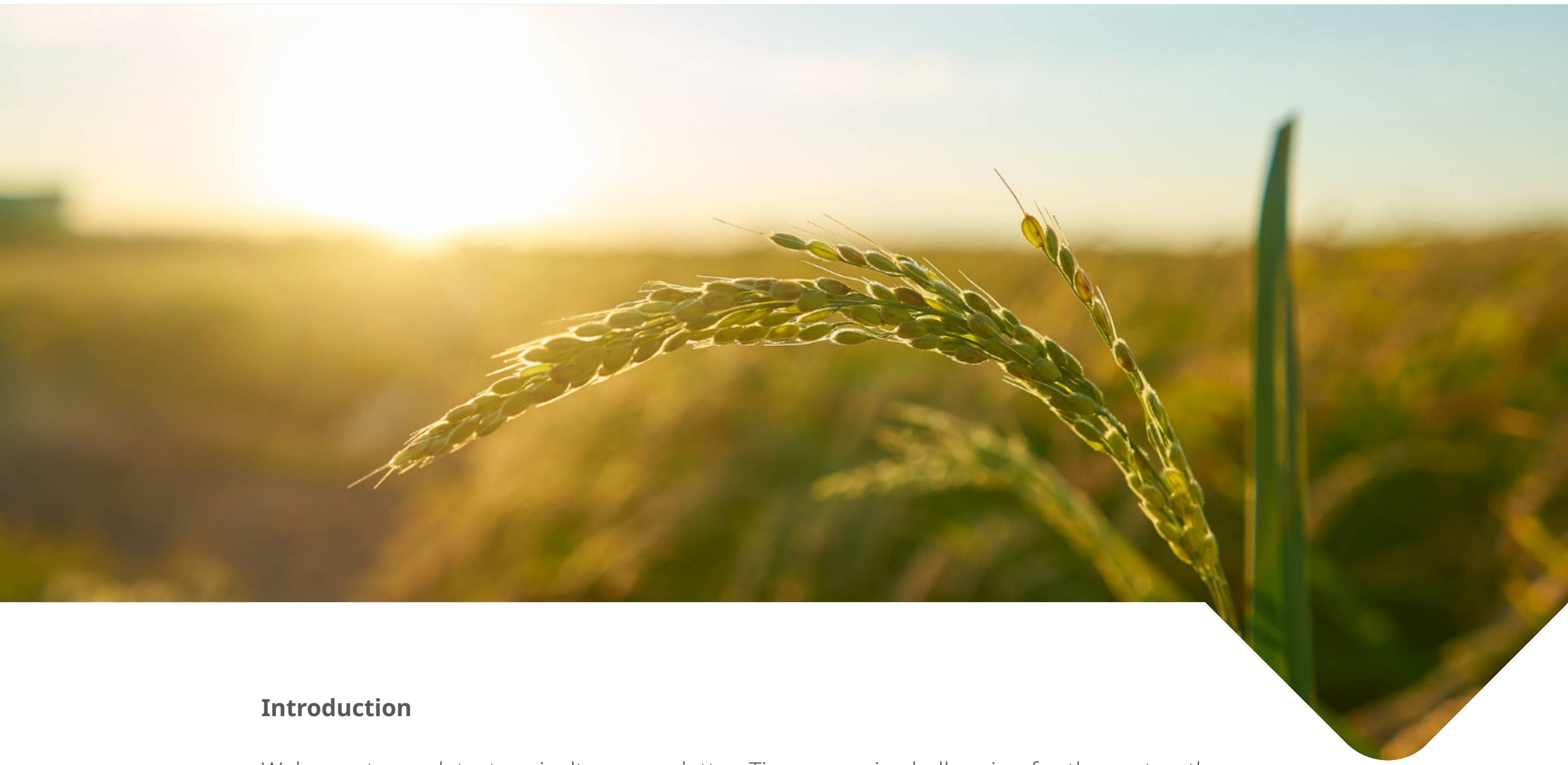

Introduction

Welcome to our latest agriculture newsletter. Times remain challenging for the sector; the 2024 harvest will undoubtedly be impacted by the sustained wet weather suffered over the past six months.

In this edition of the newsletter we discuss the following:

- Succession Planning for Farms
- Tax Implications for Farm Diversification
- Government Introduce Major Package for Supporting Farm and Food Sector
- Agricultural Property Relief - Changes Ahead

We hope you enjoy the contents of this newsletter and as ever if you have any questions please do not hesitate to get in touch.

Dan Wood
Partner

Succession Planning for Farms

Have you thought about succession and the long-term plans for your family farm?

As agriculture makes up the highest concentration of family businesses passed through the generations, it is no surprise that succession is a key issue and is something farmers need to carefully consider.

Farm succession planning

When thinking of the next generation and passing on the business, succession only really succeeds optimally when it is prepared for. It is important succession planning is seen not necessarily about retirement but as a process of creating a long-term plan for the farming business, its goals and a plan of how to achieve them.

Succession planning, particularly in family farms, can be a difficult challenge involving multiple generations of farming families and a desire to avoid conflict, which is why we have published this article on succession planning tips for family farms.

Start the conversation early

In our experience it is never too early for families to start having discussions about succession. This isn't easy as it is a very emotive subject, but it is absolutely essential for all sides to get the ball rolling and start this difficult conversation.

The older you become the more difficult and risky succession planning becomes, it also potentially limits the options available.

Define Roles and Responsibilities

Clearly defining roles and responsibilities for each family member involved in the farm operation is crucial. This includes not only day-to-day tasks but also leadership roles and decision-making authority. Clarity in roles helps minimise conflicts and ensures efficient operations.

Getting the tax right

While tax should perhaps not be the main driver for succession, there are some important tax considerations when thinking about succession planning for the farm business. These also have legal implications. In particular, the two key tax implications to consider are Inheritance Tax (IHT) and Capital Gains Tax (CGT). The tax aspects of succession planning can be complicated and, as tax laws continue to change, it is essential that you seek sound and proactive professional advice in this area.

Continued overleaf

Succession Planning for Farms (continued)

Financial planning and protecting your family members

Pensions and investments can play an important part in succession and estate planning for the family farm.

For example, will you have enough provision to support family members and yourself after retirement? It is also extremely important to consider the impact of major life changes on the business. Birth, marriage, divorce or, in the worst scenario, death can all have a considerable effect on the family business, so it is essential to protect against potential damaging impacts as well as allowing for new opportunities. The need to have adequate financial security and protection in place cannot be overstated.

Again, it is essential you seek professional advice in this area.

Consider Non-Family Employees

While family succession is often preferred, it's essential to consider the option of involving non-family employees in leadership positions if suitable successors within the family are unavailable or uninterested. Competent and dedicated employees can play a vital role in maintaining continuity of ownership and driving the farm's success.

Plan for Retirement

Retirement planning for the current generation of farm owners is a critical component of succession planning. Ensure that adequate provisions are made to support their retirement lifestyle while also preserving the financial health of the farm for future generations.

Seek professional advice

As you can see above, seeking professional advice is very important when succession planning for the family farm.

Involving your accountant (and solicitor) at an early stage in the succession planning process means they can work together to help you identify options as well as potential pitfalls – including tax – to avoid.

Tax Implications of Farm Diversification

Farmers are increasingly seeking ways to stabilise their farm income and ensure the sustainability of their agricultural businesses. Farm diverification is one strategy farmers are using to achieve this. Diversifying a farming business involves branching out into new ventures beyond traditional farming activities. While farm diversification can mitigate business risks and enhance revenue, it is important that the long term tax implications of farm diversification are considered.

Why Diversify your farm business?

The benefit of farm diversification lies in its potential to create supplementary income streams which bolster the financial stability of farming operations. In the agricultural sector marketing conditions change on a regular basis leading to farmers exploring avenues to generate additional cash flow. By expanding into complementary sectors such as tourism, hospitality, or renewable energy, the farming industry can tap into new revenue sources that are less susceptible to market volatility.

Farm diversification ideas

Listed below are the most common ways farmers look to diverify thier farm business.

- Setup a farm shop to sell farm produce
- Rent space for storage using unused buildings
- Start an B'n'B
- Set up a camping or glamping site

Agricultural Property Relief (APR) and Business Property Relief (BPR)

Diversifying your business can lead to tax implications on Agricultural Property Relief (APR) and Business Property Relief (BPR). APR provides relief from inheritance tax (IHT) on the agricultural value of land and buildings used for farming purposes. However, when assets are repurposed for non-agricultural activities, APR ceases to apply, potentially exposing these assets to inheritance tax.

On the other hand, BPR offers relief on business assets, including land, machinery, and goodwill. This relief can be crucial for diversified agricultural businesses, as it covers the additional value beyond agricultural purposes, such as development potential. However, qualifying for BPR hinges on the business meeting HMRC's criteria for a 'trading' enterprise, rather than an 'investment' one. This distinction is critical, as it determines the extent of relief available.

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Tax Implications of Farm Diversification (continued)

Navigating the Tax Implications

Assessing the trading status of a diversified agricultural business is subjective and involves scrutiny of various factors by HMRC. While diversification can enhance revenue, activities such as property letting, common in diversification strategies, may inadvertently shift the business towards investment rather than trading. This shift jeopardises BPR eligibility, potentially subjecting assets to higher inheritance tax liabilities.

To safeguard against adverse tax implications, farmers must maintain a delicate balance between trading and investment activities within their business. This may involve strategic structuring of business operations, such as segregating investment assets or maximising BPR-qualifying activities. Early planning is key to preserving assets for future generations and avoiding unforeseen tax liabilities.

Tenancy Considerations

Farmers with Agricultural Holdings Act (AHA) tenancies must also factor in diversification's impact on succession prospects. Succession to a tenancy often requires demonstrating a principal source of livelihood from agricultural work. While non-agricultural income from diversification activities can contribute to this requirement, obtaining landlord consent is essential.

Conclusion

In conclusion, while diversification holds promise for agricultural businesses seeking stability and growth, it's imperative to navigate the associated tax implications diligently. By understanding the nuances of APR, BPR, and tenancy considerations, farmers can optimise their diversification strategies while minimising tax liabilities. Proactive planning not only safeguards the financial future of farming enterprises but also ensures a smooth transition for future generations.

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Latest News

Government Introduce Major Package for Supporting Farm and Food Sector

On 14th May, the government has announced a major package to support the UK's farming and food sector. This package included a number of support measure including:

- Increased support for farmers and growers affected by wet weather
- A new plan to increase domestic production in the UK horticulture sector
- Food Security Index published setting out key data and trends
- New farming grants to help boost farm business

Wet weather support

The government has announced that temporary adjustments will be made the Farming Recovery Fund where wet weather prevented farmers and land managers to achieve the requirements of the Environment Land Management Scheme.

New grants for farmers

The government also announced some new farming grants to help boost farm business. These include:

- £3 million in support for new and mobile abattoirs through the Farming Investment Fund.
- £20 million for the Laying Hen Housing for Health and Welfare Grant.
- Over £72 million for Endemics Disease Scheme to ensure farmers can tackle endemic disease.
- A Nutrient Management Grant for improving nutrient management.

Hawsons Agriculture Partner Dan Wood commented on this new package:

The package as a whole is a welcome announcement, indicating a commitment to domestic food production, when much of the recent funding has been environmentally focused.

After a particularly wet six months, the wet weather support will no doubt be of help to those operating the ELM Scheme but will give little relief to those arable farmers who have suffered failed crops.

Tax Agricultural Property Relief - Changes Ahead

Government initiatives often shape the landscape of various sectors, and agriculture is no exception. Recent developments in the UK's environmental policies are set to bring significant changes to agricultural property relief (APR).

Background

In 2023, the UK government initiated a consultation and called for evidence regarding the taxation of environmental land management and ecosystem service markets. The culmination of this consultation, unveiled alongside the 2024 Spring Budget revealed crucial amendments poised to reshape the APR landscape.

Agricultural property relief changes

It has been announced that from 6 April 2025, APR will undergo an expansion to encompass land managed under environmental agreements with or on behalf of the UK government, Devolved Administrations, public bodies, local authorities, or approved responsible bodies. This means it covers schemes like the Sustainable Farming Incentive and conservation covenants with responsible bodies used to enforce bio-diversity net gain, but not environmental agreements between two private parties.

Unlike previous restrictions, APR will no longer be limited to tenancies of at least eight years, thereby widening its accessibility and applicability.

Furthermore, a joint working group comprising representatives from HM Treasury, HM Revenue and Customs (HMRC), and industry representatives will be established. This working group will work on clarifying the tax treatment concerning the production and sale of ecosystem service credits and associated units, this collaborative effort aims to foster clarity and coherence within the taxation framework.

In tandem with these changes, updated legislation has been published to reflect modifications concerning lifetime transfers made before 6 April 2024. These adjustments, following the issuance of draft legislation on 18 July 2023 aimed at restricting the geographical scope of APR and woodlands relief from 6 April 2024.

Comment

We see these changes as a positive step towards giving more clarity on how environmental schemes will be treated for inheritance purposes. There is still some way to go to see how this makes it into legislation and then continues to evolve.

Get in touch

Our agriculture experts

At Hawsons our dedicated team of specialist agriculture accountants understands that farming isn't just a business; it's a way of life.

The rural and agriculture sector is a specialist sector, with unique practices and conventions. We act for a significant number of arable farms and assist farming families in many matters specific to agriculture and farming. This includes tax, will planning and succession planning.

We have been able to assist our farming clients to add value to their businesses. We have advised on the financial and tax consequences of property development, green technologies and capital allowance planning. In particular, we can assist in the area of capital taxes planning. This is a significant issue for farmers following the increase in land values and the availability of development opportunities.

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