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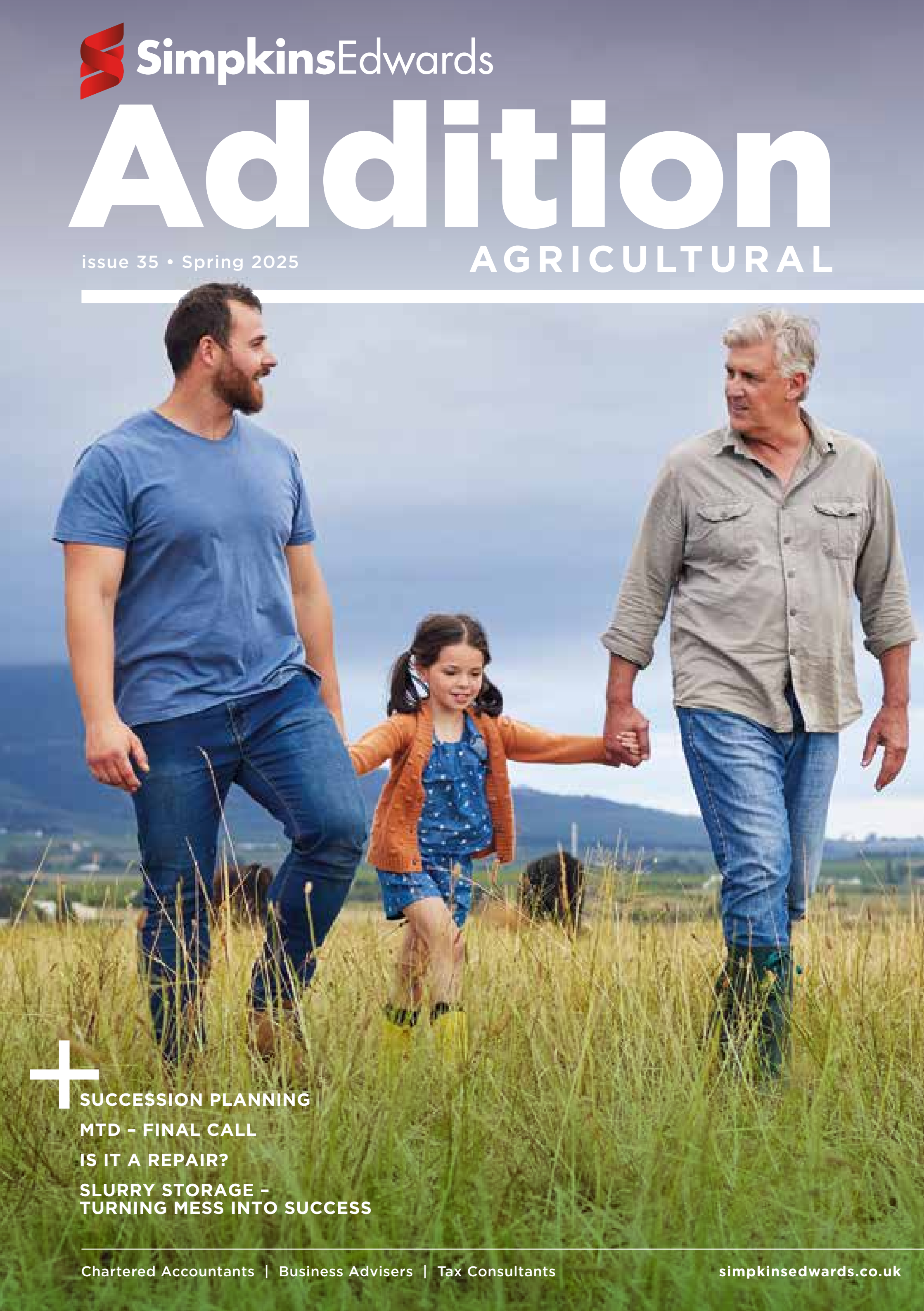
AGRICULTURAL



+ SUCCESSION PLANNING
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SUCCESSION PLANNING

For many years, the conventional capital tax planning advice for many farmers was to retain ownership of the farm until death.

In last Spring's Addition (before the General Election), we suggested that political uncertainties meant that some families (where there was no real prospect of the farm ever being sold) should perhaps consider gifting an ownership share to the next generation.

October 2024 Budget

The October 2024 Budget reinforces and expands that. With 100% agricultural property relief (APR) and 100% business property relief (BPR) set to be limited to a £1m 'allowance' per person from April 2026, many family farms are destined to incur some inheritance tax (IHT) on a death, for the first time since the 100% reliefs were introduced in 1992. Many families' IHT exposures will be further aggravated by the proposal to count pension wealth into IHT from April 2027.

There is an expectation that a different future government may reverse these changes, but it should be noted that Mrs Thatcher came to power in 1979, while the 100% rate for APR and BPR was only introduced in 1992 – up to then, the relief rates were 30% or 50%.

Farmers should assume that, if the new £1m allowance is actually implemented, it may remain in place for many years.

Capital tax planning

Fortunately, neither the October 2024 Budget nor the 2025 Spring Statement has restricted lifetime planning opportunities by changing the rules for holdover relief or by extending the minimum 7 years which must elapse between a gift and death, if the gift is to be capable of falling outside the estate.

There is a difficult balance between a family's desire to avoid future IHT (perhaps at 20%, with a facility to spread the payment over 10 years, interest free – so 2% per annum, starting from a future date) and concern that ownership at too young an age may risk divorce or financial misfortune that could cost much more, earlier.

That balance needs very careful thought.

Nevertheless, the October 2024 Budget pushes the balance more in the direction of lifetime gifts; possibly as a series, starting modestly and building up over perhaps 15 or 20 years as the older generation gain confidence.

Sons and daughters might join family farming partnerships younger than previously, but with small capital interests initially.

It is essential to recognise that, for a gift to be effective for IHT, the donor must not benefit afterward from what they give away. Rent adjustments or appropriate profit sharing in a partnership may be necessary following a gift.

Non-transferable allowance

The £1m 'allowance' is to be non-transferable. This means that, if the allowance is not used on the first death in a marriage or civil partnership (eg because that spouse either did not own farm property or Willed it to their spouse); it will not be available as a second £1m on the second death.

This has two implications for couples:

- Where the farm (plus any other assets qualifying for 100% APR or BPR) is worth more than £1m, both spouses should own some of it; and,
- Couples should try to avoid leaving qualifying assets to each other in their Wills. Mirror Wills have been commonplace and many farmers will therefore need to update their Wills.

Capital gains tax

Gifts are disposals for capital gains tax (CGT) and gifts to individuals other than spouses will often result in a CGT liability unless holdover relief is available. Holdover relief tends to be available for gifts of farm property, but it is not always – so the CGT position must be checked before acting.

CGT rates (where payable) have been increased – the lower and higher rates are now 18% and 24% for all assets, and the business asset disposal relief (BADR) rate is 14% for 2025/26 (increasing to 18% from 6 April 2026).

Conclusion

There is still a hope that the October 2024 Budget changes for IHT may be altered before they come into force in April 2026 and 2027. Farmers and farming organisations have demonstrated strong opposition to the changes due to be introduced in future (not current) legislation.

However, there has been little sign so far of concession and we would advise all farming families to consider the implications for them, and whether (or not) they should modify their succession plan.

We would be glad to discuss your circumstances - contact info@simpkinsedwards.co.uk or call 01392 211233 to speak to our team.

MAKING TAX DIGITAL FOR INCOME TAX – FINAL CALL!

After many years, it appears that the Making Tax Digital for income tax (MTD) regime will finally soon be compulsory.

The first wave of compulsory adoptees – in Spring 2026 – will be sole traders and landlords with turnover (including property rents as well as business sales) of £50,000 plus.

If you are in that category and you have not yet adopted accounting software, then it is time to do so now. With suitable software in place (properly tailored and competently used), we anticipate that quarterly MTD compliance should only involve a few extra clicks, akin to submitting a VAT return after the records have been prepared.

But, if you maintain your own records and your computerised bookkeeping system is not in place, or if you have not built up some prior practice in using the software, it will be much more difficult.

Please contact us now for assistance with set-up and training if you are one of the few sole traders or landlords who has not yet moved to software.

AGRICULTURAL PROPERTY RELIEF ON LAND MANAGEMENT SCHEMES

Buried among the depressing inheritance tax (IHT) headlines since last autumn, one bright spot is that the Finance Bill 2024/25 will legislate the extension of agricultural property relief (APR), on deaths and other IHT events from 6 April 2025, to land which has moved from farming to new environmental use.

The draft legislation provides that, to qualify for relief:

- The land must have qualified for APR for at least two years before it was turned over to environmental use. There must be no break between the former, APR-qualifying use and the new environmental use.
- The new environmental use must, from day one, have been under a legally enforceable agreement with a public authority for protecting, restoring or enhancing the natural environment or natural resources of land or water, and which prevents ongoing agricultural use.
- The environmental management agreement must not have ended before 6 March 2024, but relief will continue where the agreement ends after that date and the land continues to be managed in accordance with the (expired) agreement.

APR will continue to cover character-appropriate buildings occupied and used in connection with the land in accordance with the agreement.

This is a welcome update, even if it is disappointing that the draft wording is slightly tighter than the previous, now obsolete, provision for APR on land in habitat schemes.

Photo by Annie Spratt on Unsplash

IS IT A REPAIR?

'Repairs and renewals' is an awkward expression: repairs are usually tax-deductible, while renewals are usually not.

In considering whether a cost is a tax-deductible repair, the first step is to identify the asset on which the cost is incurred. To be a repair, the work must be the making good of an existing asset, without changing its character, following deterioration in the course of use by the business.

Making good an existing asset

The making good of an existing asset includes the replacement of component parts, such as the roof or doors of a cattle shed, or a fitted kitchen (or the electrics) within a let house.

But not the replacement of the whole asset: thus, the demolition of a shed and construction of an identical replacement would be capital expenditure.

Without changing its character

There are multiple aspects to the character test:

- An alteration, extension or improvement is capital expenditure, and there is no longer any tax deduction for the cost of repairs that were needed but were obviated by the improvement project. This means there is sometimes a tax opportunity in breaking a project into two completely separate ones, undertaken at clearly different times – the repair project and the improvement project.

- The replacement of a stoned lane with a concrete one is a capital improvement, as is the replacement of an existing 4" concrete lane with 9" reinforced concrete designed to accept much higher loading.
- Different materials do not deny a repairs deduction where the intended function (including extent of use) is unchanged and the improved materials are just the technologically modern equivalent. The usual example is that changing a deteriorated, softwood, single-glazed window to a upvc double-glazed one is a repair.
- Similarly, replacing old, fused electrics with modern circuitry with similar loading capacity and power points is a repair, but a replacement system with much higher loading capacity and many extra sockets would be improvement.

Deterioration in the course of business use

It is prudent to delay major repairs for a year or two following acquisition of an asset. Where, say, a shed is purchased at a reduced price because it needs a new roof, the cost of the roof – like the shed – will be capital expenditure. But if the shed was fit for its intended use at purchase, and the price paid was unaffected by the roof condition, the cost of replacing the roof after a few years of use will be a deductible repair.

And if the roof simply needed routine maintenance, such as painting, that would be a repair even if undertaken soon after purchase.

Building works are expensive and there are sometimes opportunities to achieve a good tax saving with appropriate planning. Please contact us if you would like to discuss your project.

TURNING MESS INTO SUCCESS

With tightening environmental requirements, many livestock farmers are facing large outlays on the construction of additional slurry and manure storage and the covering of existing stores.

Although officially withdrawn, HMRC Brief 03/10, issued for the pig industry in 2010, provides helpful support for claiming plant and machinery capital allowances on many of those costs. Amongst others, the following items were identified as potentially eligible:

- Slurry storage systems, including tanks (above or below ground). A 'slurry storage tank' includes a lagoon, pit or tower used for the storage of slurry.
- Reception pits, effluent tanks and channels and pipes used in connection with the slurry storage tank.
- Slatted flooring areas integral to a slurry system.
- Slurry de-watering equipment.
- Rainwater harvesting and filtration equipment, including associated gutters and piping.
- Concrete pad surrounded by low-level barriers for the temporary storage of manure.
- Silo for temporary storage.

Many businesses will qualify for 100% annual investment allowance on the cost of these items. Where there is grant-funding, capital allowances are calculated on the net cost after deducting grant.

The covering of existing effluent facilities can be more problematic. A roof that is integrated with the structure of the slurry/manure store should qualify for plant/machinery capital allowances as part of that asset. But commonly, the cover takes the form of a separate shed or roof structure that is built over or around the effluent store. Such separate structures will usually only qualify for 3% per annum structures and buildings allowance.

Similarly, where a project includes both a slatted tank and a new cattle shed, it is necessary to clearly identify the cost of these two different elements because plant/machinery capital allowances are available on the former only.

Building project costs tend to be high. Please discuss your plans with us in advance, so that the project can be designed tax-efficiently and costs suitably documented.

VAT FUEL SCALE CHARGES

This article is an almost direct repeat of one previously published in Agricultural Addition in 2019. There have been no changes since that time (other than in the fuel scale charge rates and the costs of fuel), but we still encounter errors in some clients' treatment.

Motor cars

Where there is any private use of business cars (which is almost inevitable), the business can choose to operate one of 3 alternative methods:

1. To reclaim only the input VAT on fuel used for business motoring. Where a car is used 30% for business, 30% of the VAT on fuel would be reclaimed. HMRC require proof to be kept of the business motoring proportion, which means having to maintain a full mileage log (detailing all business and private journeys). This is an impractical hassle for most busy farmers.
2. To reclaim no input VAT on motor fuel. While harsh, this may be the pragmatic answer where the fuel scale charge regime is uneconomic and a full mileage log cannot be kept.
3. To reclaim input VAT on all motor fuel and a to pay a scale charge for every business car. The scale charge regime must be adopted for all the business cars or none.

Fuel scale charges – practical points

The fuel scale charge regime applies only to cars. Scale charges should not be paid for commercial vehicles although, where there is significant private use of a van or pick-up, VAT should only be reclaimed on the business proportion of fuel.

The fuel scale charge is calculated based on the CO_2 emission rating of the car (shown on its V5).

Fuel scale charge rates are increased annually in May – the latest rates must be used.

The VAT element of fuel scale charges should be declared in box 1 on your VAT return (output VAT) and the net element in box 6 (outputs).

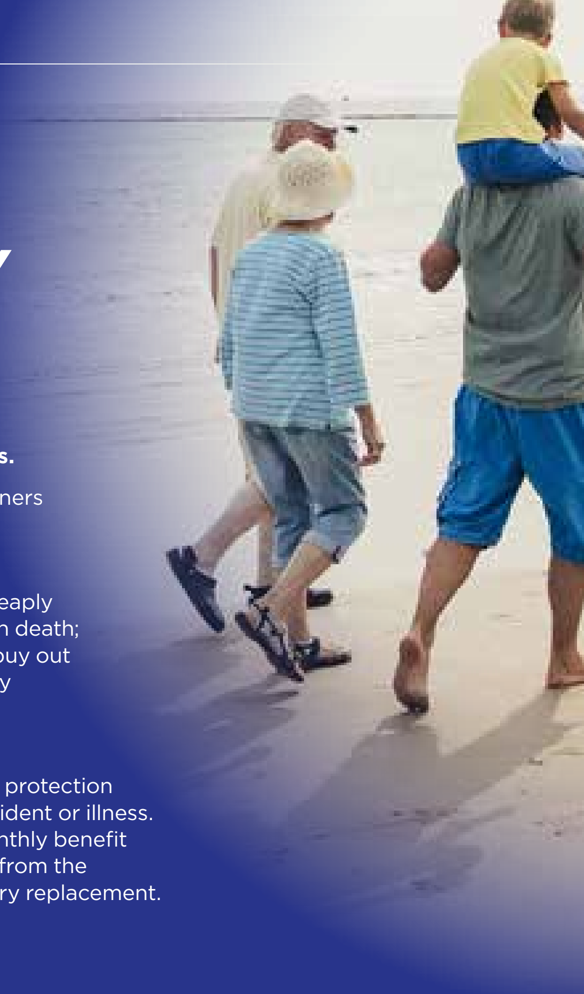
If you are using an accounting package, there are functions you can use to post the adjustment.

Fuel scale charges are expensive, particularly for high CO_2 cars with little private use. Businesses should periodically assess whether it is worth remaining in the fuel scale charge regime – often, the cost of the fuel scale charge regime can exceed the input VAT being reclaimed on motor fuel.

Car repairs

Regardless of the method chosen to deal with car fuel VAT, the whole of the input VAT on a business car repair is reclaimable, without any restriction for private use.

We would be pleased to assist you with a VAT health check.



Guest article by Paul Whitmarsh
of Aquila Financial Management Limited

PROTECTING YOUR FAMILY

As a farmer, you undoubtedly have various insurances in place for vehicles, buildings and public and employer liabilities.

However, cover for the business owners/partners personally is often overlooked.

Life cover

Life cover can be arranged comparatively cheaply (depending on age) to provide a lump sum on death; perhaps to fund the repayment of a loan, to buy out the deceased's share of the business or to pay inheritance tax.

Income protection

Another type of cover is designed to provide protection should someone be incapacitated due to accident or illness. Income protection policies can provide a monthly benefit which could be used to reduce the drawings from the business or fund the cost of hiring a temporary replacement.

Scenario:

Fred and Jenny Jones are in their 70's and still actively involved in running their dairy farm with their son Mark, and his wife Susan. Mum and Dad live in the farmhouse and Mark and Susan in a barn conversion on another part of the farm. Given his parents' age, Mark does the majority of the manual work on the farm (Susan is a teacher) and draws £2,000 a month from the business.

They have invested heavily over recent years to grow the business, and do not have spare cash resources.

One day, Mark is medicating a cow and gets crushed against a wall in the cow shed. He is badly injured and the doctors inform him that it may take a year to eighteen months for him to be fully fit.

Aside from the personal aspects, this puts the family in a difficult financial position; they need to employ someone to temporarily replace Mark, but Mark and Susan still need to draw an income from the partnership to cover their living costs.

Outcome:

Fortunately, Mark had previously arranged income protection cover. Mark submits a claim to the provider; this is agreed, and the policy becomes payable after the deferred period of three months.

Mark receives a benefit of £2,000 per month, tax free, for up to 24 months from the policy. The premium paid was under £25 per month.

Mark could instead have chosen a policy that would have been payable until age 60. The premium for this would have been more expensive (around £52 per month) but it would have given him the security of knowing that the benefit would have been paid until close to his retirement age if he had been permanently incapacitated.

Aquila Financial Management Ltd

Aquila Financial Management Ltd is a firm of independent financial advisers and is owned by Simpkins Edwards LLP. They are based at Pynes Hill, Exeter and help with protection, wealth management and retirement planning. Aquila can be contacted on 01392 411159.

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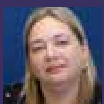

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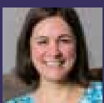

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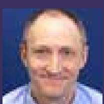

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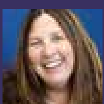

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AGRICULTURAL SHOWS 2025

We will be attending the following agricultural shows. Please come along and see us there.

6th August
NORTH DEVON

7th August
HONITON

14th August
OKEHAMPTON

21st August
CHAGFORD

28th August
HOLSWORTHY

For further details visit our website www.simpkinsedwards.co.uk