Farms and Landed Estates Quarterly Review Summer 2023

Larking Gowen

Committed to you.

Introduction

by Steven Rudd, Head of Farms and Landed Estates

Welcome to the summer edition of our Farms and Landed Estates quarterly review.

As I write this introduction to our Summer Review, with the sun casting its warm glow and the crops reaching their full potential, we're excited to bring you the latest insights and updates from the ever-evolving world of UK agriculture. In this edition, we delve into a range of key topics that are shaping the landscape of farming in the United Kingdom.

Climate resilience takes centre stage as farmers across the country continue to adapt to the challenges posed by a changing climate. We've seen some long dry spells which will put crops under stress. Forward-thinking farmers will need to mitigate the impact of these extreme weather events and ensure a resilient future for their businesses. This will require innovative approaches to sustainable crop management and precision agriculture techniques. Let's hope the rest of the summer gives us optimum conditions for an easy and dry combinable harvest, but also the right amount (and type!) of rain for vegetable crops and beet that follow.

Our Autumn Farming Conference on 10 October will discuss climate issues further, with a specific focus on addressing the pressing issues of environment, sustainability and water resources within the farming sector. If you haven't already booked your place, see the back page for details of how you can obtain a ticket, including a special offer for our clients.

Amid the ongoing discussions on agricultural policy, we shed light on the latest developments surrounding the UK's post-Brexit farming landscape. As the Government sets out its ambitious plans for a new agricultural subsidy system and the promotion of domestic food production, we examine the opportunities and challenges that lie ahead for farmers, particularly in the realm of rural support schemes. Laurie Hill comments on the recently announced changes to Sustainable Farming Incentive, as well as a reminder about some of the latest grant funding that's available.

In this issue, we also highlight the ways in which farmers are thinking of and contributing to the demand as a nation to reduce environmental impact, and foster biodiversity. Bruce Masson will look at the risks and pitfalls associated with Biodiversity Net Gain, following the work he carried out earlier this year on feeding into the government consultation on the tax impact of such schemes.

This leads nicely on to our annual team farm walk. Stepping away from the office and seeing what goes on out on farm helps our people with an understanding of factors affecting the industry. This year's walk took us to a farm who are on a journey showing huge passion for soil health and regenerative farming, and building a diversified business around that. As farmers seek to diversify their income streams and explore new avenues for growth, we share the success story of an agricultural business that has ventured into a farm shop and restaurant, artisanal food production, milk production and wine making! By tapping into the immense potential of rural diversification, farmers are not only safeguarding the future of their operations but also forging stronger connections with local communities and promoting the value of British produce.

Tax planning is at the heart of nearly every conversation we have with our clients. There's a huge amount of positive planning that can be influenced by an early conversation. In the following articles, we look at how the capital allowances system is still very favourable for income tax relief, and Nina Baker, one of our senior tax managers, also looks at the benefits of having an up-to-date knowledge of your wealth and understanding the impact of Inheritance Tax reliefs to shape your succession plans and will planning.

With each article, we invite you to immerse yourself in the stories, experiences, and expertise of some of our team at the forefront of providing tax and business planning advice to UK farming in the eastern region.

Happy reading!

Meet the Farms and Landed Estates partners

Steve Rudd

Bruce Masson

Ashley Smith

Ian Webster

Laurie Hill

SFI: New standards for August 2023 onwards

In June 2023, Defra (Department for Environment, Food and Rural Affairs) introduced new standards and incentives for sustainable farming practices in the agricultural sector. These standards were designed to address environmental concerns, mitigate climate change impacts, and promote sustainable land management. The aim was to encourage farmers to adopt environmentally friendly practices, enhance biodiversity, and reduce the ecological footprint of agricultural activities.

To ensure the correct implementation of the new standards, the Sustainable Farming Incentive (SFI) temporarily ceased accepting applications in June. However, in August 2023, Defra began accepting applications for the new and improved standards.

Farmers and landowners have shown increasing interest in these schemes for several reasons. These include the reduction of Basic Payment Scheme (BPS) cheques, reduced bureaucracy and simplified online applications, and the involvement of the next generation in farming businesses with a focus on environmental stewardship.

As part of the new rollout, Defra released the SFI handbook for the 2023 offer, aiming to improve understanding of the incentives and how land managers are compensated for their efforts.

The new standards offered under the SFI include the Nutrient Management Standard, Integrated Pest Management Standard, Hedgerow Standard, Arable and Horticultural Land Standard, Improved Grassland Standard, and Low Input Grassland Standard. In addition, land managers are eligible for an SFI Management payment of £20 per hectare for the first 50 hectares in each agreement, providing further encouragement to participate in the programme.

One of the reasons for anticipated increased participation is that certain aspects of the new standards align with existing work already carried out by farming businesses, such as nutrient management plans and integrated pest management schemes. Funding support for these practices is seen as a positive step. Existing participants in the SFI programme can also enhance and upgrade their agreements within the three-year term.

The SFI is a key component of the UK Government's broader environmental goals. Defra has set a target to enrol at least 70% of eligible farmers in England into its Environmental Land Management programme by 2028, with the SFI forming the initial phase of this initiative.

We recommend for farmers and landowners to consider the SFI and assess how it can align with their business operations. By reviewing farming practices at a high level, or even field by field, informed decisions can be made that not only benefit profitability, but also contribute to environmental sustainability.

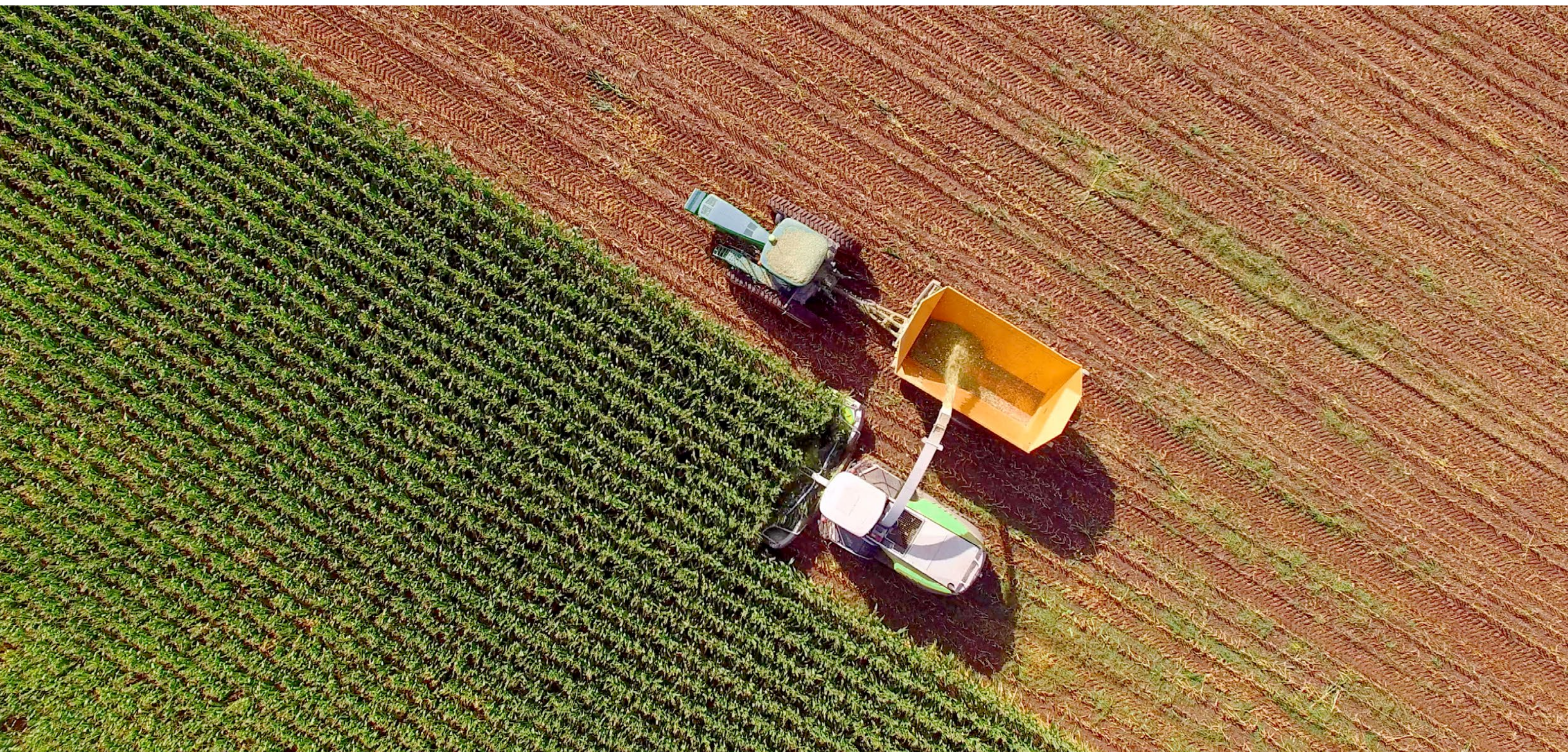
When considering the SFI, it's important to evaluate the costs associated with participation and weigh them against the potential benefits for both the business and the environment. While there may be some costs involved in implementing certain sustainable practices, it's crucial to consider the long-term advantages and potential savings in terms of resource management, input reduction, and environmental stewardship.

By understanding how the SFI can operate in harmony with their business, farmers and landowners can identify opportunities to optimise their land use and achieve the best return on investment. This may involve exploring options such as diversifying crops, implementing precision agriculture techniques, enhancing soil health, or adopting integrated pest management strategies.

Furthermore, participating in the SFI can also contribute to a positive brand image and provide market advantages, as consumers increasingly prioritise environmentally friendly and sustainable products. It can open doors to potential marketing opportunities and partnerships with businesses that value sustainable sourcing.

Laurie Hill
Partner

In summary, taking the time to evaluate the SFI and its potential impact on the business can lead to informed decision-making, improved profitability, and a positive contribution to environmental conservation.



Capital allowances

Capital allowances present a valuable opportunity for farmers to reduce their tax liability and reinvest in their farming operations.

Capital allowances aren't generally affected by the way in which the business pays for the purchase. So, where an asset is acquired on hire purchase (HP), allowances are generally given as though there were an outright cash purchase and subsequent instalments of capital are ignored. However, assets purchased on hire purchase are expected to be on the farm and in use in the year the claim is made. On the other hand, finance leases, often considered to be an alternative form of 'purchase' and which for accounting purposes are included as assets, are generally denied capital allowances. Instead, the accounts depreciation is usually allowable as a tax-deductible expense.

Any interest, or other finance charges on an overdraft, loan, HP or finance lease agreement, to fund the purchase is a tax-deductible expense.

Annual Investment Allowance (AIA)

The Annual Investment Allowance (AIA) provides a 100% deduction for the cost of most plant and machinery (not cars) purchased by a business, up to an annual limit and is available to most businesses. Where businesses spend more than the annual limit, any additional qualifying expenditure generally attracts an annual writing down allowance (WDA) of 18% (or 6% for the special rate pool) depending on the type of asset. The maximum amount is currently set at £1 million and is a permanent limit. Cars are not eligible for the AIA, so will only benefit from the WDA (see special rules for cars).

Full expensing

Between 1 April 2023 and 31 March 2026, companies investing in qualifying new and unused plant and machinery will benefit from first year capital allowances. Under this measure, a company will be allowed to claim:

- A first-year allowance of 100% on most **new and unused** plant and machinery expenditure that ordinarily qualifies for 18% main rate WDAs (full expensing).
- A first-year allowance of 50% on most **new and unused** plant and machinery expenditure that ordinarily qualifies for 6% special rate WDAs.

The relief specifically excludes expenditure on cars, and most plant and machinery for leasing. The relief is **only available for companies** and not for unincorporated businesses. Expenditure on second-hand assets and those bought to lease to someone else can still qualify for the AIA.

Special rules for cars

There are special rules for car expenditure. Cars are not eligible for the AIA or full expensing. The treatment of car expenditure depends on when it was acquired and its CO_2 emissions. The following rules apply for cars bought from April 2021:

Type of car purchased	What you can claim
New zero emission car	100% first year allowances
Second-hand electric car	Main rate allowances (ie 18% WDA)
Not exceeding 50g/km CO_2 emissions	Main rate allowances (ie 18% WDA)
Exceeding 50g/km CO_2 emission	Special rate allowances (ie 6% WDA)

An adjustment is made for any cars that are partly used for private purposes; this is based on a percentage for private use.

Structures and buildings allowance

Expenditure incurred on business-related buildings and structures will attract an annual 3% writing down allowance on a straight-line basis. The allowance is given for both works to bring structures and buildings into existence and the improvement of existing structures and buildings, including the cost of converting existing premises for use in a qualifying activity. Neither land nor dwellings are eligible for relief. No relief is available for workspaces within domestic settings, such as home offices.

Grainstores and potato stores

Grain silos provided for temporary storage have been regarded as plant and machinery for the purposes of capital allowances. Historically, grain and potato stores have been treated as buildings by HM Revenue and Customs and (until structures and buildings allowance was introduced) ineligible for capital allowances. The case of May v HMRC (2019) arose when a farmer built a grain store with drying facilities and claimed the whole cost as plant and machinery, claiming it could be classed as a horizontal silo. The first-tier tribunal concluded the drying equipment could not function without the specialist design of the building. Hence, the drying equipment, along with the building, could be classed as plant and therefore qualify for capital allowances.

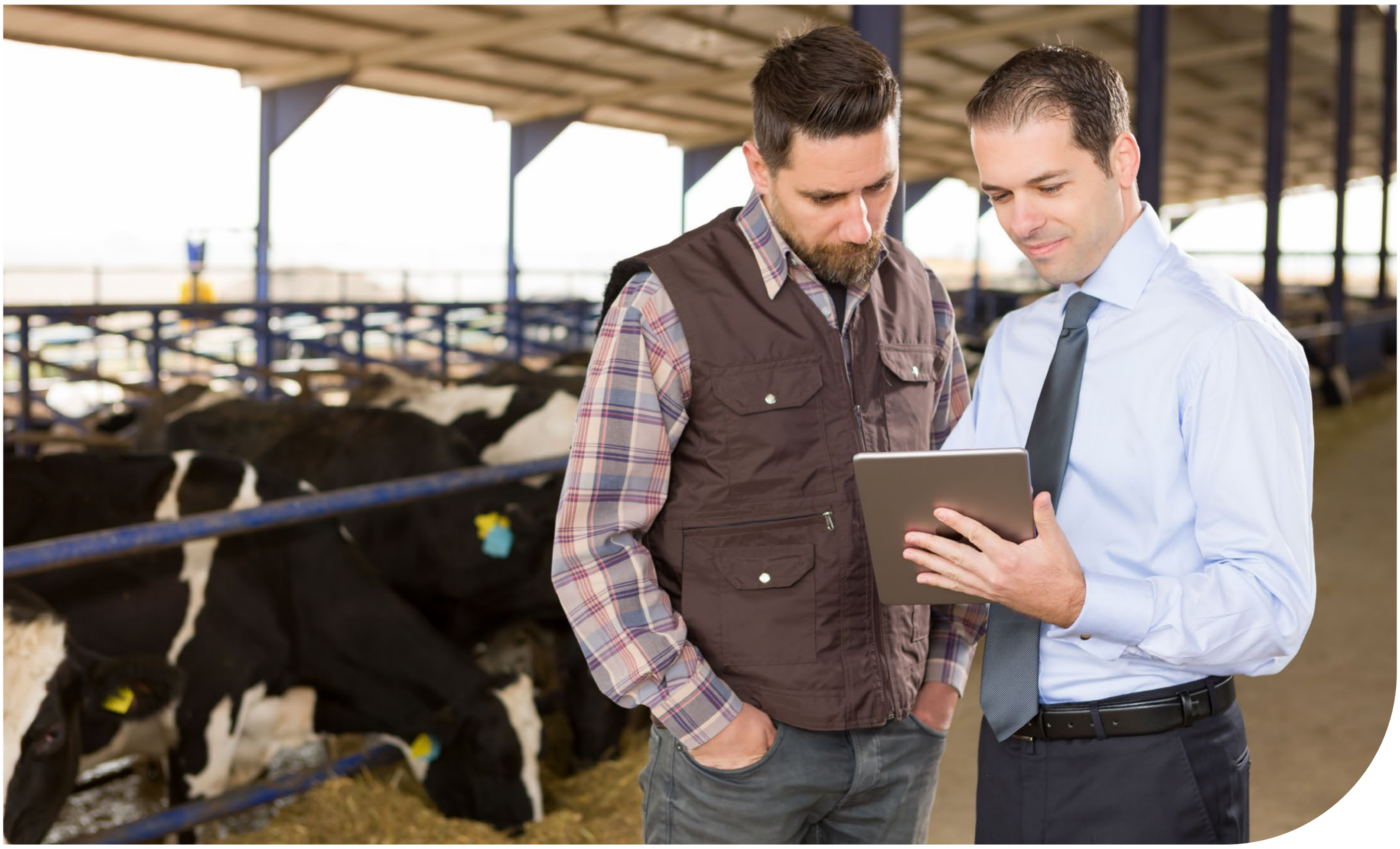
Additionally, in the Griffiths vs HMRC (2021) case, the taxpayer won to claim 100% capital allowances on the potato store as it was deemed to qualify as plant and machinery with a clear function and purpose.

These cases were heard at the First Tier Tribunal, and thus not written into law, but provide a solid platform for future capital allowance claims. It's important for us to approach these claims correctly. As a team we have experience in these claims and can assist in assessing planned expenditure and projects to determine the capital allowance treatment to make sure there's effective tax planning in decision making.

Arabella Woodruff
Senior

How can we help

The rules for capital allowances can be complex. We can help by computing the allowances available to your business, ensuring that the most advantageous claims are made and by advising on matters such as the timing of purchases and sales of capital assets. Please do contact us if you would like further advice.



Grant schemes – always keep an eye out for funding

With the shift from traditional Basic Payment Scheme (BPS) subsidies to an increasing focus on environment grants and subsidies, and the Government working to achieve its public money for the public good, there's clear rationale why grant schemes within the agricultural sector are becoming key for farmers and landowners to invest in the future.

Capital grants play a significant role in the Countryside Stewardship Scheme (CSS), providing financial assistance for investments in farm infrastructure and equipment. Many farmers and landowners are taking advantage of these grants to fund projects that contribute to their business development.

In addition to the CSS, there are other grant schemes available, particularly those focusing on environmental initiatives such as woodland creation, tree planting, and peatland restoration. The Farming Investment Fund (FIF) is another notable scheme that encompasses various elements, supporting farmers and landowners in larger-scale projects.

Within the FIF, different grants are available, such as the Farming Equipment and Technology Fund (FETF), Farming Transformation Fund (FTF), Water Management grant, Slurry Infrastructure grant, Adding Value grant, Improving Farm Productivity grant, and Calf Housing for Health and Welfare grant. Each grant targets specific areas and

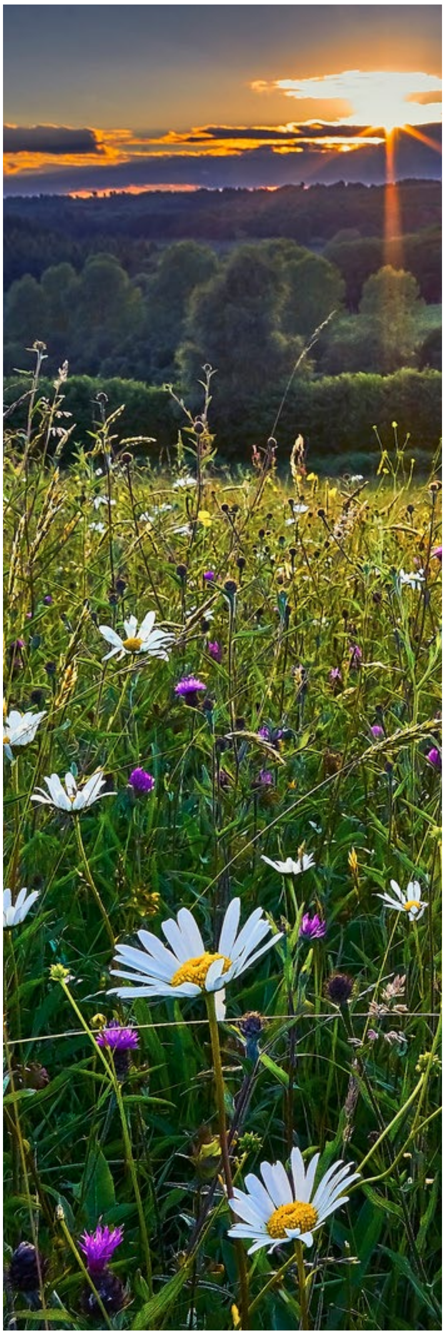
provides financial assistance for relevant investments.

It's important to be aware of the timing constraints associated with these grant schemes. Expressions of interest and application windows have specific time frames, which may pose challenges in certain cases. Staying informed about Defra's offerings throughout the year is crucial to make sure that grant funding opportunities are considered for eligible projects or purchases.

While application windows may close, it's worth noting that some schemes, such as the Water Management grant, have had subsequent rounds, reopening the opportunity for applications the following year.

Overall, keeping track of available grant schemes and their application cycles is essential for farmers and landowners looking to benefit from funding opportunities. Regularly checking for updates and being proactive in exploring grant options can help maximise the potential for financial support in agricultural investments and projects.

Laurie Hill
Partner



Risks and pitfalls of Biodiversity Net Gain

The mandatory Biodiversity Net Gain (BNG) was enforced in the 2021 Environment Act and is a way to contribute to the recovery of nature while developing land. Its intention is to make sure the habitat for wildlife is in a measurably better state than it was before development.

The new policy will require, as a condition of planning permission, that any new development demonstrates a net gain of a minimum of 10% of the biodiversity value of the site, measured using Defra's Biodiversity Metric. In circumstances where habitat improvements are not possible, developers will be able to pay for improvements on sites elsewhere by purchasing units via a private, off-site market.

BNG will apply from November 2023 for developments in the Town and Country Planning Act 1990, unless exempt, and from April 2024 for small sites. Land managers, developers and local planning authorities will all need an understanding of the requirements of BNG. An online service will be available from November 2023 to register the appropriate details.

Rather worryingly, the government guidance about registrations was last updated in July 2023, with the website stating, "We will publish more information soon." Hardly reassuring with the scheme implementation only weeks away.

Notwithstanding the regulatory framework, there are still outstanding issues on how the schemes will be taxed. This encompasses all aspects of taxation, including income tax, capital gains tax, corporation tax, VAT and inheritance tax.

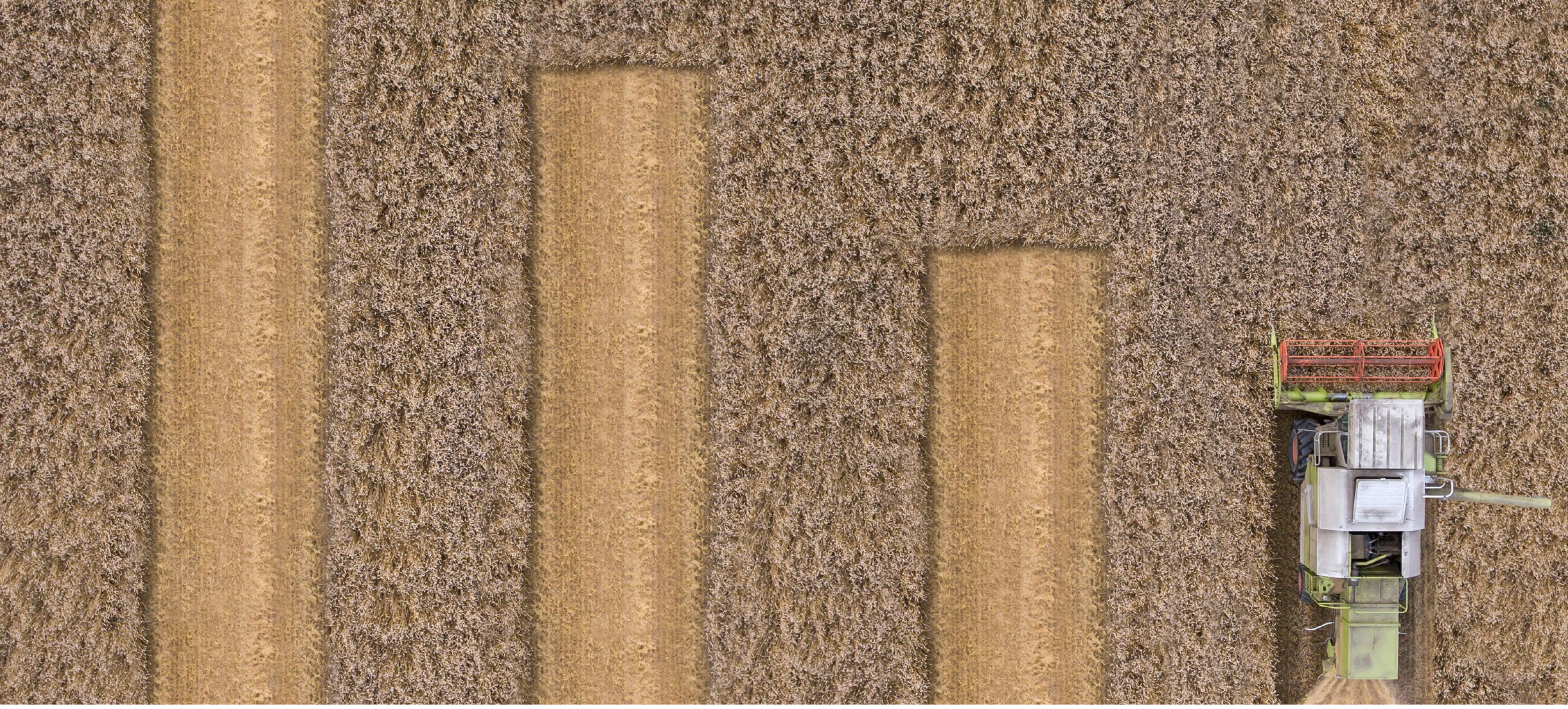
The Government held a consultation earlier this year asking for a call to evidence on the tax treatment of environmental schemes in general, which included BNG. It may be some time before the results and actions are known, so those entering into schemes from November 2023 are more than likely to be entering into a rather unknown in terms of immediate tax treatment and also longer-term inheritance tax considerations.

The CLA has been vocal in their lobbying for the treatment of dedicated environmental schemes to be deemed as agriculture for the purposes of Agricultural Property Relief and environmental land to be deemed as a trade for the purposes of Business Property Relief and capital gains tax. However, we await the Government's guidance and subsequent implementation.

The Government has announced additional funding to local planning authorities to assist with the implementation of BNG schemes. With the recent announcement of relaxation of nutrient neutrality regulations for new developments, it remains to be seen if the local planning authorities will be able to cope with what could be a large upturn in activity.

In line with the Government's advice, we will publish more information soon, once more of the large amount of blanks have been filled in.

Bruce Masson
Partner



Preserving agricultural wealth – proactive Inheritance Tax planning

Inheritance Tax (IHT) is a very relevant topic for many of our farming clients, who want to preserve their wealth for future generations. If not planned for carefully, IHT could be a significant burden, which could impact the wealth transferred from one generation to the next. At Larking Gowen we undertake detailed reviews of our clients to make sure they understand their IHT exposure and suggest ways to mitigate it effectively.

Agricultural assets hold significant value, and whilst they should attract inheritance reliefs, we must make sure our clients understand how those reliefs work, so that any change in circumstances is discussed and managed, to make sure no relief is lost, and explore other proactive measures to minimise the tax burden.

The main areas where we can assist are:

1. **Agricultural Property Relief (APR)**: This offers potential relief up to 100% from IHT on qualifying agricultural assets. Understanding the criteria for qualifying assets is essential for maximising APR benefits.
2. **Business Property Relief (BPR)**: Agricultural businesses can also utilise BPR to reduce IHT. This relief applies to business assets, including shares in unlisted agricultural companies or partnerships. By ensuring that these businesses qualify for the relief, we can make certain that the maximum amount of wealth is transferred.
3. **Lifetime Giving**: Lifetime giving is an effective strategy to minimise IHT. By transferring assets during their lifetime, clients can gradually reduce their taxable estate, taking advantage of available exemptions and reliefs.
4. **Will and Estate Planning**: Proper estate planning is crucial for tax efficient transfers of wealth. An individual's Will needs to support the planning that takes place, and does not contradict any strategies that have been decided upon in their lifetime.

Agricultural clients must proactively address IHT to preserve their hard-earned wealth. By speaking to us and making sure that IHT is understood, strategies can be put in place to minimise any potential exposure while ensuring that a smooth transfer of assets takes place.

If you're interested in understanding your IHT position, please get in touch with your usual Larking Gowen contact.

Did you know?

We also provide probate services and as we have much of the information we need to deal with our clients' estates on our files, we can process the probate application quickly and efficiently.

Spring Budget Summary 2023

The Chancellor, Jeremy Hunt, announced his Spring Budget as a "Budget for Growth" on Wednesday, 15 March, setting out the Government's tax and spending plans, accompanied by a forecast from the OBR.

This Spring Budget 2023 was an opportunity for the Chancellor to provide an update on the economic progress made from policies set out in the Autumn 2022 Statement, and to announce new tax measures and spending plans. Here's a summary of the key findings.

Overview

Most tax rates and allowances were announced in advance at the Autumn Statement, so the Budget focused more on spending than on tax.

Personal tax

- The main personal tax-free allowance and the 40% tax rate threshold remain frozen at their 2022/23 levels until the end of 2027/28, representing a tax rise where income increases
- The 45% threshold is lowered from £150,000 to £125,140 for 2023/24
- Tax-free dividend allowance falls from £2,000 to £1,000, and the Capital Gains Tax annual exempt amount falls from £12,300 to £6,000, for 2023/24
- Pension savings thresholds significantly increased: from 6 April 2023, Annual Allowance rises from £40,000 to £60,000 (with related changes to tapering) and Lifetime Allowance Charge is abolished; maximum tax-free lump sum remains 25% of former Lifetime Allowance, i.e. £268,275
- ISA investment limit remains £20,000
- Increase in limit for shares that can be granted under Company Share Ownership Plans confirmed at £60,000
- Seed Enterprise Investment Scheme limits increased from 6 April 2023 – maximum for investor is doubled to £200,000
- Inheritance Tax thresholds and rates unchanged to the end of 2027/28

Business tax

- Confirmation of corporation tax rate increase from 19% to 25% from 1 April 2023 for profits over £250,000
- 'Super-deduction' for plant and machinery bought up to 31 March 2023 replaced by 100% first-year allowance ("full expensing") for qualifying capital expenditure, without upper limit, for three years from 1 April 2023
- Confirmation of previously-announced changes to Research & Development tax reliefs from 1 April 2023, comprising changes to the rates of relief under the RDEC and SME regimes and measures to improve compliance. A new measure in the Budget softens the impact of the reduced rate of relief for R&D intensive, loss-making SMEs, for whom the repayable credit rate will remain at 14.5% (albeit based upon the new lower enhanced deduction of 86%)
- Reforms to audio-visual tax reliefs from 1 April 2024
- Announcement of 12 'Investment Zones' to be established throughout UK with incentives for investment and employment

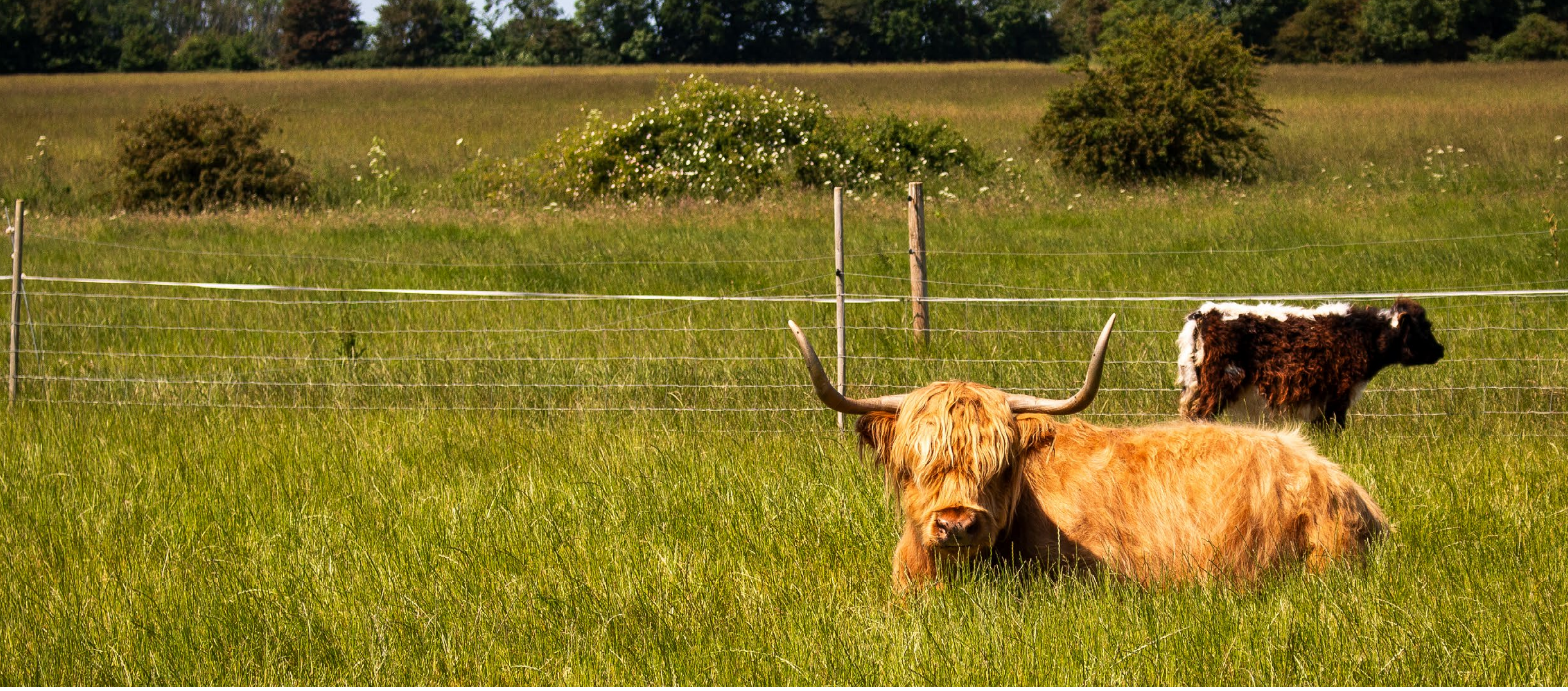
Other measures

- Energy Price Guarantee retained at £2,500 for average household for another 3 months to 1 July 2023
- Significant expansion of free childcare provision to be phased in from April 2024
- Fuel duty frozen, and temporary 5p reduction retained, for another year
- Introduction of 'Returnerships' – similar to apprenticeships – to encourage over-50s back into work

Our team of tax specialists shared their insights and understanding of the key Budget changes from the Spring Statement by the Chancellor, Jeremy Hunt, in the context of other developments and how this could impact on you and your UK business. You can view the webinar here.

Sally Farrow
Partner, Private Client Services

Click here to read our Spring Budget Summary brochure.



Exploring the wonders of a diversified farm

In June this year, the team headed out on their annual away day. This year, we had the pleasure of visiting Old Hall Farm at Woodton.

Old Hall Farm is a cow with calf dairy, farm shop, café, delicatessen, and vineyard based in South Norfolk. Rebecca and Stuart Mayhew talked us through how they fell in love with the idea of having their own herd of Jersey cattle whilst on holiday in Scotland.

During our afternoon we got to meet the herd while they were out grazing (much to the delight of our team members that suffer with hay fever)! The team toured the farm, learning about how they are implementing principles of holistic management and agroecology to improve the levels of biodiversity on the farm, and sequester carbon into the soil.

The farm walk included a visit to the milking parlour; studying the plant diversity of the cattle's pastures; a look at their vineyard, which was repurposing agricultural land that had faced flooding most years; feeding their goats; and trying the delights from the café.

The farm walk was another great opportunity to connect with our colleagues from the various offices in the Farms and Landed Estates team. Being able to get the team out of the office and onto farms allows us to bring to life what we do for our clients and is a huge benefit to provide such a unique learning experience for all our team.

Arabella Woodruff
Senior

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Larking Gowen

Autumn Farming Conference

In partnership with the CLA

We hope you have received your HTML invite to this year's Autumn Farming Conference. In conjunction with the CLA, the conference will take place on **Tuesday, 10 October, at Wherstead Park, Ipswich**. This conference is aimed at farmers, growers, landowners, and those involved in the agricultural sector, with a specific focus on addressing the pressing issues of environment, sustainability, and water resources within the farming sector.

As a client of Larking Gowen, we'd like to invite you to join us as our guest. Tickets are **FREE** (full price £25+VAT). Simply enter **CLIENT** into the promo code box when booking your place.

The speaker line-up is being finalised and we're pleased to announce that the following speakers have been confirmed:

- Cath Crowther – CLA East Regional Director
- Ian Evans – Co-owner of Copdock Hall
- Henry Welham – YAGRO
- Matt Ryan – Oxbury Bank
- Emily Norton – Farmer
- Bruce Masson – Partner, Larking Gowen

We'll also be joined by a panel of speakers to discuss water and the issues faced in farming. Confirmed speakers are:

- Andrew Marriott – CLA
- Chris Robinson – Reclaim the Rain
- John Patrick – ESWAG, Felixstowe Hydro project
- Charlie MacNicol – Stody Estate Ltd
- Sarah Kerkham – Heronhill Chair

Details on all our speakers and new speaker announcements can be found on our dedicated page here.

We hope that you'll join us for an opportunity to expand your knowledge, gain valuable insights, and network with like-minded individuals in the industry. Refreshments and lunch will be provided.

All proceeds from ticket sales will go to our charity partners **YANA** and **Yellow Wellies**.

Headline Partners

Oxbury The Agricultural Bank

CLA Energy Services

Partners

YAGRO

Impact Services

integrity Asset Finance

Charity Partners

YANA Rural Mental Health Support

Who Would Fill Your Boots? Farm Safety Foundation

Media Partner

Anglia Farmer

Click here to book your place