More Challenges – So What ?

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I can remember thinking that accountancy would be a boring career. Over 40-years later I find myself writing the introduction to our newsletter after a budget - aka 'fiscal statement' - which incensed the environmental lobby, attracted criticism on the world stage and plunged the pound to record lows against the dollar.

Louise Bassett has written about the Sustainable Farming Incentive. We wait to see whether and for how long this measure survives the new direction of agricultural policy. Ben Kilby comments on solar developments; surely in light of the energy crisis this is a safer topic but, of course, it is not possible to predict the government's stance on energy generation. Andrew Band's contribution is inspired by a recent Food & Drink Sector Council report focussing on how landowners and agricultural entrepreneurs can join together for their mutual benefit. This recognises that change is afoot and that we all need to consider how best to move forward. If this is to be by planting woodland Richard Alecock's article may assist.

Mike Blackledge gives warnings about some oft-forgotten consequences of the Stamp Duty Land Tax legislation. SDLT is the Cinderella tax with the glass slipper into which no-one wants to squeeze their foot. Advising in this area is fraught with difficulty; not advising risks unintentionally triggering tax liabilities.

Finally, I bring not tidings of comfort and joy but notice of two more opportunities to fail to comply with registration requirements and to metaphorically 'go straight to jail without collecting £200'. At least one of these Registers will apply to very few; the other will affect a far wider constituency.

Accountancy isn't boring. It isn't boring because our clients trade in challenging and volatile environments and in helping them we have to journey with them. Oh yes, and then there are politicians...

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Whitings Chartered Accountants LLP

Can't See the Wood for the Trees...

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Google 'planting woodland and trees' and you will find dozens of pages of advice but let's focus on the farmer's needs and the wide range of benefits to our readers where farmland grazing is poor or your land requires more fertilisers.

Large scale planting can:

- attract wildlife
- provide shelter for livestock
- prevent soil erosion
- cover crop
- manage water
- generate income

These prompt a second list. Timber is in high demand both now and into the future and you could benefit from short- or long-term revenue streams:

- Planting and harvesting fast-growing trees on a frequent cycle.
- Local wood-fuel production for on-farm energy savings or sales income.
- Products like - Christmas trees, construction, furniture, fencing and chippings.
- Recreation and leisure activities, glamping, shooting and off-road biking.
- Selling fruits and nuts.

Inevitably there are tax issues.

Commercial occupation of woodlands is free of both Income Tax and Corporation Tax.

Extra income received from woodlands is taxable in the normal way like any profits from other land-based activities.

Whilst income from the sale of timber and most grants received is tax free, there is no relief for any associated expenses.

Woodland transactions in a farming business must be carefully identified to ensure the correct tax treatment and, if you make any losses, these cannot be offset against other income.

There is also an exemption from Capital Gains Tax (CGT) for the value of growing timber. If an area of commercial woodland is sold, the value must be split between the land itself and the trees on it. It is only the increase in the value of the land that is subject to CGT.

The sale of growing timber is standard rated for VAT purposes. This means that when timber is sold by a VAT-registered business, VAT needs to be added to the price. Similarly, VAT incurred on costs of planting and maintenance can be reclaimed.

Lastly, Inheritance Tax. Woodlands can qualify for either Agricultural Property Relief (APR) or Business Property Relief (BPR).

Money for Old Rope?

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Applications for the Sustainable Farming Incentive (SFI) opened in June and will remain open year-round so that farmers can apply when it suits them. Interestingly, this will mean that individual farmers and landowners all have differing agreement start dates, unlike the old BPS scheme.

Based on DEFRA's guidance, once an application has been submitted an agreement could be up and running within three months although there may be work to do in determining the eligibility of land cover and types before submission.

Once the RPA has made an offer, the applicant has 15 days to accept or reject it, with accepted offers usually starting on the first day of the following month.

Analysis of the scheme shows that the initial standards and actions are fairly simple. For example, take the arable and horticultural soils standard. Although the payment rates may not seem attractive at £22 & £40 per ha for introductory and intermediate levels, the actions do not appear to be that onerous.

Introductory level actions:

1. Complete a soil assessment and produce a soil management plan
2. Test soil organic matter (SOM) – ensure land parcels have been tested for SOM within the last 5 years
3. Add organic matter at least once during the three-year agreement
4. Green cover on at least 70% of land over winter

Intermediate level actions are as above except:

4. Green cover on at least 50% of land over winter and multi-species cover crops on an additional 20%

From a lay-person's perspective, it would seem that these actions are achievable and indeed may have already been undertaken, or partially undertaken, by many farmers. With little added input, these actions should be realisable and perhaps, therefore, there could be 'money for old rope.'

Unlocking that Farming Potential

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The Food & Drinks Sector Council's latest report on increased productivity and sustainability in the agricultural sector calls on farmers to challenge their status quo against what they want to do and what they want to achieve.

Highlighting the numerous challenges faced on an almost daily basis, it focuses on maintaining farming profitability to ensure a future and stresses the importance of exploring the benefits of new schemes.

Recognising that within agriculture change needs to happen, it acknowledges that the ability may not exist in a single enterprise but that collaboration between those with assets and those with entrepreneurial expertise may enable positive outcomes. There would be a mutual benefit for both parties and increased social economic benefit for the country.

The critical phase of this process is to match those with resource, land ownership, property and capital with those who can exploit the full potential. Changes to the Basic Payment Scheme to allow early exits is one way in which change could be driven. Taxes could favour the landowner continuing to secure Inheritance Tax Reliefs. Although this could stifle innovation, an entrepreneur may look to use those assets differently. Research & Development Reliefs could offer substantial benefits to investment in a new approach.

How do individuals find each other? Clearly making one's intentions known is a great starting point by word-of-mouth locally or through Social Media to open up wider possibilities. We already see some large charities operate farming enterprises in the UK. Can a market for those with philanthropic motives linked to farming be able to be harnessed to provide opportunities for new entrants? Will we see the village community pub model in farming? Can the food and drink supply chain work together with agriculture to ensure food security and quality of supply which benefit the whole supply chain in a mutually constructive way rather than one entity bearing the risk, as it currently does.

Where collaboration exists, there will be a need to protect interests in a way to maximise returns but also individual desires. Change will take time but given history, change will come via evolution rather than revolution.

Stamp Duty Land Tax

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When dealing with agricultural tenancies SDLT - Stamp Duty Land Tax can be a complex issue. On completion in England of a farm business tenancy – FBT – it's important to establish whether an SDLT return needs to be submitted, whether it is payable and if so, how much.

For a fixed term FBT, the same rules apply as for any other lease - SDLT will be payable if the Net Present Value of the FBT exceeds £150,000.00 - the non-residential Stamp Duty threshold. It's based on a calculation of any premium payable under the lease plus the value of the rent over the term of the lease.

If an FBT contains residential property, a farmhouse or cottages, as well as agricultural land, non-residential rates should still apply as the transaction will fall into 'mixed use' as it covers residential and non-residential elements.

For periodic tenancies any additional tax which may need to be paid under such a tenancy, if it rolls over beyond its initial term, does not need to be paid until the very end of tenancy – an extra tax. When the tenancy eventually comes to an end this may give rise to a significant amount in SDLT.

Think carefully when an annual periodic FBT is proposed or where a fixed term FBT is intended to roll over into a statutory annual periodic FBT at the end of the fixed term and that tenancy is anticipated to last a number of years.

As tenants, you will need to work out at what stage an SDLT return will be required and when the SDLT threshold is likely to be reached. One option is for the parties to consider starting the clock again with a surrender and re-grant of the FBT.

Solar Panels

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With the rising costs of energy affecting both homeowners and businesses, many are looking to renewable forms of energy to reduce their costs. Harvesting solar power with solar panels is one alternative. Sites can range from the roof of your house to hundreds of acres of rural land.

Grants are available for homeowners to assist with the cost of solar panels. For example, the grant ECO4 is available from participating energy suppliers and, with 0% VAT on solar panel installations set until March 2027, it's well worth investigating.

For businesses looking to invest, you can be eligible to claim Capital Allowances on the purchase of solar panels. With the Annual Investment Allowance (AIA) set to stay at £1m per accounting period for the foreseeable future, it's appealing. Limited Companies can claim the 130% super deduction allowance up to March 31, 2023 on solar panels. Conditions will apply.

Whether one acre or hundreds, solar farms harvesting sunlight are becoming popular. The land used for panels can create an area for wildlife and nature to flourish with no local by-product and lower environmental impacts than other forms of renewable energy. Landowners often lease the land to energy companies to provide a diverse and stable source of income for years to come. Rigorous planning is required and consideration into how this will affect taxes such as Inheritance Tax and Capital Gains Tax is a must. For more information, feel free to give us a call.

Bureaucracy Rules, OK.

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In a society already dominated by red tape two new registers have been created to assail us. The Register of Trusts, when announced, did not seem unduly onerous. As the requirements have become clearer we are left pondering where trusts may exist that are not immediately obvious.

Of particular relevance to agriculture, land may be registered in the names of individuals but held on behalf of a greater number of owners. Many individual partners have land registered in their names at the Land Registry which, under their Partnership Agreements, is held by them as trustees for their partners. This can trigger a requirement for registration. Failure to register can result in penalties.

Life Interest Trusts created by wills, whereby the beneficiary enjoys the occupation of property registered in the names of executors for life, similarly require registration.

The Register of Overseas Entities seeks to protect us all from foreign money launderers but achieves this by a level of regulation around the verification of identity that has led the Law Society to recommend that law firms should 'exercise extreme caution if an adviser is considering such verification'. If you happen to be a foreign company owning land in the UK you have a problem.

If in any doubt about the direction of travel the September 'fiscal statement' by the Truss administration included the announced abolition of the Office of Tax Simplification. Truly we were being Trussed in red tape. It will be fascinating to see which knots, if any, Mr Sunak unties.

Research & Development

Companies find tax relief for R&D hugely attractive. Farmers tend to innovate and often this can bring them within the ambit of an R&D claim. If you think that your company may qualify, please contact us.

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