

Farming Group Newsletter

Issue 25



Another Difficult Growing Season For Many



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I think it's fair to say that the 2024 growing season was probably one of the trickiest many farmers have seen for some time. Unparalleled and relentless rainfall in Autumn/Winter lead to delayed planting, un-favourable growth and many crops that were already planted simply being washed away.

Whilst we were blessed in the East with long periods of sunshine in late spring/early summer, which undoubtedly helped the crops to recover somewhat, it seemed as soon as the combines came out of the sheds, Mother Nature had one final challenge to hand down and farmers were dodging summer thunderstorms and yet more rain.

All this undeniably resulted in reduced yields and with prices for wheat and barley staying fairly stagnant, we cannot expect prices to make up for the shortfall in yields. As we say goodbye to what could be one of the worst harvests since the turn of the millennium, we consider some topical areas in our Autumn/Winter newsletter.

Firstly, Lorna Conway looks at some of the issues the UK is facing in regard to water management, as climate change takes hold of our weather and forces unprecedented cycles of drought and flooding. Richard Alecock considers the flip side of this cyclical weather pattern and looks at the potential benefits that solar installations can provide, along with some of the tax aspects to consider before making any firm decisions.

Alternative crops and methods of farming which might help to mitigate volatile traditional farm incomes are considered by Ben Kilby, before our resident tax specialist Mike Blackledge reminds us about the advantages of trusts, but also the possibility of creating accidental trusts which need registering with HMRC.

With the ever-changing climate, coupled with all the other realities of day to day farming life I consider how we can get the next generation interested in farming, and finally, as I write this we are on the cusp of our first Labour budget. There has been a lot of speculation about what may change but, and to quote Tory Prime Minister Harold Macmillan, I think one thing's for sure; at least for tax purposes we've '*never had it so good.*'

If you have any projects in the pipeline, think you may have an accidental trust, or are considering starting the succession planning process, Whitings LLP are here to help.

Investment In Infrastructure: Save Our Water



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The UK is currently facing hydrological volatility, and has been since the post 2000 period, which results in episodes flitting between flooding and droughts.

With the UK having just experienced the wettest 12 month period in the last 150 years, it's hard to imagine right now, that water scarcity is a problem that this country is facing. In short, this is caused by the ever-increasing population, the breakdown in climate and the lack of investment in infrastructure. In essence this results in the waterfall in the UK being washed back out to sea. This issue is especially prevalent in the South and East of England, as this is where the UK grows much of its high value horticulture and water intensive crops.

Before global warming and the climate breakdown, the UK was a country that could historically guarantee that it could rely on

year-round rainfall, so naively investment was not made into water storage options. However, over the past few decades, the negative impact of the lack of investment has become apparent.

Water shortages are more frequently following periods of flooding, in a continual cycle. For example, there was a major drought in summer 2018, which was followed by exceptional flooding in 19/20, further flooding in early 2021, and then an exceptional drought in summer 2022. This was then followed by a wet period from mid-2023, through to the very wet winter/flooding which was just experienced in 2024.

Over the past few centuries, the UK has drained their wetlands and sold off floodplains to house the increased population. Simply, if we had more reservoirs, the autumn and winter rainfall could be reserved, but it has been over 30 years since a major reservoir was built in the UK. As the UK's water supply is owned by private companies, the proposals for reservoirs require private funding, but don't always come into fruition.

Shining A Light On Solar Projects



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Solar is fast becoming a quick and easy way to bring power to rural communities or remote areas of farms where it is needed most. Some of the benefits include, energy independence, cost savings, or a new income stream.

Homeowners, subject to the scale, generally enjoy favourable tax treatment from solar, so the sale of electricity monies received are usually not chargeable to Income Tax. However, if received for both personal and farm business, any profit relating to the non-personal element whether used to reduce costs, or sold to the grid, is ultimately generating profits and is chargeable to Income Tax. Installations on farm outbuildings or in fields, both large or small, which supply electricity to the farm are commercial and are subject to VAT at 20% which is usually reclaimable. Such commercial installations are also eligible for capital allowances, (subject to the usual considerations for capital expenditure).

Inheritance Tax (IHT) is equally important in the decision process, particularly in larger scale solar farm projects and where the farmer is simply receiving a rent from the solar

company. A site which becomes a solar farm may cease to be used for the purposes of the farming business and could reduce inheritance tax reliefs.

A solar farm will usually take land out of agricultural use, on which Agricultural Property Relief (APR) would likely have been available, and possibly out of the farming trading business which may otherwise have qualified for Business Property Relief (BPR).

It is not uncommon for solar farms to permit Farmers some agricultural use of the land, perhaps allowing sheep to graze under the solar panels, but the site will only be partly used for the farming trade and therefore the IHT issue cannot be entirely avoided. This agricultural use may allow APR, but by no means is it guaranteed as it cannot be said that the primary use of the land is agricultural.

BPR may also be available if solar farm rental income forms only a small part of the income of the farm trade, but this depends on the specific facts and is likely to only be relevant to those projects which are small in proportion to the rest of the business.

As with any Farm "project" Whitings LLP are here to help our Farmers with considering the added value to the Farm, by calculating financial projections, considering cashflow timing and enhancing Capital Allowances.



There Could Be An Alternative



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Following the 2024 harvest results, for many, yields were down along with higher input costs and lower prices. With climate change taking an impact on the UK countryside, other alternative crops are being investigated such as Hemp, Vineyards and Paludiculture.

Industrial Hemp varieties here in the UK are grown to produce natural fibres and oil. These can be processed to make paper, insulation, cooking oil and hempcrete to name a few. With a potential yield of 7.5 tonnes per hectare and a price of £500 per tonne, it's not to be sniffed at.

English wine has peaked in recent years with many vineyards popping up along the south coast and spreading through the country. Before putting the spade in, consideration should be taken into account when it comes to committing the land for 5-6 years before the first mature grapes will arrive. With the initial outlay of setup costs and equipment, losses are likely to

arise in the first few years, but with detailed planning these can be utilised. Other matters to consider are VAT, insurance, and the structure of the entity.

Paludiculture, or producing crops on a higher water table, seems a new idea. However these have been practised across the wetlands, such as in The Fens, for generations producing such crops as reeds for thatching and most recently building materials, clothes and bioenergy crops. With the government announcing a £5m Paludiculture Exploration Fund (PEF) back in August 2022, this is now being unlocked to explore how to sow, grow and harvest a variety of crops as well as developing a market for these products. With the collaboration of local farmers, these options are becoming more of a reality.

Quoting from the English poet William Cowper, '*Variety's the very spice of life, that gives it all its flavour*'. Exploring alternative crops, this can certainly be true.



Do You Have Trust Issues?



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At Whitings LLP we come across many different trusts in our day-to-day work and know that they can be used to hold and protect all types of assets, including farmland, buildings, investments, cash, shares and many more.

They are controlled by trustees who have a legal obligation to act in the best interests of the beneficiaries, manage the assets of the trust and act with reasonable skill and care. This will therefore allow them to protect the assets of the trust for the long-term benefit of all of the beneficiaries. This is achieved through the trust document, which provides the trustees with their limitations.

Many of our colleagues act as trustees, and it is very common for trustees to come from professionals including accountants and solicitors in addition to family members. However, trustees who are initially appointed may not remain suitable throughout the lifetime of the trust and therefore it is not uncommon for trustees to change over time. Consideration should be given as to whether the trustees remain appropriate throughout.

The establishment of a trust should only arise in appropriate circumstances, and these include where there is a requirement to protect the asset and the beneficiary for the longer term. There are of course other reasons.

A trust can be a very useful "planning tool" in that it can ensure that assets go to the right people, and allows for the management and distribution of money during a person's lifetime. The complex nature of using a trust requires the appropriate advice being sought from suitably qualified individuals to ensure that the relevant tax legislation is adhered to.

It is possible to create an accidental trust. This can arise through simply holding an asset on behalf of another, even where there is no trust deed or formal document in existence. An example of this could be land and buildings which are perhaps shown in the partnership accounts, but the ownership of such is not with all of the partners. Here there needs to be clear confirmation as to the ownership of the partnership assets, which could be in the form of the trust deed, and through the correct reflection within the partnership accounts. Care is certainly required when establishing actual ownership.

Most trusts need registering with HMRC within 90 days of its creation. This must be completed online, and failure to do so can give rise to penalties being applied.

Next-Gen Farming: A Key Consideration



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With an ever aging and declining farming population, attracting new entrants to this industry is paramount. New farmers are still almost always family of current farmers; rarely do outsiders join the ranks. As a new generation of farming children come through, however, they are understandably questioning whether farming is the life for them. They've seen the physical demands, early mornings and late nights time and time again with their parents. Let's be honest, farming is hard!

Any new entrant to farming faces four clear barriers to entry:

- Finance
- Access to land
- The pull of 'city' jobs
- Image

So how do we break down those barriers and encourage younger generations into farming?

Funding & Education

Undoubtedly the government has a role to play in terms of funding but also with education. Children often learn about Old MacDonald, but there is not much in the UK curriculum that explores farming in depth or gives real hands-on experience. Funding, of course, can also come from standard high street lenders, but there are also more tailored agricultural lenders, some of whom have specific products for young or new entrants.

Image & Social Media

Image, however, is a big part of the problem and social media can play a big part in breaking the stereotypical farming image. It would be remiss of me to mention image and social media without mentioning Jeremy Clarkson, and whilst he brings home the everyday struggles of farming life, it is all the other people in his show who really deserve the credit.

Fortunately, those younger generations who have continued in their parents' footsteps are also helping. They embrace social media and technology bringing us YouTube videos of day-to-day farm activities helping to bring the industry to a younger audience. Advancements in alternative crops and farming where technology will play an increasing role, will also hopefully attract the younger generation. The mechanics of paludiculture, hydroponics and aeroponics make anyone working in that sector more akin to a scientist than a farmer, let alone in wide-reaching roles in the development of these methods and the machinery required.

In any employed role, engaging and maintaining staff comes down to simple practices. Give them a reasonable pay, praise them for a job well done, respect them - but for a farmer, their recognition comes from us all - the wider public. Which is why trying to change the image of farming is so important.

Succession Planning

Finally, for those fortunate enough to have succession within their farming family, I cannot stress enough how early IHT planning can help in not only reducing any potential IHT liability, but also in making the successor feel involved in the business and engaged in the long-term running of the farm.

Get In Touch

For more information, advice or to find out how we can help you, contact your local Whitings LLP office today.



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