

Farming Group Newsletter

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Planning Ahead in a Changing World



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As we write this edition of our Farming Newsletter we are still knee deep in Inheritance Tax (IHT) planning with our clients. There are many points to consider, and we dive straight into some IHT planning thoughts from one of our Corporate Tax Directors, Jeannette Hume. This is followed up specifically in regards to Farmhouses by Richard Alecock, who considers what reliefs may or may not be available upon death. IHT planning would not be possible without support from solicitors and our Farming Group at Whitings LLP was recently fortunate enough to meet with some wonderful colleagues from Ashtons Legal LLP, Jeanette Dennis and Fenella Eddell. They spoke, among other things, about the importance of farming partnership agreements which I cover later in our newsletter.

Aside from IHT matters, water scarcity and abundance all at the wrong time is another big issue for farmers. We live in one of the driest areas of the country, and as climate change only intensifies the floods and droughts, it's clearly a growing

concern for the future. Lorna Conway looks at how water can be harnessed and stored for future use, but also to help future proof your business.

Finally, Ben Kilby looks at the novel idea of nut production. That might sound a little bit strange based here in the UK, but the sector is growing and perhaps offers answers for some, to multiple issues. The established trees help hold the soil in place reducing erosion, help to slow the flow of water and naturally capture and store this in the ground. Moreover, of course, they produce a habitat for declining insects, birds and pollinators. As parts of the country move towards a more Mediterranean climate, will we see nut production rise in prominence? Watch this space.

As always, for advice and guidance on anything covered in our newsletter, or any other aspect of farm accounting, tax and business advice, please contact us today.

Disclaimer: All information was correct at time of writing. Please contact us for current guidance on any of the topics discussed.

Practical Considerations for Inheritance Tax Planning



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Changes in Inheritance Tax relief due to be introduced from 6 April 2026, including a restriction in 100% Agricultural Property Relief (APR) and Business Property Relief (BPR) to £1m, will substantially increase the Inheritance Tax due for many farming families.

To implement planning to reduce the tax due requires a full assessment of the value of farmland, who owns the land, and whether there is any tenancy over the land. If the farm is run as a company, then the company shares will need to be valued and the Inheritance Tax exposure on each family member's estates will need to be assessed.

Ensuring that each family member's £1m of relief is used is essential to the planning. Where company shares are involved, it may be possible to gift shares and fragment the ownership of

the company, which will allow the share values to be discounted. Gifts of shares to a trust may also enable a further £1m of relief to be obtained.

Having fragmented the ownership of the company or partnership, it will be important to consider shareholder and partnership agreements and to review Wills to ensure that these still achieve the right results in conjunction with the gifts and planning.

It is also important to consider payment of any remaining Inheritance Tax particularly where money needs to be extracted from a company with additional Corporation Tax and Income Tax charges, unless a company purchase of own shares is possible.



Relief on a Farmhouse



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What Is a Farmhouse?

There is no legal definition of a farmhouse. Generally, the farmhouse should be the property in which the farmer lives and the center on which the farm is managed.

Looking at the whole farm helps determine whether the agricultural land is the dominant feature and therefore if the house is occupied with the land. When considering the house itself, the size of the property, layout and style will determine whether the property is "character appropriate." What is appropriate will also vary from area to area depending on the housing stock in that locality, including other farmhouses.

Why Is It Important?

These factors are important to maximise Agricultural Property Relief for Inheritance Tax purposes.

It is important to be involved in the farming practice and demonstrate the house is occupied with the land as much as possible. Maintaining evidence, which may include: minutes

of meetings held at the farmhouse, storing the farm accounts, making sure all farm correspondence and invoices are addressed to the farmhouse, is therefore important to build a body of evidence to support the APR claim.

Is Relief on a Farmhouse Changing?

The 2024 Autumn Budget announced a cap on Agricultural Relief of £1m from April 2026. Assets valued over £1m, which would otherwise qualify for full relief, will instead be restricted to 50% relief. The £1m allowance will include the agricultural value of the farmhouse. This may mean the farmhouse will bear a greater amount of Inheritance Tax.

Is the Residence Nil Rate Band (RNRB) Available on a Farmhouse?

In theory - yes. This is a relief which can be utilised on death. However, there are rules that apply to the RNRB, such as who the property passes to and how. Moreover, the RNRB is only available in full where the deceased's estate has a value of less than £2m. Therefore, it's likely on all but the smallest farms that the RNRB will be tapered or lost completely.



The Importance of Farming Partnership Agreements



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Just as important as an understanding of the total value of your estate when undertaking IHT planning, is an understanding of certain legalities. We thank Jeanette Dennis and Fenella Eddell of Ashtons Legal LLP for sharing their wisdom on farming partnership agreements with us. Whilst we have concentrated on partnership agreements, it should be noted that a shareholder's agreement in a company setup will be of similar importance.

For some, a partnership agreement is something which has not had much thought given to it. You can trade in partnership without one, but in doing so you are automatically governed by the Partnership Act of 1890.

Things have changed a lot since 1990, let alone 1890, and perhaps the biggest issue facing anyone trading in partnership without a formal agreement is that under the 1890 Act the partnership immediately ceases at law if a partner dies. This can have huge knock-on effects in an already difficult time, with bank accounts being frozen when trying to make payments to suppliers or employees, or simply from receiving funds from customers. A good partnership agreement will ensure the

continuation of said partnership, as long as there are a sufficient number of partners.

It should also set out any property which comes within the wrapper of the partnership, known as partnership property. This is property (land and buildings) that is used within the farming partnership but does not have to be owned by all the partners, or in equal proportions. An appendix to the partnership agreement, or a separate "declaration of trust" document, can be a great way to confirm what is partnership property and to firm up evidence for any future APR or BPR claim for IHT purposes.

Other key aspects of a partnership agreement are setting out profit and loss sharing ratios (which can be flexible to help with individual partner's Income Tax planning), what the partners can and cannot do, and the process for any decision making, particularly if there isn't a majority vote. There are many other areas that a partnership agreement can cover, but any agreement should fundamentally be tailored and unique to each business and family circumstances.

Finally, once a partnership agreement is in place, or alongside the preparation of this, any Wills should be reviewed or drafted. One incredibly important feature of a partnership agreement is that it can (and will) override a Will, especially in relation partnership assets. These therefore need to be aligned so that there is no mismatch in wishes.

Water Availability: Storage, Allowances & Reduced Costs



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Over the summer, the Environment Agency imposed an abstraction ban in East Anglia, affecting around 240 growers within the Ely Ouse catchment area. The ban was issued due to drought conditions and a failure to maintain sufficient river flows at the Denver Sluice. Fortunately, the NFU contested and 150 farmers were successful in having their bans lifted or eased.

Whilst many were already aware, what this has highlighted to a wider audience is the issue with the availability of water throughout the year. With the UK's weather switching up from periods of drought to extremely wet weather, consideration needs to be taken on how best to utilise these rapid weather changes.

Where possible, it would be wise for rainwater to be stored and then utilised in future dry periods. Whilst developing your own

reservoir is not a reality to all, other measures can be taken in forms of water storage tanks or rainwater harvesting tanks, many of which also benefit from good tax reliefs through capital allowances.

Water can then be abstracted from your own reserves for irrigation purposes. It is vital that the irrigation is performed efficiently, not just for water conservation, but for economical purposes. Along with any reduction of water bills, energy costs can also be saved where the pumps are used more efficiently to abstract from the natural sources.

Furthermore, irrigation efficiency can be measured by installing meters and monitors. Not only will these measures help highlight inefficiencies, but standard capital allowances can be claimed on them too.



Crop Focus: Hazelnuts



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For years, nuts such as hazelnuts have been grown in sunny climates like Italy and Türkiye. However, as climates change throughout the world, nut production is gradually moving northwards on the world map and into the UK.

Hazelnuts particularly like a 'Goldilocks zone,' not too hot and not too cold to thrive. With the ideal humidity levels, soil conditions and pollination requirements, nut trees are becoming more integrated within the farming cycles, bringing with it a reduction in soil erosion and increasing habitats for wildlife.

They do not come without challenges, however. Whilst they are resilient and adaptable, they require good irrigation management around the trees, along with ensuring the soil quality is maintained.

The harvesting of hazelnuts starts in early September and continues through to early November. Depending on the scale of your orchard, this may be done by hand or by machines such as trunk shakers and vacuum harvesters.

Many trees are being planted alongside combinable crops such as wheat and barley. This is known as 'alley cropping', which is a form of agroforestry. It combines nut trees planted in rows mixed with arable crops between them, often spread apart to the size of a combine header or sprayer boom.

Integrating hazelnuts into the farm can bring financial challenges such as: up-front funding for planting and maintenance, understanding your marketplace, volatility of prices, environmental regulations and other operating costs.

In a nutshell, whether we live on the fens or on the hillsides, integrating hazelnut trees into the farm could be a sight we see in the near future.



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