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Farming Group Newsletter

Planning, Change and Discovery

Louise Bassett
01638 712267
louisebassett@whitingsllp.co.uk

As I write this in late April, and you read it probably in June, last Christmas may feel like a dim and distant memory, but I invite you to cast your minds back. I remember receiving an email in my inbox from the CLA before the news even broke on mainstream media. IHT thresholds had been uplifted from £1 million to £2.5 million and there was confirmation of spousal transfer too.

Excellent news, for some. It does take many small family farms out of IHT which is great news but, of course, it didn't help those that had already undertaken planning and given away control of assets. In the main, however, those latter clients have only accelerated what was likely to happen anyway, and they have started the 7 year IHT clock ticking for any gifts made.

One thing which hasn't changed is the bringing of pension pots into the IHT estate. Our colleagues at Whitings Wealth Management Ltd explain the changes and consider how taxes might be mitigated, or wealth can be redistributed.

Robert Smith then looks at something which farmers are likely to deal with daily – VAT! When it's something you're dealing with on a regular basis it's easy to overlook things, but the key principals are important and unique. Look out for the common errors and pitfalls that he discusses in his article.

Ben Kilby then takes another look at novel crops, this time focusing on borage. Are we about to see a change in the farming landscape and swathes of blue fields? Another area of change to be mindful of for companies is the transformation of lease accounting rules. An accounting issue for some; a lending issue for others?

Finally, I discuss our recent farm walk where members of our internal Whitings Farming Group got together away from their desks to experience a day out on the farm; a day that was thoroughly enjoyed by all. I hope you enjoy our newsletter.

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

Retirement Income Drawdown Planning & IHT

Thomas Holder
01945 581937
thomas@whitingswm.co.uk

Recent legislative changes are set to significantly reshape retirement income drawdown planning and Inheritance Tax (IHT) mitigation strategies. From April 2027, most unused pension funds and death benefits will form part of an individual's estate for IHT purposes.

Under current rules, pension death benefits (including unused funds) typically fall outside the estate, with income tax treatment determined by age at death. Where death occurs before age 75, beneficiaries can draw pension benefits free of income tax, however, from April 2027 inheritance tax may apply first. Where death occurs after age 75, pension funds may be subject to IHT and then income tax at the beneficiary's marginal rate when drawn. This creates the potential for higher effective tax rates, particularly for non-spousal beneficiaries.

The rules for paying any tax liability are yet to be confirmed but the spousal and charity exemptions are expected to remain, meaning pension funds passed to a spouse, civil partner or qualifying charity would not trigger an immediate IHT liability.

These changes are expected to drive a shift in planning strategies. Retaining pension wealth for intergenerational transfer may no longer be appropriate, with greater emphasis on spending, gifting, protection solutions and alternative investments.

Despite this, pensions remain highly tax-efficient and central to long-term financial planning, with increasing life expectancy and rising living costs reinforcing the need to build sufficient retirement provision.

Our cashflow modelling software helps clients move from accumulation to controlled spending or gifting, while highlighting how pension inclusion may increase potential IHT liabilities.

Understanding VAT in the Farming Industry

Robert Smith
01284 752313
robertsmith@whitingsllp.co.uk

Value Added Tax (VAT) plays a unique role in the agricultural sector. As most food products e.g. milk, livestock, eggs, and crops are zero-rated, farmers are often net VAT reclaimers, regularly recovering more VAT on their expenses than they charge on sales. Understanding how to navigate this system is essential for financial stability and compliance.

As with any other business, farms must register for VAT once taxable turnover exceeds £90,000 in a rolling twelve-month period, though many may register voluntarily allowing them to recover input VAT which could be financially advantageous. Smaller unregistered farmers may opt for the Agricultural Flat Rate Scheme, which allows them to charge a 4% flat-rate addition on sales to VAT-registered customers as compensation for losing out on input tax on purchases.

Correct classification of supplies is critical. Confusing zero-rated and exempt categories can lead to inaccurate returns and penalties. Mixed-use assets such as vehicles and farmhouse expenses add further complexity, requiring careful apportionment between business and private use. HMRC generally permits recovery of 70% of VAT on farmhouse repairs for full-time farmers and up to 40% on improvements, but recovery on other costs such as telephone bills and motoring costs is more problematic.

Common pitfalls extend to cross-border transactions, when differing VAT rules and post-Brexit customs changes demand specialist guidance, and farms diversifying into activities like agritourism or renewable energy face additional VAT accounting challenges, particularly when mixing exempt and taxable income streams.

To minimise risk, farmers should maintain detailed records, invest in regular training on evolving regulations, and engage professional advisors experienced in agricultural taxation when needed. Proactive VAT management not only prevents costly errors but also maximises financial benefits, supporting long-term farming success.

The Rise of Borage

Ben Kilby
01553 774745
benkilby@whitingsllp.co.uk

Borage (Borago officinalis) is becoming an increasingly attractive novel crop for UK growers seeking diversification, strong margins and environmental benefits. Recognised for its vivid blue star-shaped flowers and exceptional appeal to pollinators, borage thrives in UK conditions and is primarily cultivated for its seeds. These seeds are pressed to produce borage oil, one of the richest natural sources of gamma-linolenic acid (GLA), widely used in skincare, nutraceutical and pharmaceutical products.

Farmers Weekly analysis highlights the crop's impressive financial performance. In several seasons, borage has outperformed winter wheat in gross margins, thanks to its low input requirements and stable demand. As a late-sown spring crop, it also offers valuable rotational advantages, helping to reduce blackgrass pressure, improve soil structure and spread workload across the season.

Agronomically, borage is relatively straightforward to grow. It prefers free-draining soils, warm seedbeds and modest nutrition. The main challenges arise at harvest, where seed shatter, uneven ripening and the crop's hairy stems require careful timing and, ideally, specialist equipment such as swathers or draper headers. Despite these challenges, growers consistently report that the crop's benefits outweigh its complexities.

We are already seeing borage enter the rotation of farmers in East Anglia, generally out in the fields but also in the farming accounts that we prepare.

With rising demand for GLA-rich oil, strong environmental credentials and the ability to fit neatly into modern arable rotations, borage represents a compelling opportunity for UK farmers looking to diversify into a profitable and resilient alternative crop. As interest continues to grow, borage is set to play an increasingly important role in the UK's niche cropping landscape.

Company Accounts Changes

Louise Bassett
01638 712267
louisebassett@whitingsllp.co.uk

For any Companies preparing accounts under FRS102 (including the provisions of section 1a) changes are coming for accounting periods beginning on or after 1st January 2026 in respect of lease recognition. This only impacts Companies, and only those using FRS102, not those using FRS105 for micro entities.

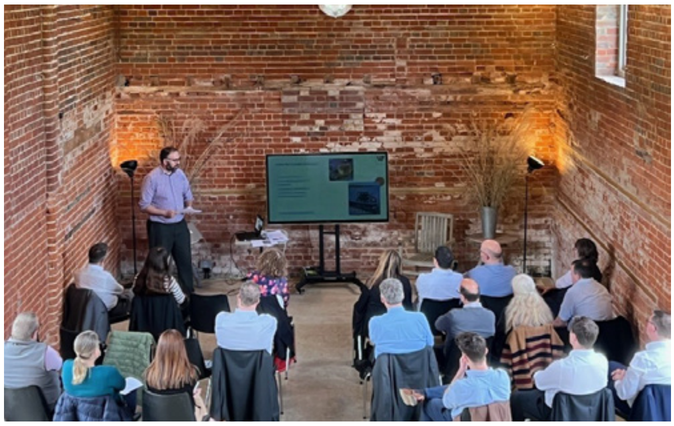
The changes require company accounts to recognise a lease liability and right of use asset for any previous leases that were considered off-balance sheet. This essentially puts all leases on the balance sheet that might have previously been expensed to the profit and loss account, increasing assets but also liabilities.

For some, this is simply going to be an accounting issue for their advisors to deal with, but for others it does have wider implications. For companies with borrowing that lenders have placed debt serviceability and other restrictions on, this will increase the company's gearing ratio and worsen their interest cover (sometimes referred to as debt serviceability).

Fortunately, it would seem that lenders have picked up this point and are re-calculating their metrics for new finance, but it is unclear whether loans that are already in place will have their metrics updated as well.

Hopefully it goes without saying, but good relationships with lenders are key. If you think your company is going to be affected by this change, it's probably wise to have a quick call with your lenders sooner rather than later to see where you stand.

Out in the Field



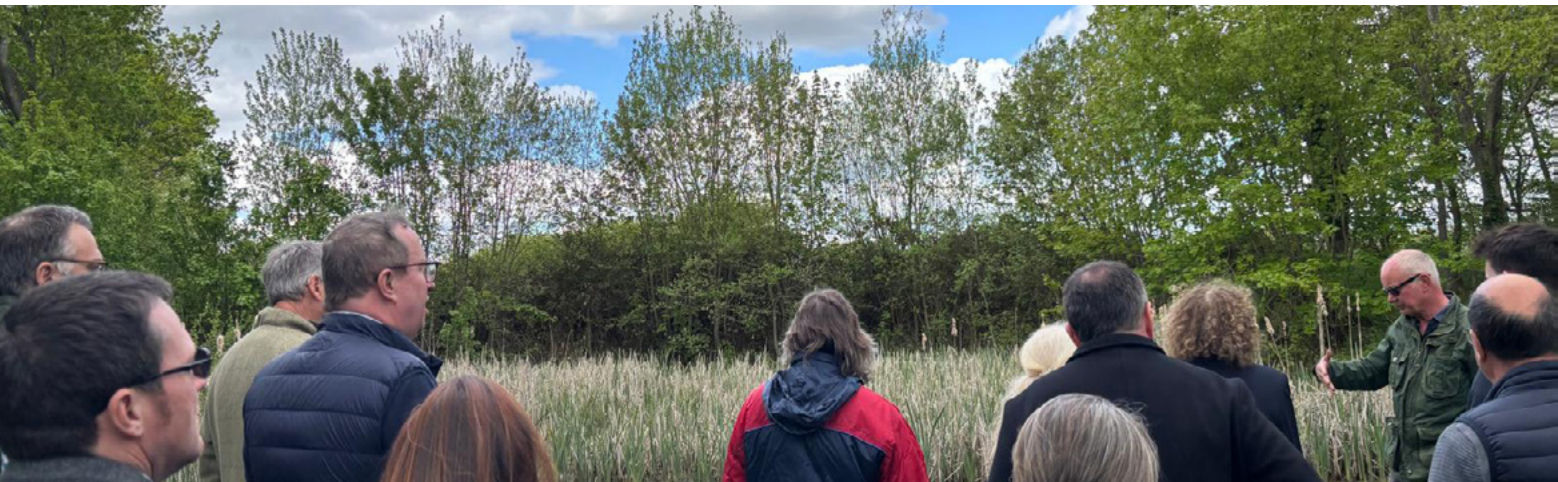
Recently, the Whitings LLP Farming Group spent a day away from the office out on the farm at Shimpling Park Farms Limited. We were welcomed with open arms on the day to a wonderful setting for our biannual meeting, courtesy of Alice Pawsey and her wonderful catering staff. We spent the morning learning about the topics covered in this newsletter, and discussing matters of importance to our agricultural clients across the firm before setting out after lunch on a guided farm walk by owner occupier John Pawsey.

Fortunately, the weather was on our side on the day and no wellies were required. In fact, it was eye opening to see just how dry it was out on the farm having visited in the middle of a prolonged dry spell in April, although you wouldn't have realised it purely from looking at the lush green crops.

As an organic arable farm that also rears Romney sheep it was incredibly interesting to hear how rotation, soil fertility and sustainability work hand in hand to not only produce high quality food and an abundance of homes for wildlife, but also to make sure the farm is viable for generations to come.

Discussing rotations on the day that build fertility, fix nitrogen in the soil and reduce weed growth; the plantation and management of trees and hedgerows that act as natural field boundaries but also shelter and food sources for a whole range of wildlife; and also the care given in educating the next generation through numerous school visits each year; it all seemed to make so much sense.

I'm acutely aware that not every farm's set up leads them to be as sustainable as Shimpling Park Farms Limited, but as extremes in global events rise, be that in terms of weather or geopolitics, farms need to ensure that they are environmentally and financially stable enough to weather the storms. I'm also a big believer that little actions undertaken across the country can add up to make a big difference overall, and that goes for all of us not just farmers.



Whitings Chartered Accountants LLP

www.whitingsllp.co.uk

Bury St. Edmunds Office
Greenwood House, Skyliner Way,
Bury St. Edmunds, Suffolk. IP32 7GY
Telephone: 01284 752313
bury@whitingsllp.co.uk

Ely Office
George Court, Bartholemews Walk,
Ely, Cambs. CB7 4JW
Telephone: 01353 662595
ely@whitingsllp.co.uk

King's Lynn Office
Norfolk House, Hamlin Way, Hardwick
Narrows, King's Lynn, Norfolk. PE30 4NG
Telephone: 01553 774745
kingslynn@whitingsllp.co.uk

March Office
Fenland House,
15B Hostmoor Avenue, March,
Cambs. PE15 0AX
Telephone: 01354 652304
march@whitingsllp.co.uk

Mildenhall Office
Willow House, 46 St. Andrews Street,
Mildenhall, Suffolk. IP28 7HB
Telephone: 01638 712267
mildenhall@whitingsllp.co.uk

Peterborough Office
Eco Innovation Centre, Peterscourt,
City Rd, Peterborough, Cambs. PE1 1SA
Telephone: 01733 564082
peterborough@whitingsllp.co.uk

Ramsey Office
108 High Street, Ramsey,
Huntingdon, Cambs. PE26 1BS
Telephone: 01487 812441
ramsey@whitingsllp.co.uk

St Ives Office
Raleigh House,
14C Compass Point Business Park,
Stocks Bridge Way, St Ives, Cambs. PE27 5JL
Telephone: 01480 468931
stives@whitingsllp.co.uk

St Neots Office
First Floor, Phoenix House, 2 Phoenix Park,
Eaton Socon, St Neots, Cambs. PE19 8EP
Telephone: 01480 470755
stneots@whitingsllp.co.uk

Wisbech Office
12 & 13 The Crescent, Wisbech,
Cambs. PE13 1EH
Telephone: 01945 584113
wisbech@whitingsllp.co.uk

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The Corporate Finance Network