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Agriculture Insight

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small firm personal attention



Dan Wood Partner



Introduction

Welcome to our latest agriculture newsletter.

The sector is facing a number of challenges from succession, to rising input costs and being tasked by the government to tackle environmental issues.

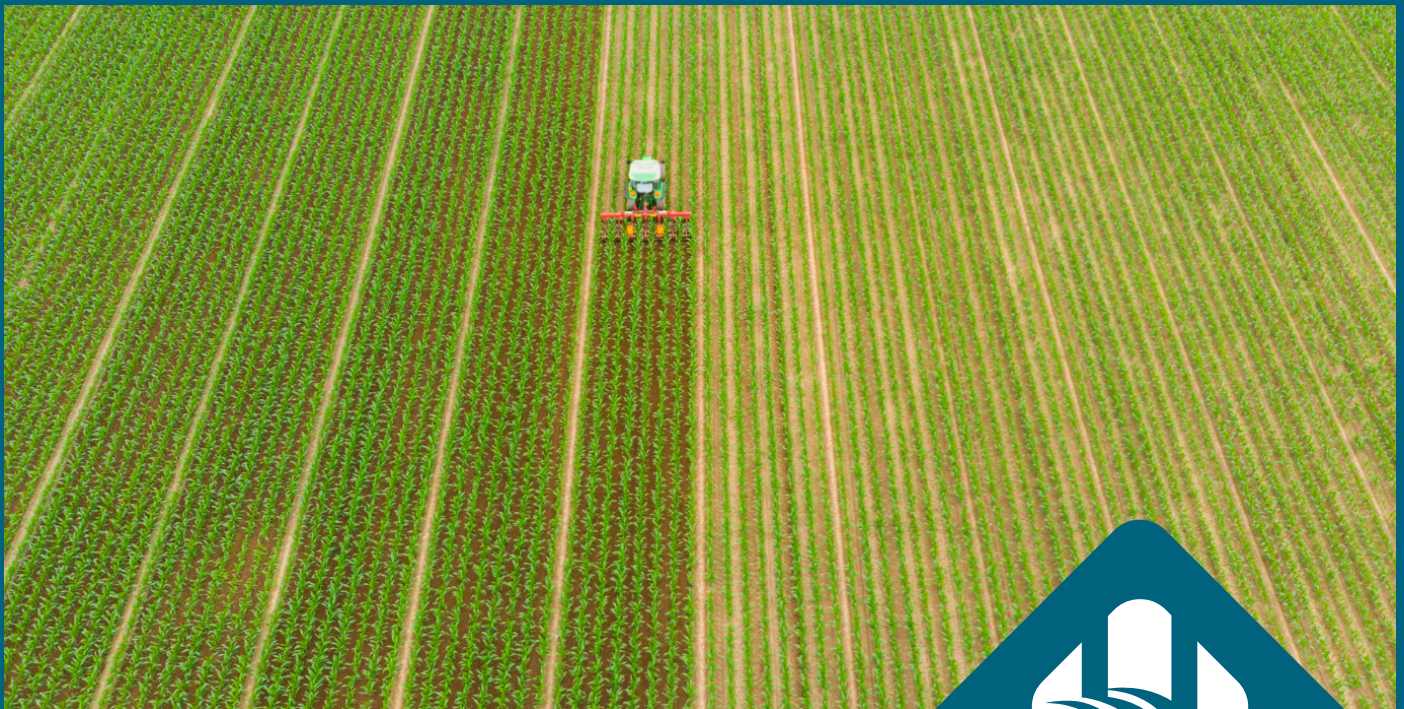
In this edition we discuss what changes farmers can expect to see in 2022. We also explore some of the potential tax opportunities available to farmers this year. Finally, we discuss the England Woodland Creation Offer and how this could raise income for farmers.

We hope you enjoy the contents of this newsletter and as ever if you have any questions please do not hesitate to get in touch.



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What Changes can we Expect for Farming in 2022?

The agriculture sector is facing a period of transition that will significantly change the way the industry operates. Rural businesses will need to find and generate new income streams as new opportunities present themselves. However, with these new opportunities comes new challenges as the agriculture sector faces increasing demand to reduce its carbon footprint whilst inflationary pressures are making everyday business more challenging.

In this article, we will be discussing some of the key changes that will affect farmers in 2022 and beyond.

Reductions in Basic Payment Scheme (BPS)

The BPS is the largest rural government grant and payment available to the farming industry but is set to end in 2028 with significant reductions year on year in the intervening period. Farmers can apply for this grant each year and will need to comply with some rules in order to receive the grant. This reduction is likely to create a financial shortfall for many farmers across the UK that will need to be addressed. Small increases in productivity will only be part of the answer for most farmers as different opportunities will need to be considered moving forward.

Defra introducing complicated new schemes

Defra has created a new domestic agricultural policy. This policy comes with the introduction of very complicated new schemes which farmers will need to

quickly adapt to in order to benefit from them. However, we are currently in a transition phase where new schemes are being introduced and old schemes are being phased out, making it more complicated than ever.

One of the new schemes introduced by Defra across England is the Sustainable Farming Incentive (SFI) which will be available from Spring 2022. The ultimate aim of this scheme is to have 70% of farms and farmland across England to be part of the SFI by 2028. However, doubts have been cast about whether the schemes payments are lucrative enough to incentivise farmers to sign up.

Lump-Sum exit scheme and delinking

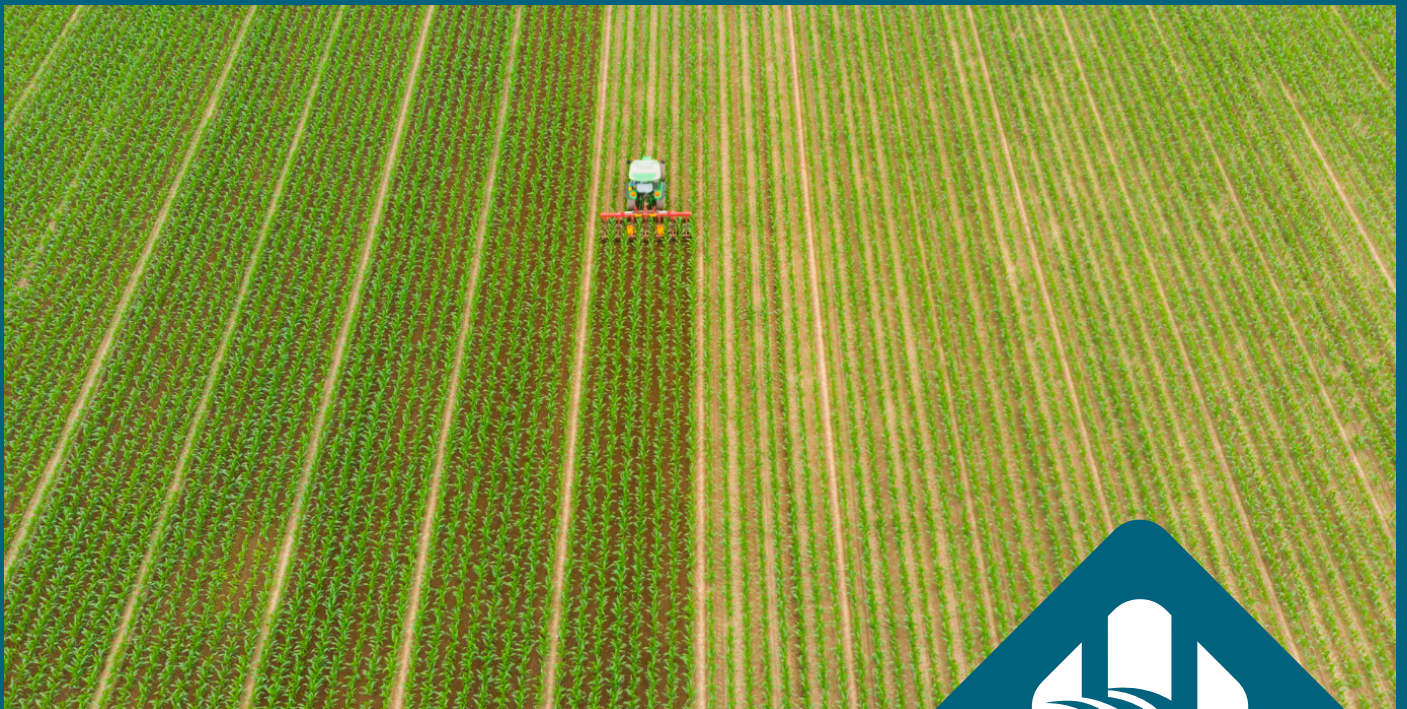
For those who are considering leaving their farm, Defra has announced a lump sum exit scheme. This scheme is designed to free up land for those wishing to pursue farming and existing farmers wanting to expand. The scheme offers a one-off lump sum for those looking to leave farming. Whilst the amount is most likely not enough to persuade farmers to leave, it may be suitable for those already considering an exit.

Continued overleaf...



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What Changes can we Expect for Farming in 2022? (Continued)

Environmental protection

The Environmental Act has now been passed by UK law. This act has been introduced to enhance the natural world for future generations. Lots of work still needs doing on the act but there is no doubt that significant changes will be on the way regarding the way farmers store and spread manure, slurry, AD digestate, or sewage sludge. Defra is also keen to set long-term legal binding rules on air quality, biodiversity, water, resource efficiency, and waste reduction.

Carbon management and trading

This is an exciting opportunity for farmers, and carbon trading has become a bit of buzz word recently. This is because you can now trade carbon credits generated from woodland, peatland and soil. However, there is still significant uncertainty about how carbon trading will work and where prices will settle. They also need to consider how much carbon their business is emitting. Once you have this knowledge you can calculate if you have any surplus that you can sell to third parties that do not affect their position from a financial, environmental, and reputational point of view.

ESG investing

The agriculture sector is being affected by the focus on

Environmental, and Social Governance (ESG) considerations. Over the past few year's businesses have started to put more emphasis on ESG and Corporate Social Responsibility in an effort to reduce their carbon emissions. This trend is having an effect on the agriculture sector as many businesses look to plant trees, get involved with rewilding and deliver other ecosystem services.

This presents an opportunity for farmers generate income streams from this increase in corporate businesses taking part in ESG investing. However, this does also come with a challenge as farmers have been vocal about losing productive farmland could impact food security.



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Are there tax opportunities for UK farmers in 2022?

Annual Investment Allowance, Agricultural Property Relief, and farmers' averaging are generous tax reliefs for UK farmers and owners of agricultural businesses. However, each has some detailed rules that you need to be aware of – particularly as UK farming brings unique tax reliefs and rules.

Annual Investment Allowance

The Annual Investment Allowance (AIA) was increased from £200,000 to £1 million on 1st January 2019. It has been confirmed by the Chancellor that this will stay in place until at least 31 March 2023. The AIA provides a 100% deduction for the cost of plant and machinery (excluding cars) purchased by a business, up to an annual limit, and is available to most businesses.

On 1 April 2021, the government introduced the super-deduction which is a 130% first-year capital allowance for qualifying plant and machinery assets. There is also a less generous 50% first-year allowance for assets qualifying for the special rate pool. The super-deduction will allow companies to reduce their tax bill by up to 25p for every £1 they invest. However, it is important to note that the super deduction is not available to unincorporated businesses.

Now AIA has increased to £1 million this is a very generous figure and is one of the best tax opportunities for UK farmers. As the cost of agricultural machinery and equipment is very high,

maximising the opportunities of the AIA could be essential for farmers. If you are considering purchasing any farming equipment it is important to note that the £1 million allowance could be significantly reduced in March 2023.

Caution

You will need to be very careful of timings in order to maximise your AIA. You also need to decide whether or not now is the right time to use the AIA to reduce your tax bills. Using the AIA to reduce tax bills in the agriculture sector or keeping cash reserves is a topic we have covered before.

Whether or not now is the right time for farmers to use AIA to reduce their tax bills depends on specific circumstances. Given the uncertainty in the sector and the ongoing fluctuations of profits – both heavily influenced by supermarket price wars amongst other things – now might be the time to keep cash reserves rather than spend. When cash flow is tight and you have no spare funds to purchase machinery, spending to theoretically reduce your tax bills through AIA may not be the right option for your business.

Farmers' averaging relief

Farmers' averaging is a unique tax rule, introduced to limit fluctuations in farmers' tax bills – which can happen for any number of reasons, such as the weather or a poor harvest.

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Are there tax opportunities for UK farmers in 2022?

Provided that certain conditions are met farmers can claim this special relief where they can average their profits from farming or market gardening over 2 years or 5 years.

Agricultural Property Relief

Agricultural Property Relief (APR) essentially provides 100% relief from inheritance tax on the agricultural value of land and property where certain conditions are met. Inheritance Tax (IHT) is becoming increasingly complex and potentially expensive for farmers and their families. APR could therefore provide an invaluable relief.

The Farmhouse

It should be noted that the agricultural value of farmhouses can qualify for APR but stringent conditions must be met. It is likely that the open market value of a farmhouse is more than the agricultural value. Therefore, even if APR is available there could be some IHT exposure on a portion of the value. The main residence nil rate band is capable of being applied to farmhouses where the farmhouse is passed to a direct descendant.

This may therefore provide some further IHT relief for farmers. The current allowance for the residence nil rate band for Inheritance Tax is £175,000. This extra allowance is transferable exactly as the current nil rate

band is now, and for a surviving spouse/civil partner who has been widowed before 6 April 2017, there is a transferable allowance of £100,000 if the survivor dies on or after that date.

One important point to note is that the main residence nil rate band will be reduced by £1 for every £2 that the value of an estate before reliefs exceeds £2 million. Since the value of estates for many farmers will exceed this threshold it is vital that they engage in IHT planning with a view to reducing the value of their estates.

This may then enable them to benefit from the main residence nil rate band and in turn reduce their IHT exposure.

Caution

APR and the new additional main residence band are extremely generous tax reliefs and, as such requires you to meet certain and complex qualifying conditions. Another key thing to remember is that APR is an all-or-nothing relief – if you don't meet all of the detailed conditions, then you will not qualify. Planning is essential, and so is making a will that is tax efficient.

We advise farmers to regularly review their activities to ensure their business is structured to take full advantage of APR and maximise other reliefs available. For more information, we recommend you read [HMRC's rules and guidance on APR here](#).

England Woodland Creation Offer

With a shift in regime from the Basic Payment Scheme to one targeting agri-environmental objectives, more farmers are looking to forestry as a way to generate income.

The England Woodland Creation Offer (EWCO) is a scheme available across England. This scheme is available to owner-occupiers, tenants, landlords, and licensors that have full management control of the land in the application. Furthermore, joint applications, multiple land managers, and applications on common land and areas of shared grazing are eligible. If you do not have full management control of the land then you will need consent from those that do. The aim of this scheme is to encourage landowners such as farmers, land managers, etc to plant trees and develop woodlands. The scheme supports areas as small as one hectare and applicants could receive over £10,000 per hectare to support the woodland creation.

The land is eligible for the scheme if it is:

- in England
- within the full management control of the applicant (or, where applicable, any counter-signatories)
- not already classified as woodland
- not subject to any existing legal requirement or obligation to create woodland
- not subject to a dispute between landlords and tenants
- not currently within an existing grant agreement that has more than five months left to run at the time the EWCO application is submitted (if the land or part of it is in an Environmental Stewardship agreement it may be possible to transfer the land into EWCO as long as certain conditions are met)

Continued overleaf...

England Woodland Creation Offer (Continued)

EWCO is a criteria-based competitive scheme. Offers of Agreements will be made to applicants with woodland creation proposals whose scores meet or exceed the threshold score. The threshold score is currently ten points. We recommend reading the criteria to make sure that you can maximise the number of points you could receive. The more points you have the more lucrative your offer of Agreement will be.

Each area has a woodland creation officer, their details can be found here: <https://www.gov.uk/government/organisations/forestry-commission/about/access-and-opening#Woodland-Creation-Officer>

Dan Wood Partner at Hawsons commented:

We are seeing an increase in farms looking to agroforestry. One of the key benefits of the EWCO is that DEFRA have indicated that farmers and landowners will be able to transfer into future environmental land management schemes at agreed points without having to repay their current funding. The potential to sell carbon credits generated by woodland creation may be a further source of income, made even more attractive by the fact that it is currently tax-free.

That said, this scheme may not be for everyone, it does require long-term planning and a commitment to take a significant area of land out of production. There does remain uncertainty about the longer-term future of the subsidy regime and we expect that many will wait until the extent of the schemes becomes clearer before making a significant investment.

If you would like to read through the application process, please visit the government website here: <https://www.gov.uk/guidance/england-woodland-creation-offer>

Get in touch



Our agriculture experts

Hawsons has a dedicated team of specialist agriculture accountants in Sheffield, Doncaster and Northampton. We know that farming isn't just a business; it's a way of life.

The rural and agriculture sector is a specialist sector, with unique practices and conventions, and we act for a significant number of arable farms and assist farming families in many matters specific to the sector including tax and will planning and succession planning.

We have been able to assist our farming clients in adding value to their businesses including advising on the financial and taxation consequences of property development, green technologies and capital allowance planning. In particular, we can assist in the area of capital taxes planning which is a significant issue for most farmers following the increase in land values and the availability of development opportunities.



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