WESTCOTTS

CHARTERED ACCOUNTANTS
& BUSINESS ADVISERS

Agricultural update

Summer 2024

Welcome to the Summer edition of Westcotts' agricultural newsletter, focusing on topical issues for farming and rural businesses.

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With such a wet start to the year, lots of farmers are trying to make up for lost time. I know that many farmers have spent the latter part of May dodging the downpours in order to cultivate fields and plant maize. The delay in carrying out these annual routines will have a knock-on impact to the farming calendar for the rest of the year.

Looking at the markets, the prices obtained for finished cattle have been strong in the last 12 months and lamb prices have also seen a recent dramatic rise, to the relief of many livestock farmers. Unfortunately dairy farmers have not been quite so lucky in the last year, with many having to endure dramatic price cuts since the giddy heights of Autumn and Winter 2022-23. It is at times like these, that dairy farmers need to look carefully at their costs of production and also manage the cashflow of the business.

We are now leading up to a General Election on the 4th July. Whichever party wins, I think it is fair to say that it is more difficult than ever to predict what tax reforms the next Chancellor might introduce. It is never too early to consider long term tax planning and succession. There are valuable inheritance tax reliefs available to farmers and landowners, and we should not take their continuation for granted. There are no guarantees they will remain in their existing form forever.

This is a point recently emphasised by my fellow Westcotts partner, Nick Smy, who said:

"Agricultural Relief is available on land and buildings used for agricultural purposes, whether farmed by the landowner or someone else, and Business Relief is available where property is used in the landowner's own farming business. Reliefs are also available which allow qualifying agricultural land to be gifted with the benefit of holdover relief such that a taxable capital gain does not arise on the gift.

The coming election brings the risk that the current reliefs could become less generous in the future. Whilst we cannot know what will happen after the election, we have to acknowledge that all agricultural reliefs could be at risk, and, in particular, agricultural land and property which is let out rather than being actively farmed by the landowner could be under greater threat. It is therefore important to review your own position and whether there is scope to take action, including gifting land and property. Please contact your usual Westcotts partner should you need further advice on this matter."

Whilst trying to think of a theme for this newsletter, I concluded that perhaps the most important underlying message is that both the weather and the economy seem to be becoming more changeable and extreme. Therefore, it is more important than ever to build the necessary resilience into our businesses, so that we can cope with what is thrown at us.

In this edition, my colleague, Kelly Davies, looks at how the Basis Period reform is impacting the 2023-24 taxable profits for businesses with a year-end different to the 31 March or 5 April. Mandy French has written an article to remind us of the rules around Farmers' averaging relief and how it can help to smooth taxable profits over a number of years. Will Fisher, from our Agricultural Consultancy team, takes a look at the Sustainable Farming Incentive (SFI) options with which farming businesses need to familiarise themselves. I have also written a brief article providing five top tips to keep in mind when considering a development project on your land. Fingers crossed for some sunshine or tax stability.

Basis period reform for farmers

From April 2024 we saw the introduction of a law which affects how sole traders and partnerships are taxed.

From 6 April this year, all sole trade or partnership businesses will be taxed on profits generated in the tax year rather than those associated with their accounting year-end. This change is known as the basis period reform and will affect those businesses with a year-end outside of 31 March or 5 April.

Transition:

The 2023/24 tax year was a transitional year. In that year all farmers should have considered whether they will keep their current accounting year-end if outside of 31 March or 5 April, or whether they should align their accounting year with the tax year to ease any future administrative burden.

It is in the transitional year that any 'extra' taxable profits arising as a result of the change can be ringfenced and spread equally over 5 tax years, starting from 2023/24, should the taxpayer wish to take advantage of this.

An illustrative example:

A sole trade farmer with a June year end:

Taxable profits for the 12 months to 30 June 2023	£45,000
Taxable profits for 9 months to 31 March/5 April 2024	£30,000
Overlap relief brought forward from commencement of trade	(£10,000)

Additional profits due to transition

This is calculated by taking the additional 9 months taxable profits and deducting any available overlap relief. In the example above this would be £30,000 less £10,000 giving additional profits due to transition of £20,000. There is then the option to spread this additional profit over 5 tax years.

If the option is taken to spread the extra profit, at least £4,000 (but more if you wish) should be added to the 2023/24 tax return and each tax return for the following 4 years to bring the tax position up to date.

The 2023/24 tax return will therefore show either of the following:

Profits taxable in the year – with no spreading	£65,000 – made up of £45,000 plus £20,000
Profits taxable in the year – with spreading (or more, up to the full £20,000 if preferred)	£49,000 – made up of £45,000 plus £4,000

How does this affect farmers averaging:

Farmers have the benefit of averaging their profits over 2 or 5 years to level out the peaks and troughs of farming profits. For the purposes of the basis reform, the transition profits highlighted above are disregarded for any averaging calculations.

For the June year end we mentioned above the £20,000, or £4,000 if spreading, will be ignored for the purposes of averaging and only the taxable profit of £45,000 can be used in the averaging calculation.

Key points to take away and consider:

The 2023/24 tax return, being the transitional year, will tax profits made up to the end of that tax year, rather than the profit made solely in the 12 months to the accounting year end that falls within that tax year.

For many with a year end falling outside of 31 March or 5 April, this change will result in extra administrative work to assess the taxable profit made in the extended period.

There is no obligation to do so, but for almost all, it may be worth changing their accounting year end to coincide with the tax year, to ease the admin burden of profit calculation in future years.

Cash flow needs to be considered and managed to account for additional tax liabilities resulting from the basis period reform.

Planning with your accountant and tax adviser is essential.

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Averaging profits for farmers

Due to the volatility of the farming industry, unincorporated farmers and market gardeners are allowed to average their profits for tax purposes as long as they meet certain conditions. This has the effect of smoothing fluctuating trading profits and therefore creating more regular and predictable tax payments for farmers.

Averaging may help farmers who pay tax at the basic rate one year and higher rate the next, or farmers who are liable to tax in one year but with nothing due in the next year.

'Farming' includes the intensive rearing of livestock or fish on a commercial basis for the production of food for human consumption.

Averaging options

Since the 6 April 2016, farmers have had the ability to average their profits for tax purposes over any two or any five consecutive tax years. This is, of course, not mandatory and farmers may choose to pay tax on their profits for each tax year as they arise.

The following conditions must be met for averaging provisions to apply:

- For two year averaging, the difference between the profits for the 2 years must be more than 25% of the profits of the year with the better result. You cannot make a claim where the difference between the profits is 25% or less.

- For five year averaging, the difference between the most recent year's profits and the average of the profits for the four previous tax years must be more than 25% of the profits of the higher figure. As with a two year claim, averaging claims must effectively be made in a consecutive order.

Where a loss is incurred, the taxable profit for that year is treated as being nil for averaging purposes. The loss will then receive tax relief under the normal loss relief rules.

Partners in a partnership can independently decide whether they wish to make an averaging claim and enter it on their individual tax returns. A claim for averaging relief is made on the tax return for the later of the tax years concerned.

Averaging claims must be made within 12 months of the 31 January following the end of the relevant tax year.

Restrictions

- Averaging is not available for the tax years in which the trade commences or ceases.

- Averaging is not permitted for contract farmers or where profits are calculated on a cash basis.

- The averaging may only be claimed on the farming profits and not other streams of business income the farmer may receive.

- These rules are for income tax only, so farming companies may not average their profits.

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Sustainable Farming Incentive (SFI) Agreements

This is the first year that farmers have not needed to submit a Basic Payment Scheme (BPS) claim. With May now behind us, it should be a reminder to all farm businesses that the BPS subsidies will soon be gone too.

With delinked payments being paid automatically until 2027, this is a good opportunity for farm businesses to explore the new environmental subsidies available through the new Sustainable Farming Incentive (SFI) if they have not already done so.

The new 2024 SFI offer includes 102 options. The countryside stewardship mid-tier options have been incorporated into the SFI as actions.

For livestock farmers, there are multiple options relating to grassland, without having to reduce stock numbers or farm less intensively. Some of these options, including SAM3 "Herbal Leys" and NUM2 Legumes in improved grassland which is simply including clover in grass leys, can be quite attractive. Livestock farmers should be encouraged to take advantage of them where possible.

All SFI agreements also include a management fee paid to farmers to cover the admin and professional costs of managing their SFI agreements. This is based on the number of hectares in your SFI agreement and pays a maximum of £1,000 per annum based on 50 hectares.

SFI payments are also being paid quarterly (now at the end of the quarter) which will help aid cashflows for many farmers.

The SFI application window is open all year round. The agreements last 3 years and are amendable on the anniversary of the agreement.

For more guidance on SFI applications, please contact Will Fisher.

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Five top tips when considering a development project on your land

As a landowner, you may be in possession of a desirable plot of land which has attracted the attention of a developer - perhaps a renewable energy company or a housing developer. When considering a proposal, keep in mind the following five important pieces of advice which have been compiled from the experiences of other landowners.

1 Communicate well. Even where the piece of land proposed for development is owned by a single individual, it is likely that the thoughts and feelings of other family stakeholders have to be considered. Make time to listen to the views of all family members.

2 Engage knowledgeable advisers. These types of opportunities may only present themselves to a landowner once in a lifetime. Realise that you are novices who will be dealing with larger, more experienced, corporations. Therefore, seeking the advice of experienced solicitors, technical and commercial agents and your accountant is fundamental to achieving the best results. This should be done at an early stage, before any 'heads of terms' have been agreed upon.

3 Know your own mind. When striking an agreement with a developer, some aspects of the offer will require negotiation. At some point during the process, you will likely find yourself having to offer something that was not initially considered. Be clear - as a family - what is an acceptable compromise to achieve the end objective. Some things in life cannot have a price put on them.

4 Futureproof your decision. Consider the wording of any agreement proposed and try to ensure it will be suitable in a range of future scenarios (changes in ownership, technology, economy, regulations and tax). Even when you are lucky enough to be working with an exceptionally accommodating development partner, it is important to remember that sites such as yours are often bought and sold throughout option and/or tenancy periods.

5 Be patient. Be prepared for a long, drawn-out process. The goalposts will likely change multiple times along the way. Persevere and stay the course, but don't put your life on hold waiting for 'the day to come'. Some projects will take decades to come to fruition. If they ever do. Dedicate the required time and focus as and when needed to progress the project to the next step. Then, when this is done, put it to the back of your mind and get on with living your life.

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