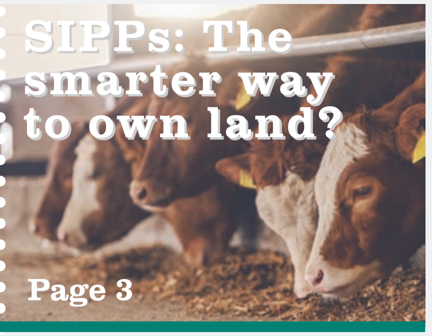
in The Know

Spring 2021

Farming



Evolution or Revolution, what comes next?

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With another tax year over and as we are gradually eased out of lockdown (again!), we can now reflect on what 2021 might hold in store for the farming sector.

Since our last newsletter, Brexit has been and gone, the Agricultural Act 2020 is now in place and the coronavirus pandemic continues to have a significant effect on the economy.

This year will see the first, phased reduction of the Basic Payment Scheme, which will decrease gradually between now and 2027. At the same time, we are seeing further details emerge of 'ELMS', the Environmental Land Management Scheme, which will focus on Sustainable Farming Incentives, Local Nature Recovery and Landscape Recovery. Pilots for this scheme are already underway and we expect more details to materialise over the coming months.

Turning to taxes, with the Autumn 2020 budget cancelled, the Spring 2021 budget was eagerly anticipated and there were many whisperings of changes to capital taxes being on the horizon. The Spring budget didn't make any such changes however, and the thrust of the announcements were aimed at COVID support and changes to corporate tax (further discussion regarding this can be found on Page 7.) Nevertheless, the Chancellor did leave the door open to changes to Capital Gains Tax and Inheritance Tax in the future. Now may not have been the time for significant tax changes, given the economy is still in a precarious state due to the ongoing pandemic situation, but no doubt tax changes will come at some point to try to make inroads into the national deficit. Read about this further on Pages 4 & 5 in our article 'Is the Sun Setting on Succession Tax Relief?'

Whatever 2021 may bring, rest assured that at Dodd & Co we will be working tirelessly to keep our clients up to date with any changes that may impact them. ■

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The future of land values

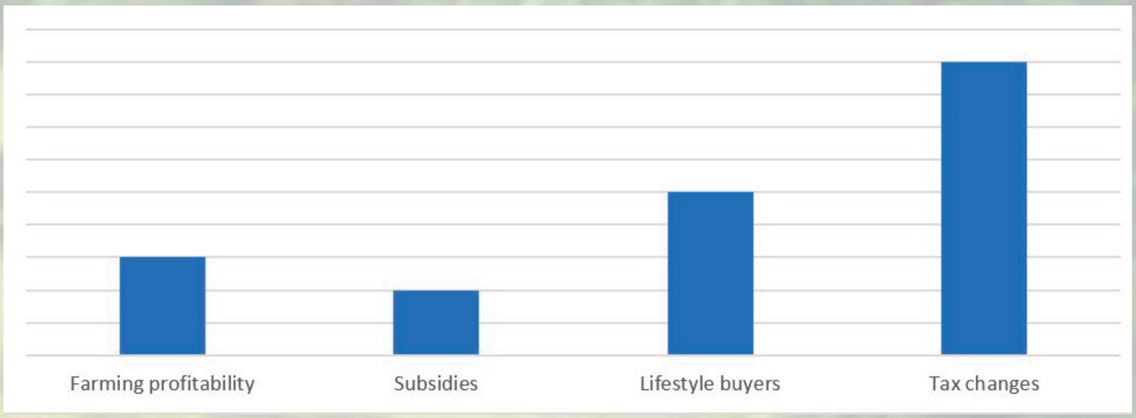
With so much change on the horizon it's almost impossible to guess at what might happen in the future with regard to land values.

With that in mind, we ran a short survey earlier this month to gauge farmers and land agents views on what might happen over the coming five to ten years. The results were interesting, if only to see the full range of answers being given for almost every question!

On the question of land values over the next five years, there was a definitive split between those who thought values would be 10% higher, (primarily farmers) and those who thought values would be 10% lower (primarily land agents).

Looking over the longer ten year period, whilst there was no overall consensus, approximately a quarter of respondents expected prices to be 25% higher, while a quarter thought they could be 25% lower.

All this does suggest is no one really has much of an idea. There did however appear to be more consensus on what would drive land values over the coming decade. With nearly half of respondents suggesting that tax changes would be the biggest influence on land values.



Despite all the change, most respondents felt positive about the prospective changes that farmers may face in the coming decade.

That may be because half of all respondents expected rents to fall over the next five years, most by 50% of the current BPS value. So presumably something of the order of £35 acre on lowland ground.

This will obviously have implications for those dependent on rental income from land, as well as for those that rent it.

With trade deals starting to be established and an outline of the future support to the industry now emerging it only leaves changes to tax that we have no certainty over.

Super Deduction See Page 7

SIPPs: The smarter way to own land?

Self-invested personal pensions (SIPP's) have long been able to own agricultural land. In this case study, a farming couple use their pensions to purchase land from themselves, to plan for retirement and help cash flow.

The situation

'The Smith's' farm with their children and eventually want to hand the farm to them. They've seen rising costs and fluctuating income over the last few years. They are not planning to retire yet, but it's not too far away.

The couple have pensions valued at £300,000. They could use SIPPs to purchase part of their farmland or commercial buildings in order to free up some cash. The SIPP isn't able to hold any 'residential' property.

As the transaction takes place between connected parties, the land must be sold at market value. The sales proceeds The Smith's receive from the SIPPs would then increase the cash flow of their business, increase efficiencies on the farm and help to tide them over.

The transaction will be classed as a disposal for capital gains tax purposes, and stamp duty land tax would be payable by the SIPPs on the purchase price.

The Smith's then enter into a tenancy agreement with their SIPPs and pay rent for use of the land.

Again, as connected parties, they must make sure that market rate rent is paid. The rent paid by the couple will be a tax-deductible expense of their business and would also be received by their SIPPs free of any tax.

The Smith's will no longer be the legal owners of the land, however the SIPP company involved will follow their instructions as long as they comply with HM Revenue & Customs rules. The land will now also be separate from the business. Therefore, if the business were to fail, the land would not normally be available to creditors.

The results

The Smith's both open SIPPs and use their pension funds to purchase part of their farmland. This releases £300,000 of cash (less capital gains tax) for them and their business. They begin to pay market rate rent to the SIPPs for use of the land.

The couple had worried that the children could lose the farmland when they die.

However, if they name the children as beneficiaries for their SIPPs. When either of them die, the children would have the option to inherit their SIPPs, including its share of the farmland.

If the couple want to pass the farmland to their children during their lifetimes, the children could also open SIPPs and use their own pension funds to gradually purchase some or all of the farmland from their parents' SIPPs.

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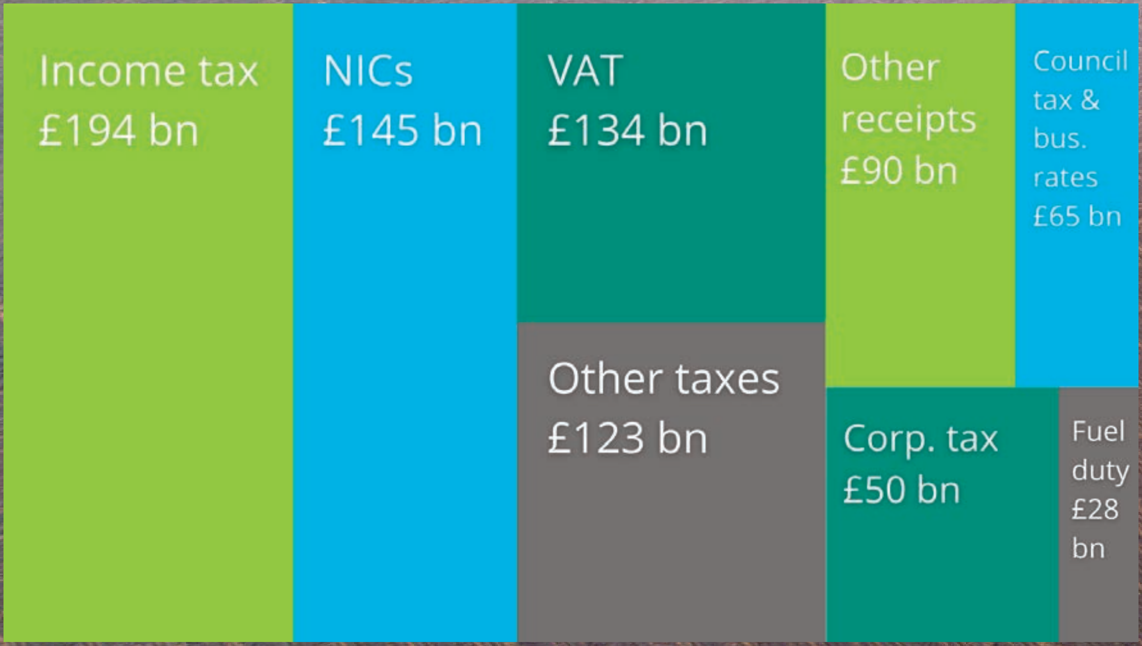
Is the sun setting on succession tax relief?

When Boris Johnson led the Conservative victory in the 2019 general election he won with the mantra of "get Brexit done". Little did he realise at the time that Brexit would be the least of his problems! Almost two years on from his victory, there are signs of hope we will successfully emerge from the Coronavirus pandemic but there is lasting damage to both public and Government finances. The Office for Budget Responsibility has forecast that in the two years from April 2020 to April 2022 (when there is hoped to be lasting success in beating Covid-19) Government borrowing will have increased to an eye-watering £589 billion. Indeed, national debt is already in excess of £2.1 trillion.

But what does this mean for farming families? Well, the Government now has a challenge on their hands with how to manage the public finances. No doubt there will be endless debate over how this should be done; austerity, tax changes, spending programmes on infrastructure etc etc. When looking at tax changes the question is where might additional tax revenue be raised? Particularly in light of the Tories' continued pledge to honour their tax triple lock on Income Tax, National Insurance and VAT – the three key revenue raisers for the Government.

The chart below shows where the Government currently collects its tax revenues:



Source: https://commonslibrary.parliament.uk/research-briefings/cbp-8513/

SIPPs: The smarter way to own land? See Page 3

Conspicuous by it's absence is inheritance tax. Whilst probably the most despised tax, it raises a mere £5.6bn a year for the Revenue. In the past there has been enormous political pressure to leave inheritance tax alone. In an era of Coronavirus debt however, it may just be the low-hanging fruit the Revenue are looking for

Farming has long enjoyed a very sympathetic tax regime for inheritance tax. In fact, it has enjoyed a very sympathetic tax regime for succession as a whole, with the ability to pass down agricultural assets to the next generation either in lifetime (with a holdover election) or on death (with Agricultural Property Relief (APR) and Business Property Relief (BPR)). So long as the assets meet various criteria, that they're used for farming or in the business and for a minimum number of years, then estates and businesses could be handed over with no adverse tax implications. A particular quirk with land and assets that are inherited is that the recipient is deemed to receive the assets at current market value. This means that not only can you pass assets down worth millions to your children with no tax, they can then sell them on if they wish with no Capital Gains Tax either. Bizarrely this "win win" of succession tax reliefs has often been to the detriment of succession itself, with people clinging on to assets for the tax benefits when it may have been more appropriate pass them on to the generation farming the land.

These tax reliefs have attracted investment from the city, where investment has taken place purely to shelter from inheritance tax. Land bought but not farmed by the owner (i.e. let on an FBT) still attracts 100% APR after 7 years. So the tax changes could affect agriculture and succession in a big way – perhaps no surprise land agents view tax as the biggest driver of land value changes, according to the survey discussed on page 2.

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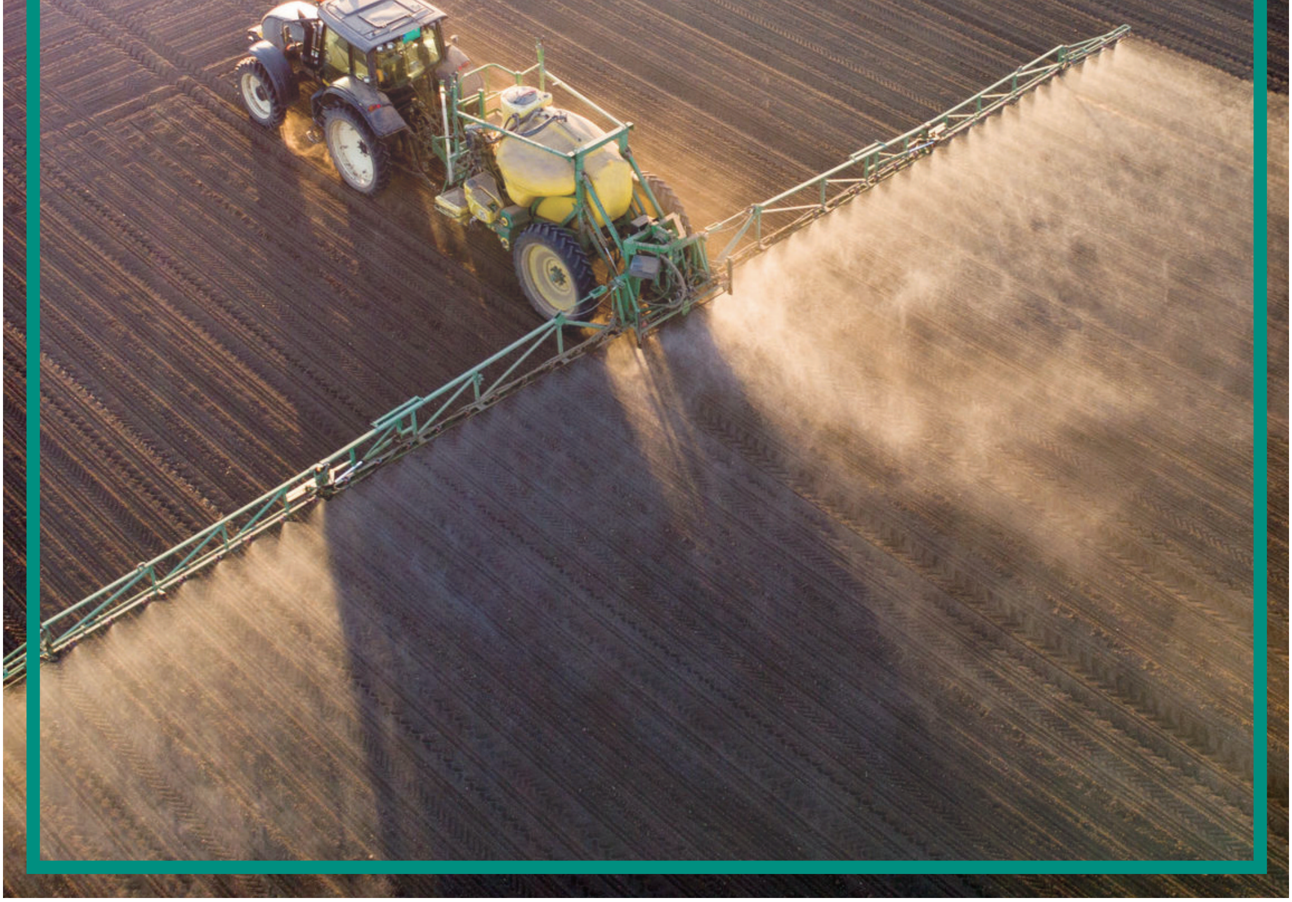

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What might change?

Well, it's all best guesswork at this stage. We don't know for sure what changes will be implemented, or when. But we can take some direction from the government review undertaken in 2020 and chaired by the MP for Carlisle, John Stevenson. A review of inheritance tax by the all-party parliamentary group for inheritance and intergenerational fairness concluded that fundamental changes are required and suggested:

- Abolishing the current inheritance tax systems
- Replacing with a tax on all gifts, both in lifetime or death (effectively a wealth transfer tax)
- A relatively low tax rate of 10-20% on these transfers
- Very few reliefs (so Agricultural Property Relief and Business Property Relief, that shelter the majority of farming estates, would be abolished)
- Capital Gains Tax uplift on death to be abolished (so the ability to "wash away" a Capital Gains Tax issue on death would go)
- More powers to H M Revenue and Customs to ensure all transfers and gifts above the £3,000 limit are reported and recorded

This could have far-reaching consequences for agriculture and it remains to be seen just how far any changes would push the tax boundaries, particularly the removal of APR/BPR. For the classic scenario of the asset rich/cash poor farming business, however any changes to the current regime will need to be closely monitored.

What is the take away message?

Well for many, particularly where succession has recently happened and the assets are predominantly held by those with many years ahead of them, any inheritance tax changes may be of little concern. Over the years governments will come and go and there will be future changes and overhauls to the tax system.

The key is for those that have been meaning for years to pass on their farming assets but have never got round to it (let's be honest, there has been no urgency given the current tax regime). But in this situation is there now any reason to delay? There are potentially wide sweeping changes to come, driven by a huge Coronavirus bill, which could be very costly for landowners. Yet if you gift land and business assets right now with holdover relief you can get valuable assets to the next generations with no tax. And as far as the tax planning goes, you can't do better than knowing there will be no tax on the transfer of the family farm.

Written by Andrew Sims, this is an opinion piece only. Specific tax advice must be taken for your business. To discuss any of the above please contact your usual Dodd & Co advisor.

Super deduction

You could be forgiven for thinking that Rishi Sunak's much publicised 'Super deduction' is going to herald the dawn of a new era. An extra bit of tax relief to encourage businesses large and small to invest and drive growth in the UK economy post Covid.

Cynics have suggested it's simply a stunt to make sure people don't delay investment until 2023 when they would get 25% tax relief if the corporation tax rate is increased.

The first thing to point out is that it is only available for companies, so partnerships won't benefit.

After all we already have Annual Investment Allowances (AIA), certainly to 31 December 2021, of up to £1 million. As you might expect we haven't had any farm clients who have troubled this limit in recent years, so what will the super deduction offer?

Unlike AIA the new super deduction is not capped, so you get 130% relief on expenditure, effectively 24.7% tax relief, on all investment in plant! This might not make much difference to you, but if you are an Ineos or EasyJet, or even Arla or First Milk the cashflow advantage of the extra 112% deduction compared with the 18% writing down allowance available after the AIA has been exhausted is significant!

There is also the increased allowance for integral fixtures of 50% compared with 8% normally.

For the majority of our farming clients that trade as partnerships / sole traders, AIA will be the only option. For companies there will be a choice, Super deduction or AIA. For most plant it will be attractive to claim the super deduction, for integral fixtures such as water and lighting systems utilising AIA is more beneficial than the super deduction, as 100% rather than 50% relief can be claimed.

Obviously, any tax relief claimed now simply accelerates the tax saving and gives rise to higher tax payments on future profits, as less writing down allowance will be available. It also goes without saying that you can only claim tax relief if you have a tax liability to relieve, i.e. profits subject to tax.

Whilst all of this is good for companies, it does raise the issue of what will happen to AIA's on 1st January 2022. After all, if the super deduction is available to companies will it drop back to £200,000 for Partnerships? If that is the case would it be wise to carry out any significant expenditure in 2021?

Whatever you think of the super deduction it probably raises more questions than answers, so if you have any queries about it contact your usual Dodd & Co contact. ■

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If you would like to sign up to regular industry updates from the Dodd & Co farming team please email hello@doddaccountants.co.uk

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