Farms and Rural Business Quarterly Review Spring 2024

Larking Gowen

Committed to you.

Introduction

by Steven Rudd, Head of Farms and Rural Business

Welcome to the spring edition of our Farms and Rural Business quarterly review.

Transition—the best time to start is now!

One of our partners 'retired' recently. I say retired because he was only 50, so probably better to describe it as moving to Chapter 2. It was interesting hearing how he'd planned for this step and how long it had all taken. In fact it was 14 years in the planning – demonstrating that the best time to start planning is now!

(He was interviewed as part of our final Leadership and Life Chat podcast, which is well worth a listen!) Listen **here**.

This really is a transition process and is about getting personal goals and family vision clearly set out so that you can make sure that you have the resources and skills in place within the business. There are, of course, steps within that transition and there may be clear points when it's the right time to relinquish management control and ownership control – they're not mutually exclusive.

Some key steps and best practices for transitioning a family business to the next generation, include:

- Creating a clear vision and strategy for the business
- Choosing and developing the next leaders
- Making a fair and transparent succession plan
- Talking and managing expectations and conflicts
- Getting professional advice and support

Creating a clear vision and strategy for the business

The first step is to create a clear vision and strategy for the business. This means defining the mission, values, goals, and culture of the business, and making sure they match the interests and aspirations of the family and the stakeholders. A clear vision and strategy can help the owners and the successors to have a common direction and purpose, and to avoid misunderstandings and disagreements.

To create a clear vision and strategy, the owners and the successors should:

- Do a SWOT analysis of the business, looking at its strengths, weaknesses, opportunities, and threats
- Analyse the market trends, customer needs, and competition
- Review the current performance, structure, and governance of the business
- Set the long-term objectives and milestones of the business
- Make a strategic plan that shows the actions, resources, and timelines needed to achieve the objectives
- Tell the vision and strategy to the family, the employees, and the stakeholders

Choosing and developing the next leaders

The second step is to choose and develop the next leaders. This means

assessing the skills, competencies, and potential of the family members who want to take over the business, and giving them the training, mentoring, and experience they need to get ready for their future roles. Choosing and developing the next leaders can help the owners and the successors to ensure the continuity and sustainability of the business, and to build trust and respect among the family and the employees.

To choose and develop the next leaders, the owners and the successors should:

- Create a family talent pool, listing the family members who can join or lead the business
- Have a set of criteria and standards for selecting and evaluating the successors at employee level
- Make a succession development plan that sets out the roles, responsibilities, and expectations of the successors
- Give the successors formal education, on-the-job training, coaching, and feedback
- Include the successors in the decision-making and strategic planning of the business
- Help the successors to network and build relationships with the family, the employees, and the stakeholders

Making a fair and transparent succession plan

The third step is to make a fair and transparent succession plan. This means documenting the legal, financial, and operational details of the succession process, and protecting and respecting the rights and interests of the family and the stakeholders. A fair and transparent succession plan can help the owners and the successors to avoid disputes and conflicts, and to ensure a smooth and orderly transition of the business.

To make a fair and transparent succession plan, the owners and the successors should:

- Talk to a lawyer, an accountant, and a financial planner to deal with the legal, tax, and estate issues of the succession
- Decide the valuation and ownership structure of the business, and the compensation and benefits of the successors
- Define the roles and responsibilities of the owners and the successors during and after the transition
- Set a timeline and a contingency plan for the succession process
- Tell the succession plan to the family, the employees, and the stakeholders
- Review and update the succession plan regularly

Talking and managing expectations and conflicts

The fourth step is to talk and manage expectations and conflicts. This means keeping an open and honest dialogue among the family, the employees, and the stakeholders, and addressing any issues or concerns that may come up during the transition. Managing expectations and conflicts can help the owners and the successors to create a positive and collaborative work environment, and to improve the reputation and credibility of the business.

To talk and manage expectations and conflicts, the owners and the successors should:

- Have regular family meetings and business meetings to share information, opinions, and feedback
- Set clear and realistic expectations and boundaries for the family and the business
- Listen and acknowledge the feelings and perspectives of others
- Solve any disagreements or disputes in a respectful and constructive way
- Get external mediation or arbitration if needed
- Celebrate the achievements/milestones of the transition

Getting professional advice and support

The fifth and final step is to get professional advice and support. This means working with experts and advisors who can offer guidance, assistance, and resources to the owners and the successors during the transition. Getting professional advice and support can help the owners and the successors to overcome the challenges and risks of the transition, and to use the opportunities and benefits of the transition.

To get professional advice and support, the owners and the successors should:

- Identify the areas and topics that need external expertise and input
- Research and choose the right professionals and advisors who can meet the needs and goals of the business
- Build a clear and mutually beneficial relationship with the professionals and advisors
- Communicate and collaborate with the professionals and advisors regularly
- Evaluate and measure the outcomes and impacts of the professional advice and support

Conclusion

Transitioning a family business to the next generation is a complex and critical process that needs careful planning and preparation. As you can see, there's an awful lot of this process that deals with the feelings and wishes of the family members and only once those are clear should the mechanics of the tax and legalities be considered.

Meet the Farms and Rural Business partners!

Steven Rudd | Bruce Masson | Ashley Smith | Ian Webster | Laurie Hill

Spring Budget 6 March update: key insights

Following the Spring Budget, businesses and individuals need to stay informed of the ongoing changes put in place by the Government. Here's a concise breakdown of the key points to keep you abreast of developments that might impact you:

Overview:

- Most tax rates and allowances were pre-announced, minimising surprises
- Noteworthy measures previously announced are nearing implementation
- For those measures not included in the recent Finance Act, there is now some uncertainty as to their future implementation given the upcoming general election

Personal tax:

- Personal tax-free allowance and 40% tax rate threshold remain at their 2022/23 levels until 2027/28, representing a tax increase where incomes rise
- Reduction in tax-free dividend allowance to £500 and Capital Gains Tax (CGT) annual exempt amount to £3,000 for 2024/25.
- Introduction of a new 'British ISA' with a £5,000 annual limit
- Reduction in CGT rate on residential property from 28% to 24% for higher rate taxpayers.

Tax measures to be introduced from 6 April 2025:

- Abolition of beneficial treatment for short-term furnished holiday lettings (FHL)
- Increase to High Income Child Benefit Charge threshold to £60,000, inclusive of an extension to the clawback calculation to £20,000, therefore whole benefit is lost once earnings reach £80,000

National Living Wage:

- Increase in National Living Wage to £11.44 per hour and a reduction of age at which the higher earnings are achievable for individuals, being aged 21 and over from April 2024, previously for individuals aged 23 and over. Further details can be found **here**.

National Insurance Contributions (NIC):

- Reductions in Employees' Class 1 NIC to 8% and Class 4 NIC rates to 6% from 6 April 2024, providing tax relief for working individuals
- Class 2 NIC reduction affecting self-employed individuals' earnings above £6,725 from 6 April 2024

Pension contributions:

- Previous increases in tax-advantaged pension savings remain unchanged, with the Lifetime Allowance Charge abolished
- Maximum tax-free lump sum remains at 25% of £1,073,100, being £268,275, unless an individual is entitled to 'protection' from an earlier Lifetime Allowance

Other measures:

- Stamp Duty Land Tax Multiple Dwellings Relief to be abolished from June 2024. Anti-avoidance in place from 6 March 2024
- Fuel duty frozen for another year
- Allocation of additional resources to HMRC for tax debt collection

Update to Agricultural Property Relief (APR):

- Extension to environmental schemes effective from April 2025. Full details can be found **here**.

You will want to keep abreast of these developments for effective business planning and compliance. For further details, the full Spring Budget Summary 2024 report is available on our website www.larking-gowen.co.uk. If you need help with any of the above please get in touch with your usual Larking Gowen contact, telephone 0330 024 0888 or email enquiry@larking-gowen.co.uk.

Taxation of environmental land management and ecosystem service markets

The recent Budget saw the Government issue their response on the consultation and call for evidence they launched in last year's Budget about the taxation of environmental land management and ecosystem service markets.

Part 1 of the publication was a call for evidence on the tax treatment of the production and sale of ecosystem service units. The aim of this call for evidence was to understand the commercial operations and the areas of uncertainty in respect of taxation.

Part 2 of the publication was a consultation about the scope of agricultural property relief (APR) from inheritance tax as it's a potential barrier to some agricultural landowners and farmers making long-term land use change from agricultural to environmental use. Part 2 also sought views on a recommendation in the Rock Review of tenant farming in England to restrict the application of 100 per cent agricultural property relief to longer tenancies of eight or more years.

The Government's headline response was as follows:

- Establish a joint HM Treasury and HMRC working group with industry representatives to identify solutions that provide clarity on the taxation of ecosystem service markets where existing law or guidance may not provide sufficient clarity
- Extend the existing scope of agricultural property relief from 6 April 2025 to land managed under an environmental agreement with, or on behalf of, the UK Government, Devolved Administrations, public bodies, local authorities, or approved responsible bodies
- Not to restrict agricultural property relief to tenancies of at least eight years

The extension of APR to environmental schemes is welcome but there will be a delay in knowing what the 'day-to-day' taxation implications will be as HM Treasury and the HMRC working group need to get their heads together.

The devil is usually in the detail but the Government's response appears to outline that, whilst further guidance for most matters relating to APR will be outlined in due course, any burdens of providing evidence will not be onerous, for example, when showing land was previously used for agricultural purposes prior to change of use.

Following the announcement of a general election on 4 July, the proposed changes to APR from April 2025 are at risk of not being implemented. While we wait for further details to be released, it's pleasing that the Government and HMRC seem to be listening to the concerns of farmers and landowners in what is a rapidly changing industry.

We were delighted to be able to contribute to the consultation process and also potentially being part of the HMRC working party to provide further clarity on the more 'day-to-day' aspects.

A link to the Government's full response is here: **www.gov.uk/government/consultations/taxation-of-environmental-land-management-and-ecosystem-service-markets**

Bruce Masson
Partner

Major changes ahead: Key tax updates for farm businesses with holiday lettings

Recent announcements in the Spring Budget 2024 will have substantial implications for farmers who also operate furnished holiday lettings (FHLs). This article provides an overview of these changes, which are set to take effect from April 2025.

Changes ahead

The 2024 Spring Budget announcement revealed the abolition of the Furnished Holiday Lettings (FHL) regime. Starting from April 2025, the distinction between short-term and long-term lettings for tax purposes is set to be removed. This means that landlords will no longer need to report income from FHLs and non-FHL properties separately.

The change aims to simplify tax reporting but will also bring about several key impacts for landlords and farmers who let furnished holiday properties.

It should be noted that, at the time of writing, the Government hasn't yet published draft legislation and it's entirely possible that the General Election might impact on the proposed changes.

Here's a comprehensive summary of what you need to know.

Tax losses

One of the significant changes will be in how losses are handled. Currently, losses from FHLs can be carried forward and offset against future FHL profits. After April 2025, losses from all types of property lettings will be combined. It's unclear what will happen to any existing FHL losses when the rules change.

Capital expenditure

Tax relief on capital expenditure will be reduced, with capital allowances on the initial purchase of fixtures, fittings, integral features and furniture being restricted under the new rules. Only repairs and replacements of domestic items will be deductible.

Impact on Capital Gains Tax

The abolition of the FHL regime will also affect Capital Gains Tax:

- **Business Asset Disposal Relief (BADR)**: The lower 10% tax rate on the sale of qualifying FHL properties will no longer be available. Instead, gains will be taxed at residential rates of 18% or 24%
- **Rollover Relief and Gift Hold-over Relief**: These reliefs, which allow the deferral of gains, will no longer apply to FHL properties

Loan interest and tax relief

Under the current FHL rules, there's no restriction on loan interest deductions. From April 2025, loan interest on rental properties will be treated under long-term letting rules. This means rental profits will be calculated without loan interest, and a separate basic rate tax relief (at 20%) will apply to the interest. This change could push some taxpayers into a higher tax bracket and affect other tax liabilities, including the High Income Child Benefit Charge.

Pension contributions

Currently, FHL profits count as relevant earnings for pension contributions. The new rules might change this, potentially affecting your pension planning.

VAT

If FHLs follow standard property letting provisions, they may be exempt from VAT. This could have significant implications for those currently registered for VAT due to their FHL turnover. If you run FHLs as part of a wider farming business, it could also impact on the input VAT-recovery of your wider business.

Business rates and council tax

FHL properties currently benefit from reduced council tax by registering for business rates. This advantage might not continue under the new rules.

Planning measures

With these changes on the horizon, it's essential to consider your options:

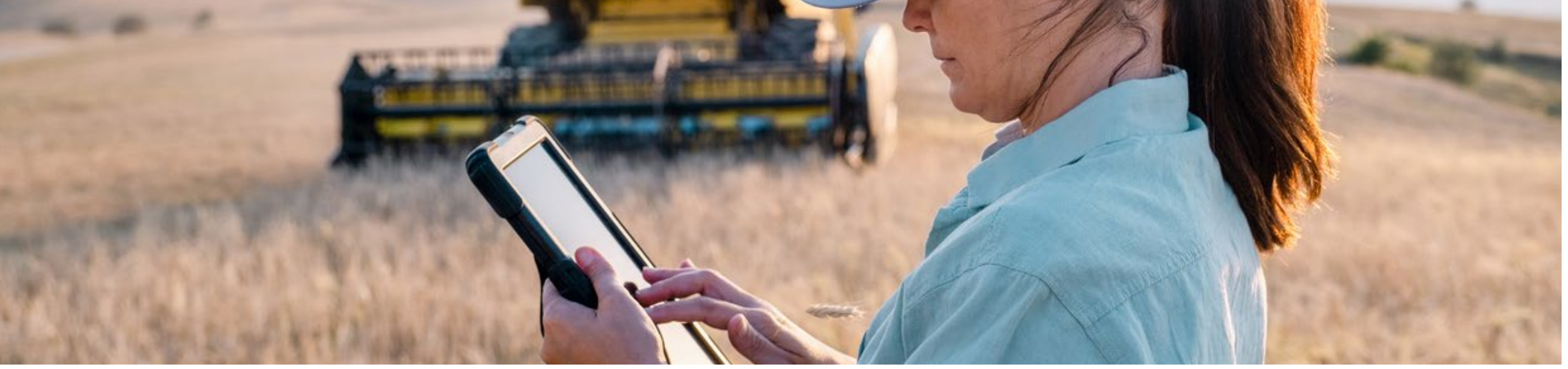
- **Selling or gifting properties**: To benefit from current tax advantages, you may want to sell or gift properties before April 2025
- **Ownership planning**: Review the ownership structure of your properties to optimise tax efficiency under the new rules
- **Incorporation**: Consider incorporating your property business – although this comes with complexities such as higher Stamp Duty Land Tax (SDLT) rates and potential Capital Gains Tax (CGT) on transfers

Laurie Hill
Partner

How can we help

While the draft legislation is yet to be published and there are several unknowns, it's important to start planning now to mitigate the impact of these changes. We can help you navigate these changes and optimise your tax planning strategies. Keep an eye out as we publish further updates as more details become available.

For further assistance or enquiries, feel free to contact us at 0330 024 0888 or email us at **enquiry@larking-gowen.co.uk**.



Embracing technology in farming: a digital revolution

In recent years, there's been a significant shift towards digitalisation in the farming sector. Our podcast guest, Will Wadsley, said that just a decade ago, the farming industry still relied heavily on manual processes and paper-based record-keeping. Now, it's a stark contrast.

The introduction of digital technology has not only been environmentally friendly but has also modernised the way farms operate.

The impact of technology on farming

Farm machinery has evolved dramatically, with tractors now capable of automated field plotting and data analysis. This technology has made life easier for farmers, making farming more efficient; helping them identify areas that need attention; and enabling them to make better, timely decisions.

Challenges in encouraging online software adoption

Although farmers have embraced technology with farm machinery, encouraging farmers to adopt online accounting software has been a mixed bag. Many farmers were initially resistant to the idea, feeling they were relinquishing their control to technology.

However, over the last five years, online accounting packages have become more popular and many of our clients have been more open to adopting these.

The role of online software

Online accounting software provides real-time access to data, enabling advisors to give their farming clients proactive advice. Being able to access data so readily and easily is crucial in making timely decisions and helping operations run more smoothly. It helps in planning ahead and navigating economic challenges.

Supporting clients in their transition

Our Farms and Rural Business team helps our clients choose the right software for their specific needs and provides in-house training on that software.

Because our team knows you and your business well, we can help you have a smooth transition.

We can also help you extract, analyse and understand your farm data, enabling you to make informed decisions. We can recommend other potential tools to help with this, such as Figured.

Figured: a valuable tool for farmers

Figured is a third-party app that integrates with Xero software, which makes it easier to analyse farm data. It allows farmers to track crop performance, gross percentages and benchmark their performance against peers anonymously. Figured helps farmers make decisions and adapt to changing conditions.

Embracing technology beyond farming

Farming-related businesses, such as farm shops, wedding venues and solar farms, have also adopted technology. In an uncertain economic climate, being able to diversify has become vital for farming businesses.

Digital accounting software can help you understand how different parts of a business are performing.

Need help?

The farming industry's digital revolution is in full swing, offering numerous benefits to farmers and related businesses. Online accounting software, combined with tools like Figured, plays a pivotal role in enhancing decision-making, optimising operations and planning for the future.

If you're a farmer or involved in a farming-related business and want to explore the benefits of accounting and digital technology, reach out to us. Our team at Larking Gowen can help you find and transition to the right software. Visit our website or get in touch with your usual contact.

Why not listen to digital expert, Jessica Rafferty-Smith, and me, chatting about all things digital on our dedicated Digital Insights podcast series. You can listen to this podcast **here** or to listen to the rest of the series, click **here**.

Martin Bugg
Partner

HMRC reverses decision on double cab pickups tax classification

HM Revenue & Customs (HMRC) made waves with its proposal to reclassify double cab pickups with a payload of one tonne or more as cars rather than vans for tax purposes. However, following feedback from farmers and motor industry experts regarding the potential negative impact on their businesses, HMRC has decided to backtrack on this proposal.

This means that double cab pickups with a payload of one tonne or more will continue to be treated as vans for tax purposes. HMRC is now aiming to introduce legislation to solidify this classification, ensuring that these vehicles remain categorised as goods vehicles for tax purposes. The Government plans to consult on this draft legislation, which is expected to be included in the next Finance Bill.

So, what does this mean for businesses? Well, the benefit in kind treatment for employers providing double cab pickups to employees will remain unchanged. Additionally, the capital allowances available in the first year of use for businesses purchasing these vehicles will not be reduced.

To clarify, double cab pickups are classified based on their payloads. Anything under one tonne is considered a car, while anything weighing one tonne or more is classified as a van. This aligns with the definitions used for VAT and capital allowances purposes.

Currently, the benefit in kind for a van available for private use is set at an annual standard value. For the 2023/24 tax year, this rate stands at £3,960. If fuel for private travel is also provided, an additional standard value of £757 must be reported for the tax year. However, these amounts can be reduced if the van is not available to the employee for 30 consecutive days or more, or if the employee pays for private use.

The decision by HMRC to withdraw the proposed change will likely be met with relief by many employers who either provide or plan to provide double cab pickups to their employees. It also comes as good news for industries reliant on these vehicles, which may have faced adverse effects from a potential decline in purchases and increased tax burdens.

Duncan Saxby
Tax Manager

Need help?

If you have questions about HMRC legislation or benefits in kind, please get in touch with your usual contact, call 0330 024 0888 or email **enquiry@larking-gowen.co.uk**.

Larking Gowen sponsors Suffolk Wildlife Trust

Larking Gowen is proud to be sponsoring a series of events with the Suffolk Wildlife Trust.

The first being **Woodlands by Natural Regen Approach** at The Hall, Milden which took place on Wednesday 17 April.

Owner, Juliet Hawkins, and farm adviser, Maddie Lord, took us on a farm walk looking at different establishment methods for woodland creation; planting, assisted colonisation and natural colonisation.

They discussed how different establishment methods can benefit wildlife. Ongoing woodland management and funding opportunities with reference to current schemes such as government grants and new carbon markets.

Bruce Masson shared his views on woodlands by natural colonisation and getting woods back into management.

Farming with Nature. Building Financial Resilience with Diversity is the second in the series of the Suffolk Wildlife Trust events Larking Gowen is sponsoring. Taking place at Little Haugh, Norton on Friday 14 June.

You can expect a farm walking tour with owner Tatjana and farm manager, Ben, focusing on a variety of new funding approaches for diversification and farm resilience.

The tour will include a wood pasture creation project, wetland enhancement with newly introduced beavers, low inputregenerative farming and a new organic vegetable scheme. We'll discuss finance approaches and management of these habitats.

You can book your place here: https://www.eventbrite.co.uk/e/farming-with-nature-building-financial-resilience-with-diversity-tickets-849359997617

Arable Plants is the last in the series of the Suffolk Wildlife Trust events Larking Gowen is sponsoring, taking place on Friday, 2 August, at Brick Kiln Farm, Darsham.

This will be a visit to a North-East Suffolk farm on the edge of Dunwich Forest, home to a unique site of special scientific interest (SSSI) for arable plants.

Led by expert botanists, this session will focus on the identification, management and how you can help these rare plants.

The farm walk will also include special habitats such as acid grassland, hedgerows and woodlands, all managed and enhanced for wildlife by the owner, Jane Thomson.

You can book your place here: https://www.eventbrite.co.uk/e/arable-plants-tickets-

Landowner, Juliet Hawkins, talking through their woodland creation and management schemes, at Milden Hall, Monks Eleigh

Find out more about the valuable work of Suffolk Wildlife Trust here: **suffolkwildlifetrust.org/**

Suffolk Wildlife Trust

How can we help you?

We review the whole financial structure of our clients' farming and business enterprises regularly to understand their needs, aims and future aspirations. In addition to the standard accountancy and tax compliance services we provide to our clients, we routinely perform specialist services such as:

- Business structure advice
- Succession planning and the passing of assets to the next generation
- Capital tax planning
- Inheritance Tax advice and Will reviews
- Review of Partnership Agreements
- Preparation of cash flow forecasts, profit or loss forecasts and business plans
- Assessment of diversification plans and associated tax consequences
- Contract Farming Agreement reviews
- Contract farming accounts
- Specialist capital allowance claims
- Research and development claims
- Probate services and estate accounts

If you are searching for a personal and client focused approach then please get in touch with us for a free initial consultation on-farm or at one of our offices.

Larking Gowen
Autumn Farming Conference

In partnership with the CLA

All Saints Hotel, Fornham St Genevieve, Bury St Edmunds, Suffolk, IP28 6JQ

Tuesday, 5 November 2024

We are pleased to confirm the date and venue for our 3rd Autumn Farming Conference where we'll continue its tradition of spotlighting critical themes and topics relevant to the agricultural landscape.

Bookings will open later in the year. so for now please save the date and keep an eye on our website for updates www.larking-gowen.co.uk/afc

To be the first to hear more, sign up to our newsletters here.

Larking Gowen

Committed
to you.

0330 024 0888 | enquiry@larking-gowen.co.uk | larking-gowen.co.uk |