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Farming Matters

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Inside this issue...

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accountants : audit . tax . investment . IT

Welcome

Welcome to our sixteenth edition of Farming Matters.

After a cold start to Spring, at the time of writing we are currently enjoying a spell of warm weather and the crops are looking well in the fields. In general terms, the industry is under a period of real pressure just now with cost increases for inputs and labour putting farmers' profitability at risk. Globally, it is reported that prices for inputs such as fertiliser and chemicals have risen by 80 to 250 percent over the past few years. Volatile markets continue to be challenging to navigate, making budgeting and forecasting increasingly difficult.

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In this newsletter, we have covered some of the announcements made in the Spring Budget including the significant changes to pensions which took effect from the beginning of this tax year. This will be a welcome change for many and could mean that individuals can make a higher level of tax relieved pension contributions, as the annual pension contribution allowance has increased, and the lifetime allowance has been abolished.

In my article I have covered the consultation which HMRC published along with the budget documents called 'Taxation of environmental land management and ecosystem service markets'. This consultation looks at the suggested changes to the tax rules to encourage participation in climate schemes and will be of interest to farmers and landowners. It covers the tax treatment of environment schemes and also how Agricultural Property Relief (APR), an Inheritance Tax Relief, encourages or discourages people to enter into these schemes. Some changes to the relief are suggested including adapting APR to allow relief for land used for the schemes but possibly restricting relief for let land where the tenants' interest is less than eight years.

We are pleased to welcome our 'Guest' writer to this edition, David Seed, who is the managing director of FBR Seed Ltd. In his article David looks at the changes and uncertainty facing farmers. He encourages farmers to stay focused on the efficiency of farming activities, getting the basics right so they have a better chance of faring the potentially turbulent years to come.

Lastly, we have included a brief article providing a wages update which confirms the revised minimum wage for agricultural workers.

I hope that you find these articles interesting, and as always, if there are topics that you would like us to cover in future then please let us know as we are keen to make the newsletter as useful as possible.

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Significant changes to pensions have been announced from 6th April 2023 – how will these affect you?

As you may be aware, the Spring Economic Budget Announcements in March 2023 included some significant changes to pension rules, taking effect from 6th April 2023. How will these affect you and what benefit can you achieve from these changes with a bit of forward planning?

ANNUAL PENSION CONTRIBUTION ALLOWANCE

The first change is to the annual pension contribution allowance. This is the maximum amount of tax relievable pension contributions that may be made by, or on behalf of, an individual during a tax year and includes employer contributions, employee contributions and gross personal contributions.

The standard pension annual contributions allowance was previously set at £40,000 per year but has now been increased to £60,000 per year from 6th April 2023. Individuals are still able to carry forward unused allowances from the previous three tax years, providing they were members of a registered pension scheme during those years.

This increase could be very advantageous to those individuals with large trading profits or earnings who will obtain additional tax relief if they are able to maximise their pension contributions under the new allowance.

For individuals with “threshold income” (very broadly, total income excluding pension contributions), in excess of £200,000 during the tax year, and adjusted income (very broadly, total income including pension contributions) in excess of £260,000 during the tax year (previously £240,000), the annual contributions allowance is restricted. This works via a tapered reduction of £1 of allowance for every £2 of adjusted income in excess of the £260,000 threshold. The minimum annual allowance available in these circumstances has been increased from £4,000 to £10,000 per annum from 6th April 2023, again providing an opportunity for additional tax relief via increased contributions.

Pension contributions exceeding the annual contributions allowance for the year and any available brought forward allowances from the previous three tax years will be subject to a tax charge. It is therefore essential that available allowances are calculated before contributions are made.

REMOVAL OF LIFETIME ALLOWANCE CHARGE

The second big change announced in the Spring Economic Budget update was the intended abolishment of the Lifetime Allowance for pension savings.

Previously, a tax charge applied where the value of an individual’s pension scheme exceeded the Lifetime Allowance, currently set at £1,073,100, in order to limit the total tax relieved value accumulated in a pension scheme.

This tax charge has been removed with effect from 6th April 2023 and the Lifetime Allowance itself will be abolished at some point in the future.

CAPPING OF TAX-FREE LUMP SUM

This is one of the less advantageous changes for those with high value pension funds who will benefit from the removal of the Lifetime Allowance charge.

Previously, it was possible to withdraw 25% of the pension funds at retirement as a tax-free lump sum.

With effect from 6th April 2023, the amount available as a tax-free lump sum will be capped at the lower of 25% of the pension pot or £268,275 (25% of the current lifetime allowance).

In view of these changes, undertaking a tax planning review now may result in some valuable tax relief, and we would be happy to assist with this.

As always, there will be other aspects to consider in addition to the tax impact and we would recommend that advice is sought from an Independent Financial Advisor before any transactions are made.

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Consultation on Agricultural Property Relief and environmental land management

Other than the changes to the pension rules discussed in our other article, and the changes to capital allowances, at first glance the Spring budget may not have appeared to be too exciting for farmers and landowners. However, alongside the budget documents, HMRC published a new consultation called 'Taxation of environmental land management and ecosystem service markets' which is likely to be of interest. This looks at the tax treatment of environment schemes and also looks at Inheritance Tax Reliefs.

This consultation recognises that farming is going through a period of change and that the government is changing the way that it works with farmers and the agricultural sector. The government is taking the opportunity of leaving the EU to phase out subsidies for landownership and tenure, and to pay farmers to provide environmental goods and services alongside food production. In England they have already introduced policies covering food production and the environment. We have yet to see how this will look in Scotland, but it expected that environmental aspects will feature highly in the requirement for subsidy payments.

Part 1 of the consultation is a call for evidence on the tax treatment of the production and sale of ecosystem service units such as woodland carbon units. The aim of this being for HMRC to understand the commercial operations and the areas of uncertainty in taxation so these can be addressed.

Part 2 of the consultation looks at Inheritance Tax Reliefs and in particular the scope of Agricultural Property Relief (APR). This is a very valuable relief for landowners, particularly if they are not undertaking the farming activities themselves and the consultation looks at two aspects of the relief.

This covers concerns which have been raised that APR is a barrier to making long-term land use change from agricultural to environmental use. It explores the extent that APR does present a barrier and looks at ways this can be addressed.

The first aspect of Part 2 considers how APR applies to land used for environmental schemes. It provides some clarification on HMRC's views of how the current rules apply and looks at how they can be reformed. Interestingly, it confirms that they want to target the expanded relief so that land which has never been used for agricultural purposes does not qualify for APR, as a result of the changes.

The second aspect of the consultation explores a recommendation made in the Rock Review. The Rock Review was an independent review of tenant farming in England which was published in October 2022. This raised concerns that the tax system does not encourage landlords to grant long-term tenancy agreements or encourage tenants to enter long-term environmental agreements and it included a recommendation to restrict 100% APR where land is let and the tenant does not have an interest of at least eight years. The reasoning behind this being that it is felt that if landlords grant long-term tenancies this will encourage tenants to enter long-term environmental agreements. The consultation looks at this specific recommendation and it states that although Scotland, Wales and Northern Ireland are not in the geographical scope of the Rock Review, that 100 per cent APR could be similarly restricted.

Whilst the first aspect of Part 2 could bring about welcome changes to the legislation which have been anticipated for a while, the second aspect could be less welcome and could potentially have a significant impact on the relief available to landlords. However, if the reforms are made it may suggest that APR for landlords in its revised form has a securer future if it has been reformed to incentivise landowners in line with government policy.

The consultation closed on 9th June and we will be monitoring how matters progress and the impact any changes made will have. If you would like to consider these matters further or would like to discuss any aspect of Inheritance Tax or the reliefs available, please contact Mairi Drummond.

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Farmers are encouraged to keep their eye on the ball to navigate financial challenges

David Seed, the managing director of FBR Seed Ltd, discusses the changes and uncertainty facing farmers.

Agriculture has long been a key pillar of the UK economy, however, in recent years, farmers have faced an array of challenges that show no signs of disappearing anytime soon. Rising costs, interest rates and volatile markets have placed immense pressure on agricultural businesses, requiring farmers to take a careful balance between focussing on farming operations and managing finances.

While these challenges are causing worry amongst farmers across the UK, it is important to remember that we have seen this all before.

Growing conversations around climate change, net-zero targets, renewable opportunities, and the deployment of different farming techniques are causing a distraction from the core issues that are affecting farmers today. It is crucial that farmers do not become distracted by the noise and remain steadfast in their focus on core operations, ensuring that they keep an eye on the tumultuous markets and changing costs.

Farmers and landowners have witnessed an increase in their operational costs with higher fuel expenses, rising prices of raw materials, and escalating labour costs impacting their bottom lines. In addition, the increasing interest rates are affecting the once favourable borrowing rates farmers benefited from, limiting the availability of flexible finance to aid investment in their farms.

The agricultural industry is inherently exposed to fluctuating market conditions. Over the past few years, farmers have witnessed the introduction of new trade policies, Brexit and global political tensions with a war in Ukraine. All of which are having a major impact on the prices farmers are receiving for their outputs.

It is not only increasing costs and market conditions that are of concern to farmers. The unpredictable British weather remains a key concern and the main driver of success and failure year on year for farmers across Scotland and England.

Considering all these external pressures that farmers are facing, it is no surprise that many of them are feeling the effects and it bolsters the message that farmers should focus on ensuring the fundamentals of their business operations are their main priority.

The noise about climate change has gained significant attention in recent years, prompting criticism of farming operations and discussions about the agricultural sector's environmental impact. While it is important not to ignore these climate change concerns, farmers must not become consumed by them. In the immediate future, it is crucial to stay focused on basic farming principles and financial management to aid the long-term sustainability of their businesses as the margins are under increased pressure.

There is a long road ahead for UK farmers as they continue to navigate a challenging landscape. However, by staying focused on the efficiency of farming activities and getting the basics right, farmers will have a better chance of faring the potentially turbulent years to come.

For farmers concerned about their plan of action for conquering these challenges, the experienced Chartered Surveyors and Land Agents at FBR Seed can offer advice on how to develop a strong foundation for their rural business.

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Wages Update

1st April 2023 saw an increase in the National Minimum Wage rates together with an increase in the single minimum hourly rate per The Agricultural Wages of Scotland.

It has been announced that the National Minimum Wages rates will increase as follows:

Age	April 2022	April 2023
23 and over	£9.50	£10.42
21-22	£9.18	£10.18
18-20	£6.83	£7.49
Under 18	£4.81	£5.28
Apprentice	£4.81	£5.28

Of course, Agricultural Wages of Scotland have a single minimum hourly rate which applies to all agricultural workers irrespective of age and duties and this will increase from £9.50 per hour to £10.42 per hour. An additional sum of £1.55 per hour is payable for workers with the appropriate qualification. Workers who agree to undertake an SCQF level 4 or 5 in Agriculture/Horticulture (or equivalent) must be paid a minimum of £6.53 per hour for 18 months. This rate applies to apprentices aged under 19 or aged over 19 but in the first year of apprenticeship.

The minimum overtime rate for a worker in the first 26 weeks of employment is payable at 1.5 times the minimum hourly rate if the employee works more than 8 hours per day or after 48 hours per week. After 26 weeks of employment the minimum rate remains the same but is payable on hours worked more than 8 hours per day or after the basic 39 hours per week.

The dog allowance has increased from £7.01 to £8.00 per dog per week for a maximum of 4 dogs.

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What would you like to see covered?

If there are topics that you would like to see covered in future issues please let us know and we will endeavour to include these going forward. Please contact Isla Young on 01573 224 391 (**Isla.Young@renniewelch.co.uk**).

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