

# Farming Matters

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The forthcoming changes summarised – how will they affect you?

### Land Matching

Whether a new entrant, or someone looking to take a step back, this service could help.

### Making Tax Digital (MTD)

When do you need to be ready to comply with the new rules?



# Welcome



## Welcome to our nineteenth edition of Farming Matters.

With the nights drawing in far too quickly, winter is certainly coming, and harvest is not yet all home. Harvest has been a real challenge this year as mother nature has proved difficult to manage. Yields are disappointing and there is no compensation in the commodity price. Another challenging time for agriculture so I hope that you will find the articles contained in Farming Matters both practical and helpful.

I am indebted to Ian Davidson for his informative article about how to match land with young entrants through using the Scottish Land Matching Service which, one hopes, may be the conduit to opening up opportunities for new entrants to the industry.

For those of you trading as limited companies, there are changes on the horizon around operating leases which James Crombie has outlined in a very interesting piece that highlights the potential unintended consequence of the change on the regulatory environment of the company.

Magnus Leonard has produced a helpful note about the furnished holiday letting transitional relief rules following the recent review of the legislation.

Finally, our Associate, Lynn Miller, has provided an update on the current timeframe for the introduction of 'Making Tax Digital' to those businesses which are not VAT registered. 2026 is not that far away!

I do hope that you find these articles helpful, however if there are topics that you would like us to cover then please let us know as we want to make the bulletin dynamic and interactive.

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# Scottish Land Matching Service Finding Opportunities for New Entrants



**We are in a period of change within farming and crofting policy without the relative comfort of seven-year budget certainty under the Common Agriculture Policy. With challenges around sustainability, climate change and biodiversity high on the agenda, businesses should be taking stock and planning for the future including looking at succession.**

New entrants to farming and crofting find it increasingly difficult to access land and capital. In the long term that is not a healthy position for the future sustainability of the industry – every industry needs that injection of enthusiasm and ideas to sustain.

With that principle in mind the Scottish Land Matching Service (SLMS) was launched in September 2019 by Cabinet Secretary Fergus Ewing. It is an independent service free at the point of use, funded by Scottish Government. It is a consortium approach with support from NFUS, Scottish Land Commission, Scottish Tenant Farmers Association, Scottish Land and Estates, RSABI, Scottish Association of Young Farmers Clubs,

*Every industry needs an injection of enthusiasm and ideas to sustain.*

Farm Advisory Service, Forestry and Land Scotland, Crofting Commission, Scottish Crofting Federation and Institute of Auctioneers and Appraisers.

The Scottish Land Matching Service was established to try and help those interested in developing joint ventures by providing free independent advice and facilitation to develop a mutually beneficial agreement. The aim is to try and match new entrants and developing businesses with well-established farmers and crofters who may be looking to step back from the day-to-day workload. People looking to take a step back have a great asset in terms of their knowledge and experience, and tapping into that in a joint venture with someone looking to start or develop a business who can bring new enthusiasm and energy is an area of great potential. Agreements might include contract farming, partnership or joint venture/share farming arrangements and tenancies.

Simple forms to register interest with the Service can be accessed on the website [www.slms.scot](http://www.slms.scot). Once the form is received, contact will be made to arrange a confidential discussion on the options that might be available and to find out more details of the particular circumstances. You can also email us at [slms@nfus.org.uk](mailto:slms@nfus.org.uk) or contact the independent advisors Allan Young on 07741 902648 or Ian Davidson on 07842 308291

Remember it costs nothing to talk and we are happy provide an independent sounding board for any enquiries.

Ian Davidson  
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**“Making Tax Digital” is part of a Government strategy to digitalise the UK tax system. The overall aim of this strategy is to make the administration of taxes by HMRC more efficient by introducing a requirement for businesses and individuals to maintain records digitally, using appropriate software, which can then be used to submit quarterly updates.**

For those businesses who are VAT registered, the requirement to submit VAT returns digitally was introduced back in 2019. Now that this has been “bedded in”, HMRC intend to expand the strategy to Income Tax, with quarterly returns commencing from April 2026 for some businesses and landlords, which is not as far away as it seems!

#### **HOW AND WHEN WILL THIS AFFECT ME OR MY BUSINESS?**

From **6<sup>th</sup> April 2026** for individuals with annual **gross turnover** from self-employment and/or property rental **in excess of £50k**.

From **6<sup>th</sup> April 2027** for individuals with annual **gross turnover** from self-employment and/or property rental **in excess of £30k**.

Individuals with annual **gross turnover** from self-employment and/or property rental **below £30k** have **not been included** but may be brought in in future.

#### **HOW WILL I KNOW WHEN I NEED TO START MAKING QUARTERLY RETURNS?**

HMRC will review 2024/25 tax returns and contact those individuals with total gross turnover in excess of £50k to notify them of their requirement to participate from 6<sup>th</sup> April 2026. A similar process will be applied following the submission of 2025/26 tax returns for those with gross turnover in excess of the £30k threshold, to notify them of their requirement to participate from 6<sup>th</sup> April 2027.

Going forward, where an individual starts a new business, or has previously had gross turnover below the threshold but this has subsequently increased, participation will be required from the start of the tax year **after** the first tax return showing gross turnover in excess of the threshold has been submitted.



It should be noted that the £50k and £30k thresholds are applied to the **combined total of all self-employments and property rental income of an individual** for the tax year. For example, where an individual has business turnover of £25k, and gross property rental income of £6k in the 2025/26 tax year, the combined total of this income would be £31k. As this exceeds £30k, implementation of quarterly returns would be required from 6<sup>th</sup> April 2027.

#### **PARTNERSHIPS AND COMPANIES**

Partnerships and companies are **not included at present** but will be in future. No timeline has been announced for this yet.

#### **Reporting requirements:**

Digital records must be maintained. This could be done by using accounting software, or spreadsheets combined with bridging software. Income and expenses must be entered transaction by transaction, but special rules will apply for retailers who will be able to record **daily** gross takings rather than individual sales. Simpler “three-line accounts” entries may be used by those who are not VAT registered.

Quarterly submissions will be required **for each separate trade or business, on a cumulative basis**. Quarterly submission periods will run as follows:

- Period from 6<sup>th</sup> April to 5<sup>th</sup> July – submission by 7<sup>th</sup> August
- Period from 6<sup>th</sup> April to 5<sup>th</sup> October – submission by 7<sup>th</sup> November
- Period from 6<sup>th</sup> April to 5<sup>th</sup> January – submission by 7<sup>th</sup> February
- Period from 6<sup>th</sup> April to 5<sup>th</sup> April – submission by 7<sup>th</sup> May

It will be possible to elect to use calendar quarters instead, i.e. 30<sup>th</sup> June, 30<sup>th</sup> September, 31<sup>st</sup> December, and 31<sup>st</sup> March.

A further “final” declaration for the full tax year, covering all sources of income, will still be required. This will replace the current Self-Assessment tax return and will include the year-end accounting and tax adjustments, other income, reliefs and allowances, etc. – i.e. everything currently included on the current Self-Assessment tax return. The submission deadline will remain 31<sup>st</sup> January following the end of the tax year.

#### **TAX PAYMENTS**

Initially, at least, there will be no change to the current Self-Assessment income tax payment regime, which consists of payments being made “on account” in January within the tax year, and July following end of tax year, based on the previous year’s liability, with any balance due payable in January following the end of tax year.

#### **HOW CAN I PREPARE?**

Start thinking now about whether your gross business turnover and/or property income is likely to exceed the threshold and when. Consider your current record keeping system – will this be sufficient to meet the digital requirements or will you need to change this, and if so, how long will it take to select, set up, and learn how to use a new system?

For assistance or further details, please contact Lynn Miller by telephone on 01289 330311, or by email at: [Lynn.Miller@renniewelch.co.uk](mailto:Lynn.Miller@renniewelch.co.uk)

Lynn Miller CTA FCA MAAT

**In a world of constant change, the Financial Reporting Council (FRC) takes a similar approach to Accounting Standards, updating and improving reporting information for entities. As a result of their most recent periodic review and proposed alterations to Accounting Standards, we are in for a number of changes which will require some consideration with regards to the impact on accounting policies currently adopted in our Financial Statements.**

The good news is that the proposed changes being set out will only impact companies adopting UK GAAP (FRS102) in the preparation of their Financial Statements, meaning sole traders and partnerships, can scroll on... for now! However, if you are a company, don't worry just yet... these updates do not come into play until we reach Accounting Periods commencing after 1<sup>st</sup> January 2026.

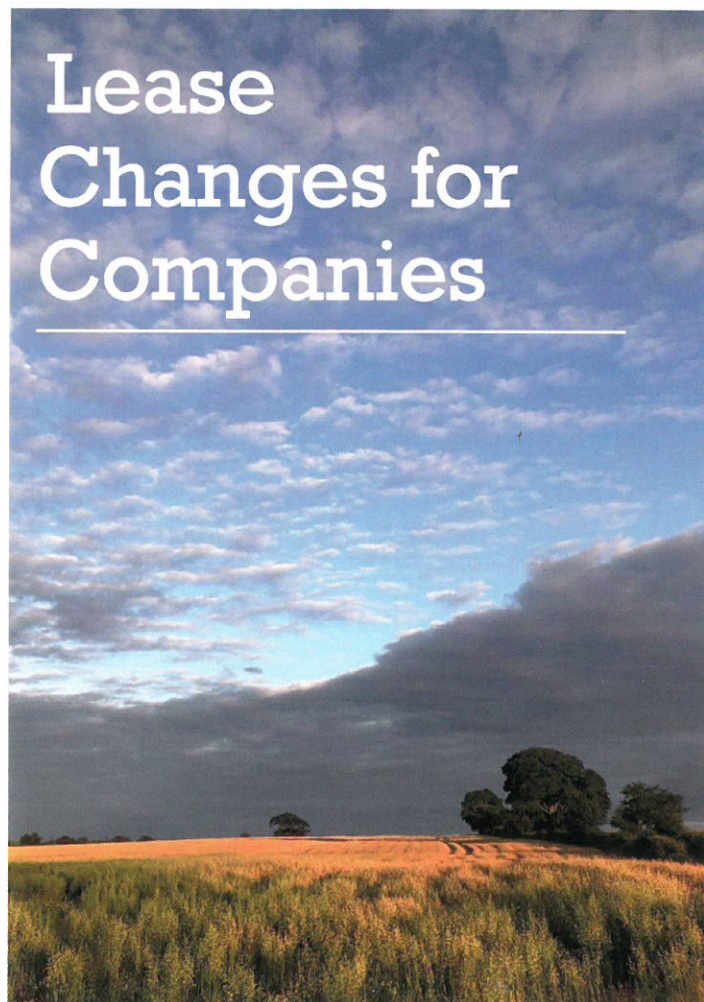
In this article we will focus on changes to leases, which is one of the key changes being proposed. The amendments are essentially bringing around a total rework of the current application for leases and their classifications, although they may bring about some headaches too!

Leases previously have been classified as either Operating Leases (where payments are recognised directly in the Profit and Loss Account as they are paid) or Finance Leases (where a Lease Liability is brought into the Balance Sheet, typically along with the recognition of an Asset, or Right of Use Asset). This arrangement allows for a very clear and different application in the Financial Statements, but the FRC is essentially removing both classifications, which is expected to bring in more Lease Arrangements to the Balance Sheet for companies. This means, the Operating Lease Classification is becoming obsolete... to some degree!

Now I know what you're thinking, what's the exemption? Well, the FRC have provided two generalised criteria for granting an exemption from undertaking these additional requirements. Firstly, short-term leases (leases with contracted terms of 12 months or less) can be applied in full to the Profit and Loss Account without the need to provide for any elements in the Balance Sheet. Secondly, the FRC will allow an exemption for leases in which the underlying asset is of low value. 'What is low value?' is the question we are all likely wondering, and the answer is somewhat open ended. It is defined as any asset in which the company is able to benefit from the use of, on its own or together with other resources which are readily available, as well as the said asset not being highly dependent on, or interrelated to other assets.

This will require an element of judgement to be applied in granting the exemption on the grounds of 'low value', as there is no hard or fast rule. To make things clear, one low value lease for one company won't automatically be of low value to another company if their resources, assets and trading are completely different.

# Lease Changes for Companies



These changes are likely to impact internal company reporting (financial ratios and management review or benchmarking work) but could also feed into some regulatory issues too. The scope of audit is a potential complication if the company is performing at a level in which they are currently nearing the thresholds for requiring a Statutory Audit. The new requirements for 'on balance sheet' leases will provide an uplift in the Balance Sheet's Gross Assets figure, which is one of the three key benchmarks for Audit Sizing requirements. Some careful consideration and planning should therefore be undertaken to ensure that companies are aware of and not in breach of the requirements to engage an Auditor.

Thinking ahead and discussing the matter is a sound and recommended approach. For company directors and owners thinking they may be required to take some action, please get in touch so we can help advise and plan for these upcoming changes. Once adopted this should allow a consistent and simple application year on year, although the initial setup may be a little time-consuming.

From planning the impact of these changes, through to the application and advisory surrounding them and the company position on a wider basis (i.e. potential for auditing), we can help companies to be ready for 2026.

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# Furnished Holiday Lettings (FHL)

The final Spring budget held by the Conservatives in March 2024 announced that the Furnished Holiday Let (FHL) rules would be abolished from April 2025.

At the time of the budget, there was limited information available on how current FHL businesses would be treated for tax purposes from April 2025. However, HM Revenue & Customs have now published draft legislation which gives us a better understanding of how the rules are expected to change.

## BACKGROUND

Properties under the current regime that meet the FHL conditions can receive favourable tax treatments. The conditions for a property to be treated as an FHL are as follows:

- The property must be let in the UK or European Economic Area (EEA);
- The property must be furnished;
- The property must be available to let for at least 210 days in the tax year (or first 12 months if commencing trading);
- The property must actually be let for at least 105 days in the tax year (or first 12 months if commencing trading);
- Periods of occupation exceeding 31 days must not exceed 155 days in total in any tax year.

The favourable tax treatments include:

- The ability to claim capital allowances on qualifying expenditure such as furniture and fixtures.
- There is no restriction to any finance costs associated with the property, such as mortgage interest. This cost can be deducted in full from any income received.
- Earnings from an FHL business count as relevant earnings for pension contribution purposes.
- On the disposal of a qualifying FHL, it may be possible to claim certain capital gains tax reliefs, such as gift relief, rollover relief and business asset disposal relief;
- Where a property is held jointly by spouses or civil partners, it can be possible to alter profit sharing arrangements based on the work actually undertaken by the relevant individuals without a formal election.

An FHL is treated as a separate trade from any other standard residential lets. As a result, any losses made from an FHL business can only be set against profits from the same FHL business with any excess carried forward. EEA FHLs are also treated separately from FHLs operating in the UK.

## CHANGES TO RULES FROM APRIL 2025

On the basis draft legislation is enacted, from 6<sup>th</sup> April 2025 (1<sup>st</sup> April 2025 for companies), it will no longer be possible for a property to be classified as an FHL for UK tax purposes.

Instead, the treatment of any rental income will be dependent on whether HMRC view the income as deriving from a trade or investment activity.

Historically, it has proven to be very difficult for the taxpayer to argue that they are operating a trade whilst running an FHL. To gain trading status, a high level of services would require to be provided, and essentially an individual would be required to show that they are running a full-time business to argue that they are carrying out a trade.

If, instead, HMRC view that the FHL is an investment activity, then any property previously let as an FHL will be taxed in the same way as a standard residential let. This would mean:

- It will no longer be possible to claim capital allowances on new qualifying expenditure. Instead, it will only be possible to claim relief on the replacement of domestic items.
- Relief for any mortgage interest costs will be restricted to the basic rate of tax, currently 20%.
- Income will no longer count as relevant earnings for pension contribution purposes.
- On disposal, no capital gains tax reliefs will be available.
- Where a property is held jointly by spouses or civil partners, profits will be split 50/50 regardless of actual legal ownership, unless a valid election is made.



For FHL businesses in existence prior to the rule changes, there are some transitional rules that will apply based on the draft legislation. These include:

- Where capital allowances have previously been claimed and that expenditure has been 'pooled', it will still be possible to claim capital allowances on the qualifying expenditure up until the point of sale. Any future sale would then create an allowance or charge based on allowances claimed up to the point of disposal.
- FHL losses brought forward as at 6<sup>th</sup> April 2025 (1<sup>st</sup> April 2025 for companies) will be available to set against all other types of rental income. However, losses between UK and non-UK businesses will continue to be treated separately.

## ANTI-FORESTALLING MEASURES

These will be in place, primarily to prevent any attempts to mitigate the withdrawal of the capital gains tax reliefs, by entering into a contract to sell their property prior to 6<sup>th</sup> April 2025 (1<sup>st</sup> April 2025 for companies), with completion after the 6<sup>th</sup> April 2025 (1<sup>st</sup> April 2025 for companies). Genuine disposals that straddle the tax year end may still be able to qualify for capital gains tax reliefs, under certain circumstances.

## SUMMARY

The changes to the tax treatment of FHLs could have a significant impact, dependent on individual circumstances.

If you currently operate an FHL and wish to discuss available options, please do not hesitate to get in touch.

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