ISSUE 20 | **SPRING SUMMER 2025**

# Farming Matters

Information and advice to help you grow your business | **renniewelch.co.uk**

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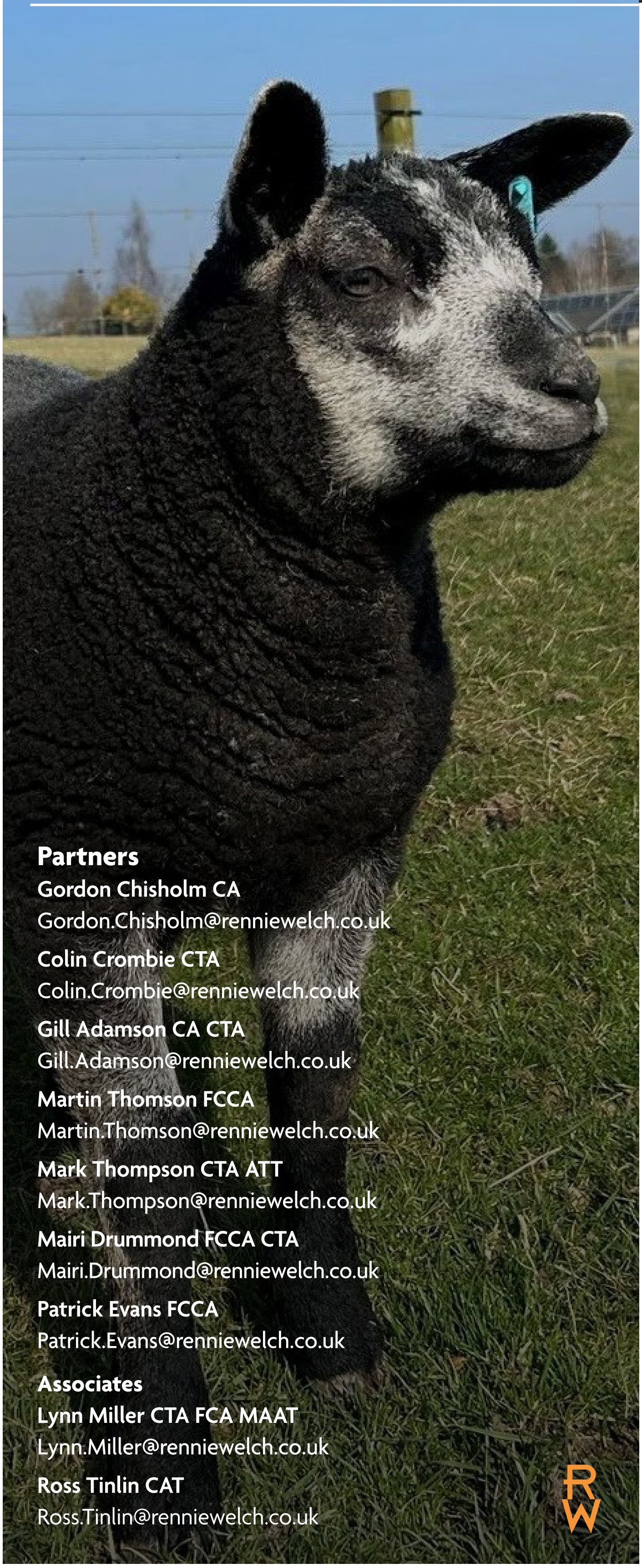
### Double Cab Pick-ups
Get to grips with the new tax rules.

### Inheritance Tax (IHT)
Helping you to understand the Family Farm Tax.

### Succession Planning
How Grants and The Farm Advisory Service can assist you.

RENNIE WELCH
accountants and business advisors

# Welcome

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## Welcome to our twentieth edition of Farming Matters.

**The clocks have sprung forward, and the sun is still shining which is in stark contrast to the deluge that we experienced last year. Most people seem to be smiling after decent lambings, and spring crops going into the ground promptly and in good order. There are, however, murmurings that we could do with a bit of rain! In the Borders, the winter crops do look like they may have a bit of potential.**

The 2024 budget changes around inheritance tax remain a significant talking point and Mairi Drummond has put together an article that puts some meat onto the bones by showing an example of how we see the arrangements working and the tax to be paid. We have provided some details on the Farm Advisory Service which is designed to increase the profitability and sustainability of Scottish farms and crofts.

It does feel like a bit more of the same and back to the budget and the changes we are seeing around double cab pick-ups. Magnus Leonard has put together a concise note of the revised rules and the dates that are pertinent as we move into the new regime.

We also have an update from Gillian Dixon on the farm secretarial support service that we can offer.

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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# Fighting the family farm tax

**In the 2024 Autumn Budget, Rachel Reeves announced a number of very significant changes that will make it harder than ever to transfer family farms through the generations, without significant tax liabilities. These changes will have a huge impact on succession planning for farmers and in this article, I will explore some of the detail and look at potential ways of addressing the changes.**

### WHAT IS PROPOSED TO CHANGE?

From April 2026, Agricultural Property Relief (APR) and Business Property Relief (BPR) are proposed to be subject to a combined cap of £1m for 100% relief, per estate. Any value over this limit will only benefit from 50% relief – the effective 20% tax charge that you will have heard about in the press.

Whilst the proposed changes won't come into effect until next year, anti-forestalling rules were announced which mean that if gifts are made now and the donor does not survive seven years post April 2026, the new rules would apply and the transfer would come into charge under the restricted reliefs.

### WHY ARE THE CHANGES SUCH AN ISSUE?

Rachel Reeves claims that the £1m allowance will protect small farms. However, in my opinion this allowance is nowhere near enough and looking across our client base, which predominantly consists of farmers, I am struggling to find anyone producing any significant amount of food, who will not be impacted by these changes.

The changes seem incredibly unfair as the tax rules previously encouraged farmers to hold on to their farms to benefit from rebasing for Capital Gains Tax (CGT) and for this reason many will have held on to the assets for longer than they may have otherwise.

As many farmers will agree we are just custodians for the next generation – the value of the farm is often entirely unrepresentative of the profits that are generated from it.

Looking at a simple example of a sole-trader farmer (Mr X) with assets as follows:

| | £ |
|---|---|
| Farmhouse | 500,000 |
| 4 farm cottages @ £250k | 1,000,000 |
| 650 acres @ £10,000 | 6,500,000 |
| Machinery | 1,000,000 |
| Livestock | 1,000,000 |
| Growing crop, debtors & other assets | 500,000 |
| Creditors | (500,000) |
| Personal assets (savings, chattels, car, pension fund) | 325,000 |
| Annual farm business profits pre-tax £150,000 (post tax in the region of £90,000) | |

Inheritance tax (IHT) position under new proposed rules:

| | £ |
|---|---|
| Total net assets | 10,325,000 |
| Less £1m APR/BPR allowance | (1,000,000) |
| Less APR/BPR | (4,500,000) |
| Estate net of reliefs | 4,825,000 |
| Less nil rate band | (325,000) |
| Estate chargeable to IHT | 4,500,000 |
| IHT @ 40% | 1,800,000 |

If Mr X leaves his business to his son, how can his son afford to pay the IHT? Whilst it can be paid interest-free over 10 years, it will not be possible to fund £180,000 per annum from post-tax business profits of £90,000.

### WHAT ABOUT THE £3M ALLOWANCE POLITICIANS SAY WE CAN HAVE?

This includes £1m for a spouse APR/BPR allowance which is not much use if there is no spouse, the spouse is not involved in the business, or if they have already passed away. The government have also announced that it is planned that the allowance is not intended to be transferable between spouses, which is not helpful.

The other element of this supposed £3m allowance is the residence nil rate band of the individual and their spouse, but this is only available where the value of a main residence is left to direct descendants and it is restricted for those with estates of over £2m, so wouldn't apply in the above example.

### WHAT CAN WE DO TO MITIGATE THE IMPACT OF THE CHANGES?

The key as always will be careful planning. There are several options to explore, and I expect that succession will be on the agenda on an ongoing basis for most businesses.

For most, the solution is likely to centre around making lifetime gifts to the next generation at an appropriate time and this may be directly or via a trust.

Life assurance will no doubt become an important part of the plan as whilst it will not mitigate the tax, it can provide alternative proceeds to pay this, preserving the farm for the next generation.

### WHAT AREAS SHOULD BE CONSIDERED WHEN GIFTING THE FARM?

The main consideration when thinking about a gift is whether it is the right thing to do in your own circumstances. It is a huge decision which can't be undone and the decisions must be made for the correct reasons, not just to save tax. For some, if time is on their side, a gradual process of gifting and involvement of the next generation in the business, is often the best strategy.

If a gift is appropriate, there are many areas to consider and these include the following:

1. The IHT 'seven-year clock' – direct transfers will be potentially exempt

from IHT and will generally fall outwith the donor's estate after 7 years. If death does occur within the 7-year period, taper relief can reduce the tax after 3 years, by 20% each year.

2. Capital Gains Tax – gifts are chargeable to CGT as if the asset being transferred is sold for its market value, even though no funds are being paid.

   Gift relief is potentially available to defer the CGT arising, but this may not apply to all assets such as let cottages and care should be taken around these complex rules so that an inadvertent tax charge does not occur.

   One of the main considerations is also the loss of the 'free CGT uplift on death' on gifted assets, whereby assets left by Will are rebased for CGT purposes.

3. Income requirements – an important consideration will be the donor's income requirements post-gift as for the gift to be effective for IHT, there must be no reservation of benefit. The donor can't simply just keep the income from the asset following the gift.

4. Potential double tax charge – if death occurs within a seven-year period of the gift, which results in an IHT liability, there is a potential double charge to both IHT and CGT if assets are sold post death, due to the loss of the free uplift mentioned above.

5. Stamp taxes – it will be important to consider whether any stamp taxes would arise on the transfer, particularly if there are borrowings.

6. Lenders – if borrowing is involved it will also be important to seek bank approval for the plans at an early stage.

7. Spreading assets around the family? If these rules stick, no doubt a longer-term solution will be spreading assets across families making use of £1m allowances, perhaps also using trusts in the structures.

   The more individuals owning assets, the more £1m allowances we will get but extreme care should be taken to make sure assets go in the right direction.

   How practical and appropriate this will be will depend on the family and I hope that we do not have to end up creating unduly complicated, costly, otherwise unnecessary structures, to be able to deal with the rules.

8. Use of Trusts? Whilst they may add some complexity, trusts may be an important tool for asset protection.

**LIFE INSURANCE CONSIDERATIONS**

There are a few key areas where farmers may wish to consider life insurance following the rules changes.

A very important factor in all cases is that in order to be effective for IHT planning (and so as not to just add to the value of the chargeable estate!), the policy must be written in trust.

It may be worth considering the two main types of insurance as noted below.

1. Whole of Life Insurance, which should run until the insured passes away.

   Where lifetime gifts are not appropriate, it could be designed to allow the trustees to pay the IHT.

2. Term cover, which only provides cover for a definite time.

   This may be beneficial where it is not appropriate to make any gift yet, but it may be appropriate in the future, e.g. for farmers in their 40s or 50s with younger children, it may be appropriate to take out cover to protect them until they think they will be ready to make gifts (and for the following 7 years!). This would be designed to protect against any unforeseen tragedies.

   Additionally, it may be useful to protect the seven-year period following a gift, where the assets may still be liable to IHT.

When considering taking out insurance to protect against the IHT burden in all of the circumstances mentioned above, it will be important to get the numbers

right, i.e. what is the value of the assets we are protecting and what is the projected liability on the assets, which we are trying to protect against.

It may therefore be important to seek professional help in the form of valuations and IHT projections, and financial advice will also be important to ensure the cover is appropriate for the circumstances.

**SUMMARY**

Whilst these new rules are far from ideal, it does look like we may be stuck with them for the time being. Whether they will be here for the long term or whether there will be further change is unclear and it is important to remember that the proposed rules are not in legislation yet and could be still subject to change.

This makes our position incredibly difficult as we are looking to undertake long-term multigeneration tax planning with what feels like unstable rules.

However, all we can do at present is work with the information and rules we have and try to make the best plans based on these and the circumstances, whilst leaving things as flexible as possible for potential future rule changes.

The succession of a farming business is complex; every family and business will be different and will require a tailored succession plan and detailed advice should be taken before entering into any transaction. If you would like to discuss further, contact Mairi Drummond.

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# Tax treatment of double cab pick-ups

**The tax treatment of double cab pick-ups (DCPUs) has recently been in the spotlight with major changes to the way in which these vehicles are to be treated for income tax and corporation tax purposes from April 2025.**

DCPUs with a payload of 1 tonne or more have historically been treated as vans for tax purposes. This meant that prior to April 2025, the purchase of these vehicles qualified for up to 100% relief in the year of purchase.

However, from April 2025, this payload test has been scrapped, and the tax treatment of vehicles will be classified on whether they are 'primarily constructed for the purposes of carrying goods'.

As a result, most DCPUs are expected to fall short of this test, meaning they will be treated as cars for tax purposes going forward.

For income tax and corporation tax purposes, this means that the purchase of these vehicles will no longer qualify for 100% tax relief on the purchase, unless they are fully electric (up until April 2026). Instead, the tax relief available will be dependent on the $CO_2$ emissions of the vehicle. An annual writing down allowance of 6%/18% would then be applied, depending on the $CO_2$ emissions.

*The purchase of these vehicles will no longer qualify for 100% tax relief on the purchase, unless they are fully electric.*

In addition, for companies that provide DCPUs to directors and employees for private use, the benefit in kind charges will now be determined by the vehicles' list price and $CO_2$ emissions. The benefit can range from 2% for electric vehicles up to 37% for high-emission vehicles. Previously, a flat rate benefit applied to DCPUs, which in most cases, was a lot lower than the benefit rates that apply to cars.

For DCPUs that were purchased before 6th April 2025, these vehicles will continue to be treated as vans for tax purposes and benefit from the historic treatment until the earliest of the following:

- The date the vehicle lease ends
- The date the vehicle is sold
- 5th April 2029.

Any contract entered into to purchase a DCPU prior to 6th April 2025 may continue to be treated under the historical treatment, provided that the expenditure on the vehicle is 'incurred' before 1st October 2025. Generally, the date expenditure is 'incurred' is the date on which the vehicle is delivered.

In terms of the VAT position, it is important to note that DCPUs with a payload of 1 tonne or more will continue to be treated as a goods vehicle and it should still be possible to for a business to reclaim VAT under the normal existing rules.

Single cab pick-ups will continue to be treated as vans for tax purposes and receive up to 100% tax relief in the year of purchase.

If you are looking at changing any vehicles or wish to discuss the above changes further, please do not hesitate to contact Magnus Leonard.

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# Grant funding for expert succession support through the Farm Advisory Service

**The Farm Advisory Service (FAS) is funded by the Scottish Government to provide information, resources, advice and support to increase the profitability and sustainability of Scotland's farms and crofts.**

You could access Government funding for one-to-one advice, through FAS, worth up to **£7,060**. As part of this, you can receive up to £3,200 for two specialist advice plans, helping you take a deeper look at specific areas of concern or interest with respect to your farming business. One of the topics that you can choose to receive support with is succession planning.

### WHAT IS SUCCESSION PLANNING?

Succession looks different for everyone. It can be voluntary retirement or ill health, passing on a business to the next generation or giving up a lease. For some, this might mean moving house and a huge lifestyle change. Regardless of circumstance, most people find planning the succession of their farming business difficult.

### HOW CAN FAS HELP YOU?

FAS's specialist advice on succession planning provides the opportunity to have a professional, third-party consultant look at your situation with clear eyes and guide you through the decision-making and planning process. They can help with crucial paperwork like giving someone power of attorney and writing a will. The support can also focus on helping you adjust to a new lifestyle once farming is no longer your profession.

### HIGHLY RATED BY FARMERS

Last year, 98% of farmers who received specialist advice grant funding through FAS rated the advisors' practices as either good or excellent, and 97% also rated the quality of the reports as good or excellent. The service is invaluable, as evidenced by the 82% of farmers who plan to implement all recommended actions after receiving specialist advice.

SRDP Farm Advisory Service

### WHO CAN APPLY?

Specialist advice is open to all farming and crofting businesses registered in Scotland Rural Payments and Services and holding a Business Reference Number (BRN) with IACS. The support is suitable for all types of farm and crofting businesses, regardless of experience and situation.

To find out more and apply for funding, visit: **www.fas.scot/advice-grants**
email: advice@fas.scot or call: 0300 323 0161.

# Farm Secretaries

**Spring has arrived and most of you will be in full swing with new life arriving on the farm and getting this year's crops into the ground, giving you less time to get on with things in the office.**

Did you know that we offer farm secretarial services? Our team of experienced farm secretaries along with other colleagues can offer a wide range of both on-farm and remote services.

Our services include:

- Full-service bookkeeping and accounting support
- Customised reporting to track your farm's financial health
- Animal & Vet Record Upkeep
- Payroll Support
- Regulatory Compliance and Tax Filing Assistance
- Tax Advice & Succession Planning
- Software Installation & Training (see below for more details).

As technology has increased in its capabilities over the years, the way in which people farm has also changed – welcoming new technology has become the "norm", when buying new machinery, but have you made the change to cloud software in the office?

Programmes like QuickBooks & Xero can seem daunting and too modern from the old "it's aye been" methods of keeping the farm books but they really are easy to use and understand. Our team has a vast breadth and depth of knowledge and understanding of these programmes, offering set-up, training, and ongoing support – which in turn can reduce your office workload and give you peace of mind that everything is in order and up to date.

For enquiries, please contact
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