SimpkinsEdwards

Addition

AGRICULTURAL

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GRANTS FOR SLURRY STORAGE

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HORSES IN FARMING

FARM WORKERS

FARM PROFITABILITY

NEW WOODLANDS

WHERE THERE'S MUCK…

Although the Basic Payment Scheme is now clearly into a winding down phase, the slightly more generous capital grants regime of the last few years is a part consolation. Some clients have received small machinery grants under the CSS Mid Tier Scheme, and others have secured substantial grants for fencing and some types of building.

A new Slurry Infrastructure grant is being launched in Autumn 2022 to help beef, dairy and pig (but not poultry) farmers to upgrade their slurry storage to provide 6 months' storage capacity. A capacity checker can be downloaded from www.ahdb.org.uk/knowledge-library/slurry-wizard.

Improvements eligible for the grant include:

- Building additional stores
- Expanding existing compliant storage (eg by adding another ring to a steel tank)
- Replacing existing stores that have reached the end of their design life and may be prone to failure
- Impermeable covers
- Ancillary equipment (eg pumps, pipes and safety equipment)

The grant rate will be 50% and grants of between £25,000 and £250,000 will be available.

The RPA anticipate high demand and expect the first round to be over-subscribed. The RPA will prioritise projects located near protected sites; a list of which is to be released before the application window opens.

The application process will have two stages. Stage 1 will be a quick eligibility check, following which the RPA will invite high priority projects to proceed to Stage 2. Stage 2 will require a project plan.

Government's announcement is at www.gov.uk/government/publications/slurry-infrastructure-grant. Interested farmers should monitor the website for further information to be released.

From a tax perspective, slurry stores normally qualify as plant and machinery, with 100% Annual Investment Allowance often available on the cost net of grant. For many farmers paying higher rate income tax, the net cost of a £100,000 slurry store might be just £28,375; ie

£100,000	Project cost
£(50,000)	Grant
£50,000	Cost net of grant
£(20,000)	Income tax relief at 40%
£(1,625)	Class 4 NIC relief at 3.25%
£28,375	Cost net of grant and potential tax relief

Please contact us if you would like advice on the tax relief potentially available in your circumstances.

HORSING AROUND

100 years ago, nearly every farm relied on horses for the heaviest work and the keeping of horses was an integral part of the farming trade. Today, there are still a few farmers using horses for livestock inspection and perhaps small scale cultivation, but most horses kept are for a non-farming purpose. This may be private enjoyment or a racing or breeding activity.

The purpose for which horses are kept is crucial for many aspects of taxation.

Horses kept for farm business use

In the few instances where horses are wholly and exclusively for the farming trade, their maintenance expenses are tax-deductible and there should be no restriction on capital tax reliefs.

Racing and breeding

The breeding and rearing of horses on a commercial basis on a stud farm is a trading activity and should qualify for the usual farming and capital tax reliefs (including inheritance tax agricultural property relief). Moreover, the usual statutory 5 year limit on losses being eligible for relief against non-farming income may be extended in the case of stud farms.

However, HMRC often take an aggressive approach with loss-making stud farms. Their guidance no longer acknowledges a 1982 agreement that sideways loss relief could be allowed for up to 11 years, and HMRC frequently challenge whether the business is being conducted on a commercial basis with a view to profit. If it is not, valuable income tax and capital tax reliefs will be sacrificed.

Horse racing is not normally accepted as a trading activity.

Private enjoyment

Where horses are kept for private enjoyment, adjustments need to be made in tax calculations to reflect this; for example:

- **Income tax and VAT**
  Disallowance of related expenditures for income tax deduction and VAT reclaim.
- **Capital gains tax**
  Exclusion of pony paddocks from claims for main residence relief, holdover relief and rollover relief.
- **Inheritance tax**
  Exclusion of pony paddocks from claims for agricultural property relief and business property relief.

Livery

The tax treatment of livery depends on the extent of services provided. At one extreme, 'DIY livery' is VAT exempt, property income and does not qualify for capital tax reliefs. By contrast, 'full serviced' livery is VAT standard-rated trading income and the assets used can qualify for capital gains tax reliefs and inheritance tax business property relief. Further detail on livery was included in a recent previous edition.

Conclusion

The clear message is that the use of horses in a farming trade need not compromise the valuable tax reliefs that farmers often take for granted. However, farmers and smallholders should beware that horses kept for private enjoyment do not qualify for those reliefs. This is one further cost to bear in mind when Daddy or Mummy is asked to buy a pony (or two).

Please contact us if you would like to discuss your circumstances.

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FARM WORKERS – GETTING THE TAX RIGHT

Contractor or employee

There is a widespread myth that farmers and workers can choose whether a worker should be 'on the books' or 'self-employed'. In reality, the classification is not a matter of choice.

Whether any worker is employed or self-employed is determined by factors such as:

- Whether the worker is running their own business, able to influence their profit by good management, and able to incur a loss by poor management (eg by having to fix unsatisfactory work at their own expense)?
- Whether the worker manages their own task or is managed/supervised?
- Whether the worker decides what work to do, and when and where to do it?
- Whether the worker is entitled to hire a substitute worker (and actually does this from time to time)?
- Whether the worker acts in a similar capacity for other farmers (and, if so, how many)?
- Whether the worker provides their own tools (and perhaps materials) for the job?

These tests are well illustrated by comparing the answers for (say) a silage contractor with those of a stockman.

High national insurance costs, and holiday and sick pay rules provide short term incentives to misclassify employment arrangements as self-employment.

However, the cost of misclassification can be high. In the event of an adverse PAYE review, HMRC will treat the amounts paid as 'net pay' and will gross those up to create PAYE and employer and employee NIC charges; all of which they will claim from the employer. In doing this, HMRC will typically go back 3 or 6 years and also charge interest and penalties. By incorrectly treating a worker as self-employed, a farmer takes on a risk of a large and unplanned future tax bill. The worker may also make a future employment claim (eg for holiday or sick pay, or under minimum wage legislation), regardless of what the parties may have shaken hands on at the outset. The financial risk sits with the farmer; not the worker.

Employment allowance

Employment allowance is a 100% discount on the first £5,000 of an employer's national insurance contributions in a tax year. For many small employers (including many farms), this means that employment status should cause no extra tax cost for the employer.

Daily casual harvest workers

There is a longstanding exemption from having to deduct PAYE/NIC from non-family harvest workers and casual beaters who are taken on for one day at a time, paid daily, and work for no more than 2 weeks in the tax year.

This exemption is of limited value nowadays because of the tight conditions, because the worker's full name, address, date of birth, gender, national insurance number and pay must all be recorded and because these workers must be included in PAYE RTI returns even though PAYE/NIC is not being deducted.

Farm worker accommodation

Some farm employees are provided with free or subsidised accommodation. Historically, that was a tax-free benefit (and thus much more efficient than an employee having to pay for a home out of taxed income), although this treatment is no longer always accepted by HMRC. Key planning points are:

- An existing employee cannot start to be provided with free/subsidised accommodation in exchange for a reduction in salary; in such circumstances, the salary forgone would be taxed as an 'optional remuneration arrangement'.
- Where accommodation is provided to a farm employee, the employment contract should require the employee to live in that accommodation and should set out why it is necessary for the employee to live there in order to perform their duties.

There remains another exemption for accommodation provided for the better performance of an employees' duties, but it is limited to employments where 'it is customary for employers to provide living accommodation for employees'. The 'customary' test is notoriously difficult to demonstrate, so we recommend using the 'necessary' exemption wherever possible.

A dwelling used to accommodate a PAYE'd farm employee is a business asset and may qualify for business capital tax reliefs. However, a dwelling used to accommodate a contractor (ie non-PAYE worker) is ineligible for such reliefs as rollover relief and agricultural property relief.

Failure to properly apply employment tax rules can result in large, unplanned, future tax liabilities for a farm business. We recommend that you check the status of your workers is correct.

Please contact us if you would like advice.

FARM PROFITABILITY

Better produce prices in 2021 and 2022 mean that some farmers may have barely noticed their reduction in 2021 BPS grant – it was just 5% for many farms.

The 2022 cut (a further 15%) is more substantial and, with the summer advance payments issued in 2022, this year's Christmas subsidy income will feel light.

The new environment-focussed grant schemes (like the Slurry Infrastructure and Woodlands grants discussed elsewhere in this edition) are welcome and it is fortunate that the dairy, beef, sheep and cereal sectors are (at the timing of writing) enjoying better prices.

But agriculture is cyclical and produce prices will always be subject to market-driven volatility. And even if produce prices remain good for the current year, 2022/23 accounts are likely to show much higher input costs. Farmers need to make a financial response to these challenges.

Your annual accounts and new-fangled computer accounting records can help you identify what is contributing to profit and what is not. You then need to consider the most appropriate action that is practical for your farming business.

For example:

- Sharp rises in fertiliser and concentrate costs may favour renting in extra grass (subject to local availability); particularly if the falling BPS translates into reduced rental values. Feed efficiency should be a priority, and selective breeding and nutrient management can help reduce costs.
- Less productive agricultural land might be diverted into new environmental use (eg woodlands).
- Some farms may have redundant buildings suitable for development – either for sale to bring in a cash sum for investment (eg extra land) or perhaps for tourism (eg holiday accommodation or visitor attraction).
- Joining a local co-operative or members' group may help provide extra purchasing power or marketing strength.
- Would greater use of contractors be more cost-efficient than new machinery? Or does family labour and an aptitude for repairs mean that operations are better kept in house?

There is no single answer for all farms. Different farms (and families) have different attributes and will achieve different solutions. But all farmers should make use of the better financial information in today's accounts and records to help drive profit-focussed decision-making.

Please contact us if you would like assistance upgrading your bookkeeping system.

NEW WOODLANDS ANYONE?

For many years, commercial timber growing has been a tax-favoured activity:

- The profits are exempt from income tax (albeit this is a double-edged sword because it also means that there is no tax-deduction for expenses).
- The standing timber is exempt from capital gains tax on a land sale. And a capital gain on the land can qualify for holdover relief, rollover relief or business asset disposal relief.
- The value of the land and timber can qualify for inheritance tax business property relief.
- Timber sales are standard-rated, so input VAT is reclaimable on expenses.

Financially, a problem with commercial timber is that it involves a major cash outlay in planting, followed by many years of maintenance costs with minimal income from thinnings, before a large lump sum receipt from clear felling – much of which may then be spent on re-planting. And so the cycle repeats.

There have been previous timber grant schemes, but current environmental concerns have led Government to offer fresh incentives for planting new woodlands in coordination with the Forestry Commission.

Woodland Creation Planning Grant

A Woodland Creation Planning Grant (WCPG) can award up to £150 per acre, plus 70% of the cost of specialist surveys, for production of an industry-standard woodland creation design plan. Further details are at https://www.gov.uk/guidance/woodland-creation-planning-grant.

English Woodland Creation Offer

An England Woodland Creation Offer (EWCO) grant can award:

1. 100% funding (up to £8,500 per hectare) for capital expenditure on creating new woodland. The area can be from as little as one hectare upward.
2. Up to £300 per hectare per annum for the first 10 years of annual maintenance.
3. Contributions toward infrastructure costs.
4. Possible additional contributions for public benefits including (inter alia):

   Up to £2,800 per hectare for nature restoration.

   Up to £2,200 per hectare for public recreational access.

   Up to £1,600 per hectare for riverbank woodlands that improve water habitat.

Further details of EWCO grants are available from https://www.gov.uk/guidance/england-woodland-creation-offer.

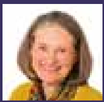
Please do not hesitate to contact us if you would like to discuss the tax aspects of woodlands.

CONTACTS

Agricultural & Rural Business Teams

Exeter

Michael House Castle Street Exeter EX4 3LQ **01392 211 233**

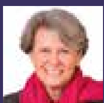


Mary Jane Campbell
Mary Jane specialises in advising rural businesses on tax and accountancy issues. She works in our Exeter, Okehampton and Bovey Tracey offices.
mjcampbell@simpkinsedwards.co.uk

Jonathan Hayes
Jonathan has a lifetime's background in farming and around 30 years' experience helping farmers and rural estates with accounts and tax matters. He works in our Exeter, Honiton and Okehampton offices.
jhayes@simpkinsedwards.co.uk

Barnstaple

Millennium House Brannam Crescent Roundswell Business Park
Barnstaple EX31 3TD **01271 342 233**



Jilly Watson
Jilly has a broad experience as a general practitioner and looks after a wide variety of clients including those in the agricultural and rural sector.
jwatson@simpkinsedwards.co.uk

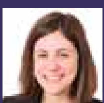
Bovey Tracey

The Steam Shop, Pottery Road, Bovey Tracey TQ13 9DS
01626 200 124

Julie Rose
Julie has experience of working with farmers and rural businesses and can offer practical advice on business and tax issues.
jrose@simpkinsedwards.co.uk

Holsworthy

12 The Square Holsworthy EX22 6DL **01409 253 620**



Jo Tope
Born and raised in the Holsworthy area, Jo is a general practitioner with an emphasis on the agricultural industry. She also advises on tax issues and estate planning.
jtope@simpkinsedwards.co.uk

Okehampton

4 Fore Street Okehampton EX20 1AD **01837 524 85**

Sebastian Beard
Sebastian acts for a wide range of owner managed businesses across Devon and Cornwall and offers a high level of business and tax advice.
sbeard@simpkinsedwards.co.uk

Lisa Wonnacott
Lisa has over 20 years' experience and is a general practitioner with a great deal of experience in the agricultural sector.
lwonnacott@simpkinsedwards.co.uk

AUTUMN BUDGET

September's Mini-Budget reversed increases in national insurance and corporation tax rates, and announced a 1% cut in the income tax basic rate for 2023/24.

A full Budget is expected in the coming months and we will be glad to advise you on further tax changes.