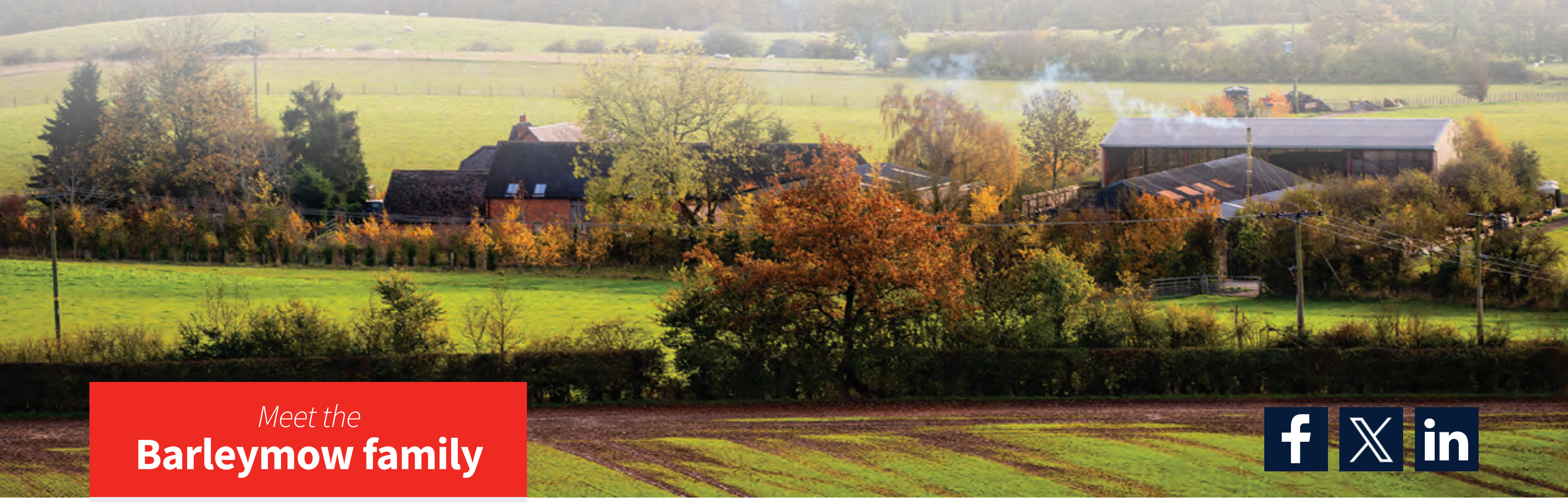
DEDICATED NEWS AND SUPPORT FOR FARMING FAMILY BUSINESSES FROM
ENSORS CHARTERED ACCOUNTANTS

AUTUMN/WINTER 2024
EPISODE 19

LIFE ON THE FARM



Meet the Barleymow family

Every issue we will be following the fortunes of the Barleymow family and the issues they face as a family farming business.

George

Henry *m* Mary

John *m* Sarah

David *m* Carolyn

Mark

Emma

Barleymow Farm – 2,500 acres

A farming partnership consisting of Grandfather (George), father and wife (Henry and Mary) and son (David).

Land and property owned by the partners is all held on the partnership balance sheet.

One principle farmhouse occupied by George.

Two further cottages occupied by Henry, Mary and David and his family.

Four further cottages – one current farm worker, one ex-service tenant and two AST lets.

Outdoor pig herd.

Broiler unit.

SUCCESSION PLANNING

George, Mary and David are at the table when Henry walks in.

Mary: *Just in time for a cuppa!*

Henry *(sits down): Think we're all going to need something a bit stronger than that.*

David: *What's wrong, Dad?*

Henry: *After the bombshells in the Budget, I thought I'd ask Ensors how it affects us and to look at options. With the structure of the partnership and the land ownership as it is, the changes to inheritance tax (IHT) means we could be in for a very nasty tax bill...*

George groans.

Henry *(reads notes): Currently all the assets utilised in the partnership have been sheltered from IHT via Agricultural Property Relief (APR) and Business Property Relief (BPR). From 6th April 2026, these will only give partial relief. An individual will get 100% relief on assets covered under APR or BPR up to £1m in value, after that, those assets only get 50% relief.*

George: *And again in English?*

Henry: *If you pass away after 5th April 2026, any assets qualifying for APR or BPR that you hold, including your share of partnership assets worth more than £1m in total, will be taxed at a rate of 20%. The same for all of us.*

Mary: *But the partnership farms 2,500 acres, that's at least £20m in land value alone, not to mention all the other property and cottages, plus the value of the pigs, chickens, crops, machinery...*

Henry: *I asked Ensors to give me some estimated IHT liabilities under the new rules, particularly for you Dad. We worked out your current farm property and the asset value is about £6m, including your residual estate outside the farm business, this could result in IHT of around £1m.*

Continued overleaf ➤

Ensors

***George** (jumps up): That's at least eight years' worth of the entire partnership's profit, assuming we actually make a profit. Even longer given all the bloody pressures we're under!*

***Mary:** That's crazy. The business has never had that level of cash, apart from when we sold that land for development.*

***David:** Is that what we're expected to do? Sell land to pay the IHT?*

***George:** Henry, you said if I die after 5 April 2026... what happens if I go before then?*

***Henry:** The current rules apply up to that point, so the liability would likely be minimal if any.*

***George:** Sounds like it'd be better for the IHT if I wasn't here!*

***David:** Don't say that, Grandad.*

***George:** I'll be damned if the only way my family inherits the land we've farmed for six generations, is by selling bits off to pay bleedin' death duties.*

***Mary:** Based on those figures, at least 100 acres would need to be sold. That's nearly 5% of our farm!*

***Henry:** And more, depending on what land was sold, because Capital Gains Tax (CGT) could arise on the land sales too. Maybe 150 acres...*

George paces.

***Henry:** Sit down Dad! Ensors gave us advice on options...*

George sits.

***Henry:** You could gift further assets down, but it'd make sense to gift to David to delay further IHT liabilities arising if something happens to me. If you survive seven years from the date of gift, these should pass down free from IHT in your estate.*

***David:** What about the assets Grandad passed down two years ago? Would IHT be payable if he passes away within the seven years?*

***Henry:** (refers to notes): No, because they were gifted before the Autumn 2024 Budget under holdover utilising APR and BPR at the time. Provided the assets continue to be used in the business, then they'd still qualify for 100% relief even if Grandad passed away within seven years.*

***George:** I'm happy to pass assets down, my income needs are minimal these days, but what if I don't make the seven years after the gifts?*

***Henry:** If you died after 5th April 2026, then the IHT would essentially apply as if the gifts hadn't been made, although there could be some taper relief, which means the tax starts to reduce after three years.*

***George:** So... potentially back to square one!*

***Henry:** We could take out insurance for the seven-year period following the gifts, to help with the IHT should it arise, it'd be expensive, but less so than the liability. Plus you're in good health which might reduce the premiums.*

***George:** I have a life insurance policy if that helps?*

***Henry:** Ensors said we'd need to make sure the policy is written in Trust for others and then it doesn't form part of your Estate, or you'll end up paying IHT on the value, giving us a further problem.*

***David:** Assuming Grandad is happy, could assets be passed to Mark and Emma? It'd knock the liability further down the road, but in any event wouldn't there be CGT on the gifts?*

***Henry:** Depending on the assets, it might be possible to claim what's known as holdover relief to prevent CGT from arising. As for Mark and Emma – assets can be passed to them, but they must be 18 to take ownership. They could be put in Trust until they get there, assuming they'd want the farm.*

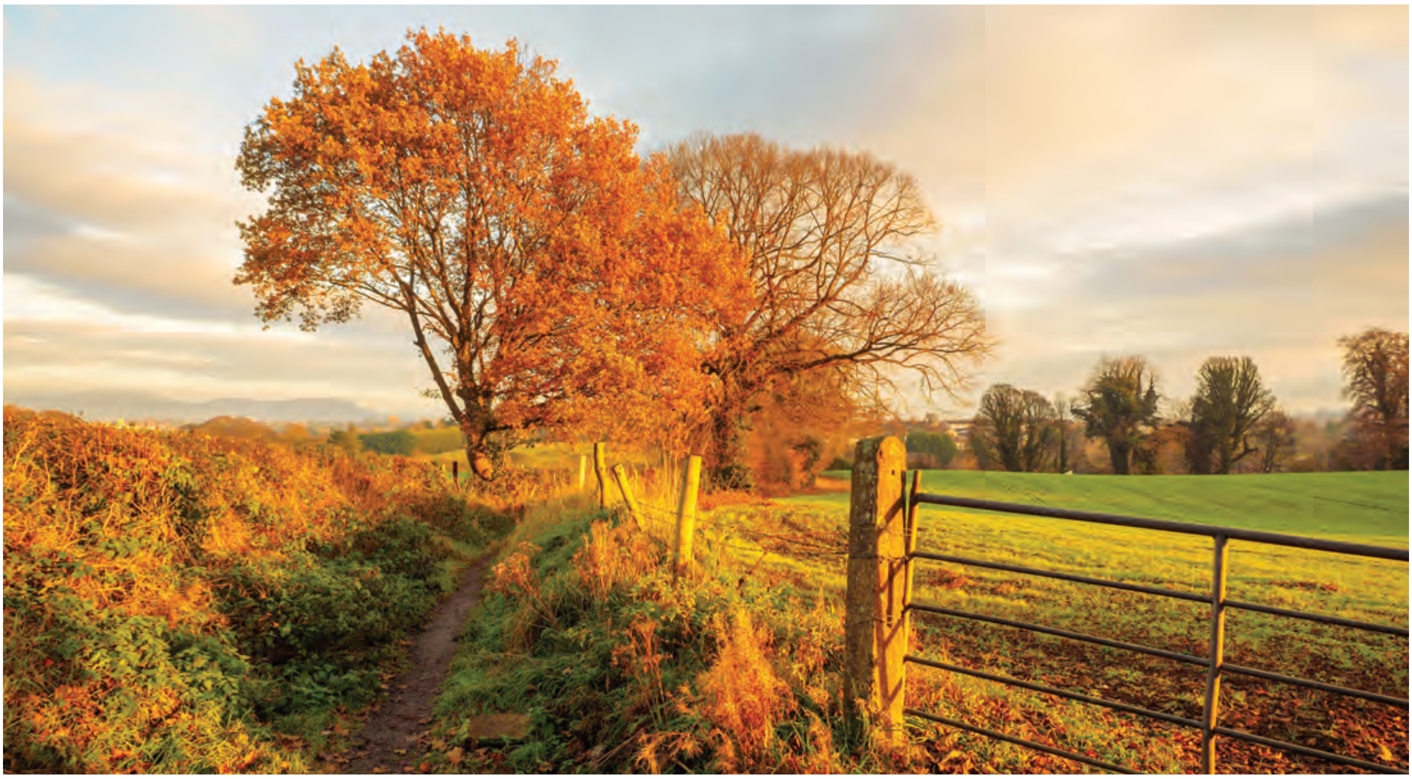
***David:** They love helping out, but they're still young. I assume partnership assets changing hands, would mean a rejig of the profit share arrangements?*

***Henry:** Yes, for the gifts, the donor would need to be seen to have a decrease in their profit shares with the recipients getting an increase, otherwise the gifts could fail for IHT purposes, meaning that would remain to be taxed in the Estate of the person who made the gift.*

***Mary:** Henry, we should also think about passing business property down. It seems to be about passing things down in life rather than death now, especially if we want the farm to survive... rather than being bled dry by IHT!*

***Henry:** I suggest we meet with Ensors, as my notes aren't nearly good enough to understand the full implications.*

***George** (gets up): So what are we waiting for?*



BUDGET SUMMARY

APR/BPR Bombshell

We have had our first Budget of the new Labour Government and there have been significant changes to the longstanding IHT reliefs that many rural businesses had based their IHT planning on.

Rachel Reeves has announced that only the first £1m of agricultural and business property, qualifying for the 100% Agricultural Property Relief (APR)/Business Property Relief (BPR) rate, will continue to qualify for relief at 100% for IHT purposes. Instead, any property held over £1m that qualifies for the 100% APR/BPR rate, will only receive relief at 50%. This will come into effect from 6 April 2026. It is important to note that this will not operate similarly to the Nil Rate Band, and so any unused 100% band, cannot be transferred to a spouse and is lost.

Where business or agricultural property previously qualified for the 50% rate, this will be unchanged.

It is important to note that any IHT liability payable on qualifying Agricultural or Business Property, can be paid in instalments over 10 years.

There are also anti-forestalling measures in place to prevent individuals from gifting property ahead of 6 April 2026, in order to avoid the £1m cap for 100% IHT relief. Gifts made from 30 October 2024 onwards, will be subject to the new £1m cap where the donor dies on or after 6 April 2026 (assuming it is within 7 years of the date of gift).

Other areas of concern

The guidance published as part of the Budget suggests that if you hold separate assets of Agricultural Property and Business Property, the £1m cap for 100% relief will be spread proportionately between the different assets.

It is important to remember however, that where an asset qualifies for both APR and BPR, Agricultural Property Relief is always applied first. Therefore, relying on Business Property Relief to cover the value above agricultural value, for instance on potential development land, may now be in jeopardy.

This of course could be clarified in the draft legislation once published. For more information and a detailed example of the potential impact of the IHT changes on a family farm, please see our detailed briefing at **https://www.ensors.co.uk/insights/category/briefings/**

Pension Pots

Pension pots will also be brought into the scope of IHT with effect from April 2027. Currently, unspent pension pots have remained outside the charge of IHT, and have provided a useful tax planning tool for giving descendants an IHT exempt pot of cash, particularly as part of passing an Inheritance to children not involved in the business.

What should rural businesses be doing now?

Now is the time to understand your IHT position and this should be reviewed in conjunction with your Wills and Partnership/Shareholders agreements.

With relief from IHT reducing, your future succession plans, and business structure should also be reviewed, in conjunction with understanding your "Balfour" position (see Life on the Farm Autumn/Winter 2023). Now it may be more prudent than ever to introduce land into the Partnership, consider incorporating, restructuring or bringing forward lifetime gifting, however, every family and business will be different and so the way forward will need to be considered carefully depending on the particular circumstances.

Other changes

In perhaps not as dramatic a change as previously feared, the general rates of CGT will be increasing to come in line with the residential property rates of 18% and 24%. This has come into effect from 30 October.

Business Asset Disposal Relief will remain in place for the first £1m of gains and will remain at a rate of 10% until 5 April 2025. From 6 April 2025, the rate will increase to 14% and rise again to 18% from 6 April 2026.

Hidden in the Budget documents, in a reversal of the reversal last year, double cab pick-ups (DCPUs) will be treated as a car for the purposes of capital allowances and benefits in kind, with effect from April 2025. Existing DCPUs at April 2025 will continue on the current regulations, until the earlier of sale, end of lease or April 2029, the same is true for DCPUs ordered pre-April 2025 and delivered pre-October 25.

The Stamp Duty Land Tax higher rates for additional dwellings, will increase from 3% to 5% with effect from 31 October 2024.

Employer National Insurance will also increase from 13.8% to 15% from April 2025, but the further sting to businesses is that the threshold at which Employer's NI kicks in, will reduce from £9,100 to £5,000. There is a slight reprieve in that the employment allowance is increasing from £5,000 to £10,500.

An accelerated decrease in Basic Payment Scheme delinked payments was announced. Payments for 2025 will be based on 24% of the 2020 claim, up to a maximum payment of £7,200, so farms that claimed in excess of £30,000 in their 2020 claim, will see the biggest reductions in their BPS payments.

The Carbon Border Adjustment Mechanism was announced such that, with effect from 1 January 2027, a carbon price will be placed on certain imported goods that are at risk of carbon leakage; the specific impact on the agricultural sector would be on fertiliser, with some suggesting this could increase the price of fertiliser by more than £50/tonne.

What hasn't changed?

While there have been some big changes, it is also important to reflect on what has not changed:

- There have been no changes to income tax relief for pension contributions.
- There have also not been any changes to the High-Income Child Benefit Charge and in fact, the Budget has confirmed that reform to base this on household income will not go ahead. Therefore, the limit before you repay all of the child benefit received will remain at £80,000.
- There have been no changes to the IHT Nil Rate Band or Residence Nil Rate Band rules and so these remain at £325,000 and £175,000 respectively, with the Residence Nil Rate Band subject to taper on Estates worth over £2m.
- The main rate of Corporation Tax will remain at 25%.
- The pension tax-free lump sum has not been changed and so this remains at 25% of the pension pot or £268,275 if lower.
- Full expensing for plant and machinery has remained (companies only), together with the £1m Annual Investment Allowance.

For other articles relating to the Budget, please see our Budget Hub at **https://www.ensors.co.uk/insights/budget-resource-hub/**

If you would like to review your IHT position and consider your business structure following the Budget, or discuss how other measures introduced will impact your business, please contact a member of the Agri Team.

Meet the team

Agriculture specialists

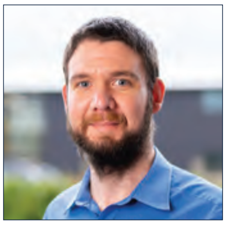
Graham Page
PARTNER
01284 722300
graham.page@ensors.co.uk

Carl Page
PARTNER
01728 603005
carl.page@ensors.co.uk

Neil Meekings
PARTNER
01284 722346
neil.meekings@ensors.co.uk

Elaine Baxter
DIRECTOR
01284 722326
elaine.baxter@ensors.co.uk

Hugh Simpson
DIRECTOR
01284 722300
hugh.simpson@ensors.co.uk



Wayne Horrex
SENIOR MANAGER
01284 722327
wayne.horrex@ensors.co.uk

Chrissie Deller
SENIOR TAX MANAGER
01223 428339
chrissie.deller@ensors.co.uk

> “Ensors have an excellent understanding of how a rural agricultural estate operates and as such are able to work closely with clients and fellow professional advisors to ensure maximum benefit.”
>
> Charles Loyd – Strutt and Parker

Technical specialists

Danny Clifford
CAPITAL TAXES &
TRUSTS PARTNER
01473 220083
danny.clifford@ensors.co.uk

Laura Krickova
VAT DIRECTOR
01206 321029
laura.krickova@ensors.co.uk

To keep up-to-date with changes in the accounting and tax world as they impact upon the agricultural industry, please visit our blog page online: **www.ensors.co.uk/insights-resources/**

Some of the most recent blogs include:

- **The impact on farming and rural businesses following the Spring Budget**
- **Capital allowances, a basic overview**
- **Back to basics on Balfour**

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