SUMMER 2025

Hazlewoods

Agricultural Focus

INSIDE

Inheritance Tax – where are we now?

The chancellor's October 2024 budget rewrote the rule book for Inheritance Tax (IHT).

The follow up consultation regarding the announced changes has now closed and we await the final outcome, although little is expected to change. Based on the Budget announcement, the expected IHT position is summarised below:

Until 6 April 2026 – there have been no changes to the rules.

- Each estate benefits from a tax-free nil rate band of £325,000.
- An additional £175,000 residence nil rate band to those passing on a qualifying residence on their death to their direct descendants. This relief is tapered £1 for every £2 that the value of the estate exceeds £2 million. So, any estate over £2.35 million will lose this relief in full.
- Agricultural Property Relief (APR) and business property relief (BPR) are available at 50% or 100%, depending on the nature of the asset, with no limit in the amount of assets the relief can be claimed on.

From 6 April 2026:

- A new £1 million cap per estate restricts the value of assets on which 100% APR and/or 100% BPR can be claimed.
- Any value above £1 million on APR/BPR qualifying assets will only benefit from 50% relief, which results in a marginal IHT rate of 20% on any qualifying asset above the £1 million allowance.
- Unlike the tax-free nil rate band, the £1 million allowance cannot be transferred between spouses, so it is beneficial to utilise it on the first death.

Any resulting IHT liability can be paid in instalments spread over 10 years. Instalments are usually liable to HMRC's interest rates (8.57% as at April 2025); however, if the liability relates to APR or BPR qualifying assets, the instalments will be interest free.

From 6 April 2027:

- Pension funds will form part of an individual's death estate and be subject to a 40% IHT charge.

How can you mitigate the impact?

Lifetime gifting of assets

Any lifetime gift of an asset made to an individual more than seven years prior to the death will fall out of your death estate for IHT purposes. Where the asset gifted qualifies for APR or BPR it is possible to holdover the capital gain, so no immediate Capital Gains Tax (CGT) charge arises. The recipient takes on the original base cost of the asset and would pay CGT on sale on the difference between the net sales proceeds and the original cost.

Where it is not clear who the eventual recipient of the asset will be, or the recipient is a minor, or there is a requirement to protect the asset, a gift into trust could be beneficial. There are many benefits to using a trust, but they also come with additional administrative requirements.

It is essential to take both tax and legal advice before embarking on lifetime gifting.

Making gifts out of income

If you are generating more annual income than you need to cover your outgoings, consider making regular gifts out of income to friends, or family to prevent your estate from increasing in size any further.

Will planning

Ensure you have flexible Wills which allow for the use of the 100% £1 million APR/BPR allowance on the death of the first spouse. Wills may include a discretionary trust and have a letter of wishes sat alongside to allow the decision on the distribution of assets to be made after death. This enables the executors to appoint assets based on the deceased wishes and the tax legislation in place at the time of death. A partnership agreement will take priority over a Will, so ensuring both documents complement each other is crucial.

Deathbed planning

If an individual has died within the last two years, consider making maximum use of the IHT reliefs currently available. A deed of variation can be prepared to reallocate assets amongst beneficiaries up to two years after the individual has passed away.

What should you be doing now?

Following the announced changes, it is important for all individuals to understand their IHT position and to start a succession plan, which considers the following:

- Review your IHT position, using up-to-date market values and business valuations to ascertain your potential IHT exposure.
- Consider lifetime gifting of assets and any excess income.
- Check your Will is up to date and allows flexibility on your death.
- Ensure your Will and any partnership agreement complement each other.
- Have open conversations with family members regarding your wishes on your death.
- Consider taking out life insurance cover to provide a capital sum to cover potential IHT liabilities.

The proposed IHT changes to APR and BPR are unwelcome, and the most significant tax changes affecting the farming sector for many years. Our team are here to help you navigate the changes. If you would like to discuss any of the above, please don't hesitate to contact one of our team.

Upcoming changes to Making Tax Digital (MTD)

MTD is an initiative by HMRC aimed at modernising the UK tax system through digital reporting. This transformation is intended to streamline tax administration, reduce errors, and improve efficiency. As we approach the next phase of MTD, significant changes are on the horizon, particularly for income tax self-assessment.

From 6 April 2026, MTD for Income Tax will become mandatory for sole traders, and landlords with a combined annual business, or rental turnover over £50,000 based on income received in 2024/25.

Under MTD, taxpayers must:

- **Maintain digital records:** Use MTD-compatible software, or spreadsheets linked to HMRC via bridging software.
- **Quarterly updates:** Submit income and expenses quarterly (or monthly by election) for each income source.
- **Submit a final declaration:** Replacing the current self-assessment tax return with a comprehensive final declaration.

Timeline for implementation

- **April 2026:** MTD starts for individuals with annual turnover over £50,000.
- **April 2027:** MTD extends to those with annual turnover over £30,000.
- **By April 2028:** MTD will cover individuals with annual turnover over £20,000.

No dates have been announced as to when partnerships, trusts, or companies will be brought into the regime.

Penalties for non-compliance

HMRC will implement a points-based system for late submissions. Accumulating penalty points will lead to fines, starting at £200. Late payment penalties will apply for payments overdue by more than 15 days, with daily penalties thereafter.

Preparation tips

To ensure compliance, it's advisable to start digitalising records now. Familiarise yourself with MTD-compatible software. If you fall under the regime, and need to submit quarterly updates, the first return will need to be submitted by 7 August 2026.

If appropriate, individuals could opt to change business structure so that they fall within the partnership regime; however, this will only be a deferral, as partnerships are expected to fall under this regime in future years.

Accounting software

Your current accountancy package should help you to create and store digital records of your business income and expenses and send quarterly updates to HMRC as required. Your accountant will likely continue to file your year-end tax return by the following 31 January.

Similar to Making VAT Digital, there will likely be bridging software available, so that those who do not wish to keep records on software can file quarterly returns as required.

HMRC has published a list of software which has been through their recognition process, with more commonly used software likely to be included on this list in coming months. However, this could be a good time to consider if the current package you use meets all your business needs.

The upcoming changes to MTD represent another step towards a more efficient and accurate tax system. We will be forced to embrace the digital solutions to these changes, which should assist with timely record keeping and potentially reduce the stress of searching for information ahead of the tax filing deadline.

How can a trust be beneficial for your farming business?

When people hear the word 'trust' they tend to run for the hills. However, a trust can be a useful planning tool, particularly in a farming business.

A trust can be set up either during your lifetime, or as part of your Will. There are various types of trusts to consider, each with unique features and tax treatments. The choice depends on your specific needs and goals.

Trusts are valuable for succession planning in a farming business, allowing property to be passed to the next generation, and ensuring continuity and stability, both in lifetime and after death. They can provide for family members who may, or may not be involved in the business, allocating income and benefits accordingly. Trusts are also helpful for managing assets for minor children, allowing involvement in decisions as they mature.

Including a trust in your Will gives flexibility to your executors/trustees after death, allowing division of assets between beneficiaries according to your wishes, and their individual circumstances.

Trusts also provide asset protection in case of debt, dispute, or divorce, which you wouldn't have with an outright gift. Provided the settlor (the individual making the gift) survives seven years post-gift, the value gifted to the trust will fall outside their Inheritance Tax estate on death.

Inheritance Tax (IHT)

For lifetime trusts, after allowing for any IHT relief, an individual can settle up to the maximum of the IHT nil rate band (NRB), currently £325,000, into trust every seven years without incurring an immediate IHT charge. Any excess would be chargeable to IHT at 20%.

Any IHT due on the creation of a Will trust is dealt with as part of the death estate IHT reporting.

Trusts are subject to IHT exit charges on any capital appointed out of the trust, and at every 10 year anniversary of its creation. The rate of IHT is a maximum of 6% on the value above any available relief and NRB.

Based on the proposed IHT changes to agricultural and business property relief (APR/BPR), a trust set up on, or after 30 October 2024 will have a £1 million 100% joint APR/BPR allowance, providing additional 100% relief to that of the settlor. Note that the government intends to have a single £1 million allowance for multiple trusts by the same settlor.

Capital Gains Tax (CGT)

The settlement of assets into trust is a disposal for CGT purposes and can give rise to a capital gain attracting tax between 18% and 24%. However, holdover relief is generally available to remove an immediate CGT charge, resulting in the trustees taking on the asset at the settlor's original base cost.

Income Tax

Unless the income received by the trust is mandated directly to one or more beneficiaries, the trust will need to file annual self-assessment tax returns. The tax rate payable will depend on the type of trust.

Annual Administration

Annually, most trusts will need to prepare a trust tax return and potentially a set of trust accounts. All trusts must now register with HMRC's Trust Registration Service (TRS) within 90 days of creation. Any changes to details of anyone associated with the trust must also be made within 90 days.

If you would like to discuss trusts further and how they could benefit your farming business, please give one of the team a call.

Cultivating compliance – navigating VAT in farming

Capital Goods Scheme (CGS)

The CGS is designed to ensure fair attribution of VAT on high-value capital assets over a period of time. This scheme is particularly relevant for agricultural businesses making significant investments in property.

Previously, the CGS applied to properties or improvements, extensions, or alterations to existing properties with a total cost of £250,000 or more (excluding VAT). The government has recently announced an increase in the expenditure threshold for land and buildings to £600,000. The effective date for this change has yet to be specified.

When a capital item is purchased, the initial VAT is reclaimed based on its intended use. The CGS then adjusts the VAT over a 10+ period to reflect the actual use of the asset during this time. If there is a change in the use of the building, an annual adjustment may be required to restrict the initial VAT recovered. If the property is sold, the final adjustment occurs in the year of sale, adjusting for the input tax for all remaining years. If the property sale is exempt from VAT, a clawback of the remaining VAT will occur.

VAT on farmhouses

Farmhouses are integral to farming businesses, providing both domestic accommodation and a base for farm operations. The VAT recovery on works to farmhouses depends on the proportion of business use versus private use.

HMRC generally allow recovery of 70% of the VAT incurred on general repair and maintenance works. For extension and alteration works, HMRC typically allow recovery of up to 40% of the VAT incurred.

Partial exemption

Farmers often deal with both taxable and exempt supplies, such as selling agricultural products (taxable) and renting residential cottages (exempt). The partial exemption rules determine the correct amount of VAT to reclaim on expenses. The rules allocate costs between taxable and exempt supplies and can restrict the overall input tax.

Consider a farmer who incurs £35,000 of input tax. This amount is broken down as follows:

- £15,000 directly relates to taxable supplies.
- £10,000 directly relates to exempt supplies.
- £5,000 is unattributed to either supply (residual input tax).

Based on the standard method of calculation, if 70% of their supplies are taxable and 30% are exempt, they can recover £15,000 relating to taxable supplies, and 70% of the residual VAT, which amounts to £3,500.

For businesses with minimal exempt supplies, the de minimis rule simplifies VAT recovery by allowing full recovery of input tax, providing the total relating to exempt supplies is under £7,500 per annum.

If a similar farmer has a similar split of turnover but incurs £10,000 in input tax as follows:

- £7,000 directly relates to taxable supplies.
- £2,000 directly relates to exempt supplies.
- £1,000 is unattributed to either supply (residual input tax).

As the total VAT relating to exempt supplies is only £2,300, £2,000 (direct), plus £300 (residual), this amount is under the de minimis limit and can be recovered in full.

VAT is a complicated area. For more detailed guidance on navigating the CGS, VAT on farmhouses, or partial exemption, please get in touch.

Meet the team: Sue Birch, Director

Tell us a bit about your career so far

Other than a couple of holiday jobs, I'm Hazlewoods through and through. I joined the firm after completing my degree in Accounting and Finance and have been here ever since.

After spending a few years working in general practice and studying for my chartered exams, I joined the Farms and Estates team. Living on the family farm, with both parents coming from a long line of farmers, it was an easy decision. Back in the 'noughties', there were just five of us in the team. Since then, the technical expertise required to serve the agricultural sector has grown – and the team has grown with it. We now have nearly 50 people.

What is it like being an accountant in the agricultural sector right now?

The agricultural sector is still reeling from the October 2024 Budget. The incoming government has certainly made its presence felt, leaving agricultural professionals with a significant amount of work to do. Unfortunately, the nature of that work is far from pleasant, with Inheritance Tax now dominating the agenda in nearly every meeting.

The proposed changes have prompted many difficult conversations around estate planning and succession.

Guiding clients through the pros and cons of various options, considering financial, tax, and personal implications, has been a challenging yet rewarding process.

In most cases, these discussions have led to greater clarity regarding the future direction and viability of their farming businesses. So, despite the challenges, there have been some positive outcomes.

Why Hazlewoods?

I feel I have the best of both worlds at Hazlewoods – the resources, support, and expertise of a large accountancy firm, combined with the small-firm roots that have been retained despite the firm's growth. As a long-term Hazlewoods employee, I can still sense that the intangible 'Hazlewoods' spirit is as strong as ever.

When dealing with complex transactions and tax planning, it's invaluable to have in-house specialists in VAT, stamp duty, trusts, and audit based nearby. This adds to the breadth and depth of agricultural and trust knowledge within the team.

I work with some inspiring clients, on challenging projects, alongside an impressive team – what's not to like?

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