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Hazlewoods

Agricultural Focus



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Upcoming IHT reforms: key changes for individuals and trusts

On 21 July 2025, the UK government released draft legislation and the results of its consultation on how upcoming inheritance tax (IHT) reforms will apply to trusts and individuals. The changes are set to take effect from 6 April 2026, with only minor adjustments to the original proposals.

Changes for Individuals

From 6 April 2026, the 100% relief under Agricultural Property Relief (APR) and Business Property Relief (BPR) will be capped at the first £1 million of qualifying assets per individual. HMRC have confirmed this allowance will not be transferable between spouses. Any value above this threshold will receive 50% relief.

Importantly, this £1 million cap will be index-linked to the Consumer Prices Index (CPI) from April 2030, although this is subject to parliamentary approval, as with the personal allowance for income tax and the IHT nil rate band (NRB). Given the IHT NRB has remained frozen since 2009, and the personal allowance since 2021/22, whether there is any movement in the APR/BPR allowance come 2030 is anyone's guess.

The option to pay IHT in 10 interest-free annual instalments will cover all assets qualifying for APR or BPR.

From 6 April 2027, unused pension funds and death benefits will be included in a person's estate for IHT purposes. APR and BPR will not apply to pension assets brought into charge, which may significantly impact individuals holding qualifying shares, or business property within a pension.

Transitional rules will apply to gifts made between 30 October 2024 and 5 April 2026. These gifts will initially be assessed under the current rules but will fall under the new regime if the donor dies on or after 6 April 2026, and within seven years of making the gift.

Changes for Trusts

Trusts holding qualifying assets before 30 October 2024 will each have their own £1 million APR/BPR allowance. However, trusts created on or after that date by the same settlor will share a combined £1 million allowance, allocated chronologically based on the value of qualifying property settled.

If a trust is wound up, any unused allowance is lost and cannot be reallocated.

Capital appointments from existing trusts of assets settled before 30 October 2024 will follow the old rules until the next 10-year charge. For assets settled after that date, the old rules apply only until 5 April 2026. The first 10-year charge after this date will benefit from unlimited 100% relief for the pre-April 2026 period, with the new capped relief applying thereafter.

Future capital appointments will be taxed based on the rate used at the last 10-year charge, excluding any APR or BPR previously available. The trust's allowance can offset qualifying property being appointed, but this will reduce the allowance available at the next 10-year charge. The allowance then refreshes for the following 10-year period.

A positive development is the removal of anti-fragmentation rules, meaning qualifying property settled by the same settlor into different trusts will not be treated as related property for valuation purposes.

Next Steps

Both individuals and trustees should be reviewing their estate planning strategies in light of these changes. Professional advice is strongly recommended to ensure optimal use of available reliefs and allowances.

For tailored guidance, please contact your usual Hazlewoods adviser.

Farming trade losses: the five-year rule and extended relief claims

Where a trading loss arises in a tax year, a taxpayer will have several options available to them regarding the use of that loss. This will typically come down to two possibilities:

1. Offset the loss against other income in the current, or previous tax year (known as a sideways loss relief), or
2. Carry the loss forward for offset against future profits of the same trade.

Losses arising from farming trades come with a specific restriction to the use of losses: a claim for sideways loss relief will be restricted to five consecutive tax years. After five consecutive years of losses, sideways loss relief will generally no longer be available. These losses can be carried forward indefinitely to offset against future profits of the same trade.

If a farming business makes a taxable profit, the tax year following would restart the clock, and another five-year sideways loss period can commence.

There are three circumstances where the five-year loss restriction is relaxed:

1. The farming trade forms part of, or is ancillary to, a larger trading undertaking.
2. The first year of loss was the year of business commencement. In these cases, the tax year of commencement will be ignored in consideration of the five-year period (effectively providing for a six-year period where sideways loss relief may be claimed).
3. The trading activities met the reasonable expectation of profit test.

The third circumstance above will only be met if the following conditions are met:

1. It is reasonable that a hypothetical competent farmer would expect future profits from the trade; and
2. A hypothetical competent farmer, if carrying on the trade at the beginning of the loss-making period, could not reasonably have expected the farming activities to become profitable until after the end of the current tax year (i.e. the tax year of the latest loss).

These conditions mean that a farmer will need to have anticipated the extended period of loss from the outset. Once the period of loss has started, delays in making a taxable profit for any reason not anticipated at the start of the period of loss will not be accepted by HMRC, and a claim for sideways loss relief will be denied.

HMRC regularly enquire into extended sideways loss relief claims; therefore, if a farmer is anticipating an upcoming period of loss to extend beyond five years, it is imperative that they have evidence and document this before the start of the first loss making tax year.

Evidence and documents which would be useful include, cash flow projections and budget covering the entire period of expected losses and by seeking professional advice within the sector. Evidence supporting a claim should be in writing, and clearly show the timeline being before the commencement of the loss period.

If you are anticipating a possible extended loss-making period within your farming trade, keeping detailed records, and preparing upfront projections over a period of, say 10 years could enable the tax efficient use of your losses on an annual basis.

Understanding HMRC rules on beater's wages and casual workers

In rural and agricultural settings, particularly during harvest and shooting seasons, casual labour is often employed. This includes harvest casuals and shoot beaters. While these roles are often informal, HMRC has clear guidelines on how such workers should be paid and reported. Below, we explore the various rules and regulations ahead of the 2025/2026 shooting season.

Casual workers are typically employed on a short-term basis, often for a day or a few weeks, without a formal contract. Beaters' roles are seasonal and often sporadic, but they still fall under HMRC's employment and tax regulations.

PAYE and tax deductions

HMRC allows some flexibility for employers of casual workers as set out below:

No PAYE is required if:

- They are taken on for one day or less; and
 - They are paid off at the end of the period and have no contract for further employment.
- or
- The worker is employed for two weeks or less during the tax year; and
 - They have not worked for the employer since 6 April of the current tax year.

However, even if PAYE is not operated, the income is still taxable, and workers are responsible for declaring it.

If the casual work exceeds 14 days in total in any tax year, PAYE must be operated, and tax and National Insurance (NICs) must be deducted as normal.

National Insurance Contributions (NICs)

NICs must be deducted when earnings exceed the Primary Threshold (£242/week) for employees or the Secondary Threshold (£96/week) for employers.

If earnings are below the Lower Earnings Limit (£125/week), NICs are not due, but records must still be kept.

Minimum wage compliance

Even for casual arrangements, employers must ensure that payments meet the National Minimum Wage (NMW) or National Living Wage (NLW):

- NMW applies to workers under 20.
- NLW applies to workers aged 21 and over.

Benefits such as lunch, or a brace of pheasants do not count as wages and cannot be used to offset the legal pay requirement.

Real time information reporting (RTI)

Employers must report payments to HMRC using the Full Payment Submission (FPS) system:

- Payments must be reported on or before payday, or within seven days if paid based on daily work.
- Use late reporting reason code F when reporting after payday.

Each FPS must include:

- Start and end dates.
- Worker's details (name, DOB, NI number, etc).
- Tax code (usually NT for no tax deducted).

Record keeping

Employers must keep detailed records for at least three years, including:

- | | |
|-------------|-----------------------------|
| ■ Full name | ■ Date of birth |
| ■ Gender | ■ National Insurance number |
| ■ Address | ■ Amount paid |

This ensures compliance and allows HMRC to verify tax obligations.

Casual vs. self-employed status

Some beaters may consider themselves volunteers or hobbyists, but HMRC may still classify them as workers. To be considered self-employed, individuals must actively market their services and work for multiple clients.

Conclusion

While employing casual workers like beaters may seem informal, HMRC requires careful compliance with tax, NICs, and wage laws. Shoots and farms must ensure proper documentation, fair pay, and timely reporting to avoid penalties. Understanding these rules helps maintain legal and ethical employment practices in seasonal rural work.

If you require advice regarding wages or PAYE, please get in touch.

Company account changes

For limited companies applying Financial Reporting Standard (FRS) 102, several key changes will take effect for accounting periods beginning on or after 1 January 2026.

Lease accounting:

An operating lease is one where the risks and rewards of ownership remain with the lessor (e.g. the landlord). This typically includes leases for land, buildings, equipment, and vehicles.

Under the revised rules, companies must now recognise these leased assets on the balance sheet as 'right-of-use' assets, with a corresponding lease liability, unless the lease is for a low-value item, or has a term of less than 12 months. The asset will be depreciated over the lease term, and an associated finance cost will be recognised annually in the profit and loss account.

Impact for companies

- Greater transparency: Lease commitments for land, buildings and equipment will now be visible on the balance sheet.
- EBITDA increase: Lease costs are no longer deducted from earnings before interest, tax, depreciation and amortisation (EBITDA). Instead, they are split into depreciation and finance costs, which may affect loan covenants, though lenders are expected to adjust for the new treatment.
- Lease liabilities disclosed: Lease obligations will be shown as liabilities, providing clearer insight into financial commitments, important for borrowing assessments.
- Improved cash flow clarity: Lease payments will be split between finance costs and depreciation, offering a more transparent view of cash flow.

Revenue recognition:

FRS 102 is aligning with International Financial Reporting Standard (IFRS) 15, introducing a five-step model for recognising revenue from contracts with customers.

For most farming businesses selling products such as grain, cattle, or milk, revenue will continue to be recognised at the point of dispatch, meaning the new model will have minimal impact.

However, the changes will affect seasonal supply agreements, which will need to be reviewed on a case-by-case basis to determine whether revenue should be recognised at a different point.

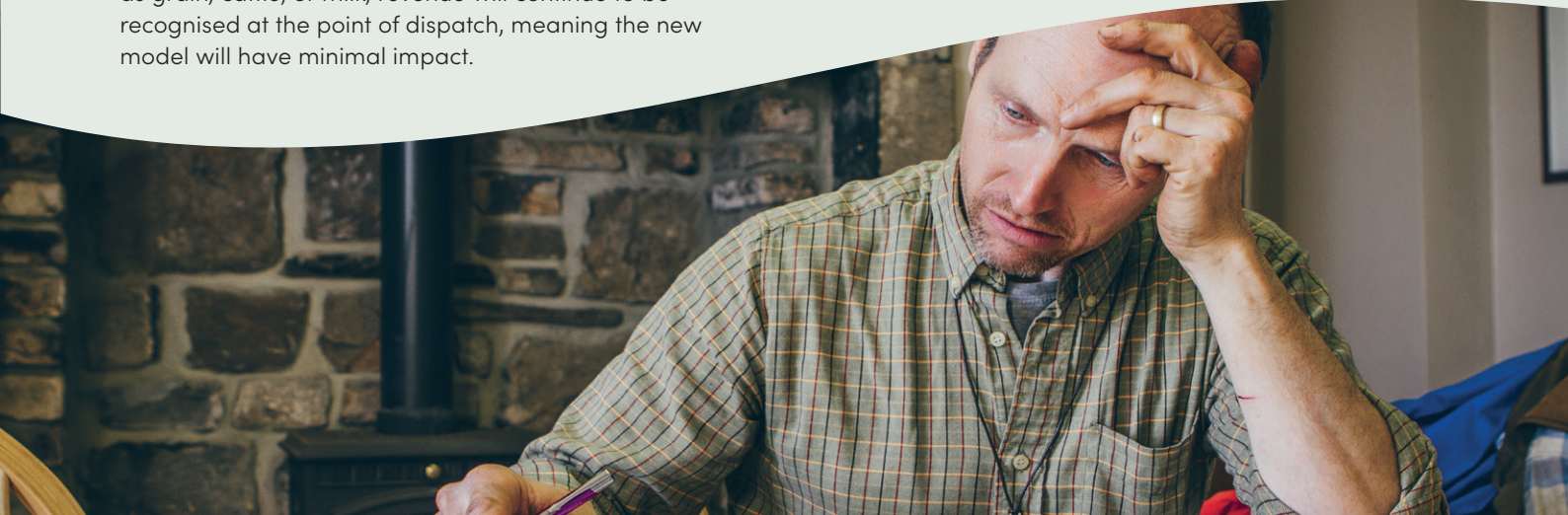
What you should do now

- Review lease agreements: identify which leases will need to be brought onto the balance sheet.
- Review the terms and contracts under which you sell your goods and services, to identify those with complex pricing or delivery terms.
- Consider additional disclosures that will now be required in your financial statements and possible implications for those who use your financial statements (e.g. providers of finance, suppliers and customers). Especially if you are a small entity preparing financial statements in accordance with FRS 102 Section 1A.
- Consider any implications for changes to reported profits and losses and amounts included on the balance sheet on existing borrowing covenants and when negotiating financing terms in the future.

Disclosure of profit and loss account

From 1 April 2027, small companies will be required to file both their profit and loss account and directors' report with Companies House. These changes follow the enactment of the Economic Crime and Corporate Transparency Act, which became law in October 2023. The legislation aims to improve transparency for entities registered at Companies House.

Many stakeholders, including suppliers, customers, and employees, are likely to take a keen interest in the key operating metrics disclosed in small companies' profit and loss accounts, such as turnover, gross profit, and profit before tax.



Identity Verification for Directors and PSCs

Important new legal requirement for companies

From 18 November 2025, the UK government will introduce mandatory identity verification for all new company directors and persons with significant control (PSCs), as part of the Economic Crime and Corporate Transparency Act 2023 (ECCTA). This change affects all UK companies, including those managing farms, estates, and rural enterprises.

Existing directors and PSCs will have until their company's next confirmation statement date, falling between November 2025 and November 2026, to complete the verification process.

Who will need to verify?

For rural companies, this means every individual listed as a director or PSC, whether a landowner, trustee, family member, or professional adviser will need to verify their identity.

All members of Limited Liability Partnerships (LLPs) are also required to verify their identity.

How to verify

The verification can be done in three ways:

1. With GOV.UK ID Check app
2. By answering security questions online
3. At a Post Office that offers 'in branch verification'

Regardless of the method, a personal email address is required. Farms and estates often use shared family or office emails, but these will not be accepted, everyone must have a unique email address.

If you have access to a working camera, we recommend using the online service for convenience.

Receiving your Companies House personal code

Once verified, you will receive a unique 11-character personal code from Companies House. This code is essential for all future filings and must be kept safe.

You will only need to verify your identity once, even if you are a director or PSC for multiple companies.

Are there consequences of non-compliance?

The consequences on non-compliance are as follows:

- Financial penalties.
- Prevention of filings and appointments at Companies House, including accounts and confirmation statements.
- Inability to register new companies and appoint directors and PSCs
- Potential legal action

What can you do now?

The deadline for compliance is dependent on the filing of your next confirmation statements, however we strongly encourage early verification when you have the time to do so, as potentially delaying until spring or summer, when workloads increase, may lead to additional stress and delays.

Once you have completed the verification process, please send your unique 11-character personal code to your normal Hazlewoods contact.

Meet the team: Matt Davies, Tax Manager

Tell us a bit about your career so far

My journey into accountancy is maybe slightly different to most people. I originally studied for a PhD in mathematics after finishing my degree, but never fell in love with it, or the life of an academic. A chance conversation with an old school friend who had joined Hazlewoods the previous year led me to an interview to join the Farms and Estates Tax team, and I've never looked back. I joined as a graduate in 2019 and completed my ACA qualifications in 2022.

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

Tax, be that income tax, capital gains tax or inheritance tax, is always on our clients' minds.

Following the changes announced in the October 2024 budget, many of our clients, both farmers and business owners, are understandably nervous about the future, which is very different from what they had been planning prior to the announcements. The draft legislation, which is covered in this issue, largely backs up the initial announcements by the government, giving little comfort.

Detailed estate planning, looking at both the impact now, in particular on income, and in the future, looking more at the

inheritance tax perspective, has therefore become incredibly important for a large number of our clients, and has become the centre of a lot of our work since late last year.

Why Hazlewoods?

Although I grew up in a small Gloucestershire town, I do not have an agricultural background. However, the Farms and Estates team at Hazlewoods is full of people who have extensive industry knowledge and are part of the tight knit agricultural community, which has given me a great insight into the inner workings of our farming businesses.

Our team is incredibly supportive and is ever evolving to meet the needs of our clients. It is great to be part of a team which has a great reputation in the sector, as this leads to some very interesting work and clients, and our clients are very much at the core of everything we do.

I really enjoy being able to build personal relationships with clients, getting to know about their goals, personal lives and their families, as these are one of the main drivers of any work we undertake.



Your key contacts



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