

Agriculture News



Regular News from our
Specialist Agriculture Team

Winter 2024



Part of the **SUMER**  Group

Welcome to winter

This time of year provides an opportunity to reflect on the year just passed and to take stock and plan for the year to come.

The favourable autumn weather has allowed autumn sown crops to get well established (in Scotland at least), base rates have started to ease back, and livestock prices have remained buoyant, providing some grounds for optimism.

The shine was somewhat taken off this with Rachel Reeves first budget when she announced adverse changes to Inheritance Tax (IHT), Capital Gains Tax (CGT) and National Insurance Contributions (NIC), and we explore the impact of these changes in more detail in this bulletin.

We would like to thank all our clients for their continued support in 2024 and look forward to providing them with relevant and timely advice in 2025.

Inheritance Tax Changes

The belief that agricultural and business assets would always be sheltered from Inheritance Tax (IHT) was shattered when Rachel Reeves announced significant changes to APR and BPR in her first budget on 30 October 2024.

The changes have received widespread news coverage in both the farming and mainstream media, helped no doubt by celebrity “farmers” such as Jeremy Clarkson.

A summary of the proposed changes are set out below:-

- **There will be a combined £1m tax free allowance covering agricultural and business assets. Unused allowances are non-transferrable between spouses.**
- **20% IHT on any farming assets above this threshold.**

- **Changes take effect from April 2026 but the new rules will apply to any gifts made after the date of the budget during the seven year run off period.**
- **Any deaths prior to April 2026 will be under the old rules.**
- **Gifts made prior to the budget will be under the old rules, so no Inheritance Tax (IHT) due if the donee dies within seven years and the gift is still agricultural or business property at date of death.**
- **Still possible to gift assets in lifetime free of Capital Gains Tax (CGT) as holdover relief remains available.**

The final detail on the changes is expected to be announced early in the new year and at this stage it appears it is unlikely that there will be any significant concessions.

The most impacted group by the changes are the frail and elderly who still hold significant agricultural and business assets.

We will obviously be reviewing the position for all our farming clients over coming months. In very general terms our current thoughts on planning around these changes are as follows:-

Take time to assess the changes and revisit the legislation once finalised. Reflect and take professional advice before making major changes. Don't make decisions that you may later regret.

Consider which assets can be gifted now.

Review your will and, if relevant, your partnership agreement to ensure that they are still appropriate considering the changes.

Where gifts are being made care will need to be taken to avoid the gifts with reservation of benefit rule (GROB), i.e. if you continue to enjoy benefits of owning an asset after you have gifted it then it is not a gift in the eyes of HMRC. So, for example in a partnership, if you have gifted the ownership of the farm then you will need to take a lower share of partnership profits to avoid being caught by GROB. Having an alternative source of income to draw down on such as a pension fund will therefore be more important in future if you want to gift assets to the next generation at a relatively young age.

With careful planning the impact of the changes can hopefully be largely avoided. There will of course be hard cases where, due to circumstances, people are badly caught out. Perhaps the biggest impact may well not be financial but the impact on morale from the uncertainty caused by the fact that you may not be able to pass on the farm to the next generation, something deeply ingrained in the psyche of the farming community.

Perhaps you just need to hang on in there for a few years and hope that come the next general election there is sufficient political support to reverse the proposed changes. However it would be unwise to rely on this happening so all farmers would now be well advised to review their IHT exposure and plan accordingly.

Capital Gains Tax budget changes

In contrast to the changes to Inheritance Tax (IHT), the changes announced to Capital Gains Tax (CGT) in the budget have received very little press coverage.

The main change to CGT was that the main rates are now aligned with those for residential property at 18% and 24%, with the lower rate applicable where gains plus income in any tax year are below £50,270, with the higher rate applying to all other gains above this level.

While any increase to CGT rates is undesirable the increase was lower than had been trailed pre budget, perhaps reflecting a canny exercise in expectations management.

The rate applicable for disposals that qualify for Business Asset Disposal Relief (BADR) is also changing. **The tax rate remains at 10% for the remainder of 2024/25 tax year but will then increase to 14% and 18% for 2025/26 and 2026/27 tax years respectively. Relief remains restricted to £1m of lifetime gains.**

There is therefore a slight incentive for those looking to make a qualifying disposal to bring forward any sale, but the tax saving needs to be balanced out with the potentially higher value that could be achieved from a later sale if asset values were to rise. Once the changes are fully phased in the maximum benefit available per individual will be £60k (£1m @ 6% tax differential).

The CGT changes apply with immediate effect.

As always, if you are contemplating a disposal speak to us well in advance. CGT rates have increased but there are still planning opportunities that could save you a significant amount of tax.





Major Changes in Property Investment in Scotland

The 2024 Scottish Budget introduces significant changes impacting property investment, including a higher Additional Dwelling Supplement (ADS) and renewed funding for affordable housing.

The ADS, applied to purchases of additional residential properties over £40,000, will increase from 6% to 8% starting December 5, 2024. While the measure aims to ease competition for first-time buyers, it may place added financial pressure on landlords, potentially leading

to higher rents and reduced affordability in the private rental market.

The Budget allocates £768 million to deliver 8,000+ affordable homes across various categories, reversing last year's £200 million funding cut. This investment aims to address Scotland's housing crisis, including reducing reliance on temporary accommodations and combating child homelessness.

These changes reflect a dual focus on regulating the property market and expanding affordable housing. Landlords and investors should reassess strategies as the ADS hike and ongoing regulations may influence profitability and market dynamics.

Scotland's housing landscape is poised for transformation, with the long-term impact depending on how effectively the government implements its policies.



Top predictions for 2025



It's that time of year again when we dust off our crystal ball and try to make (often badly) predictions for the year ahead.

As always, our predictions are slightly tongue in cheek, slightly provocative and looking to challenge consensus thinking where possible. The predictions could also take more than a year to play out.

We could well be proved wrong but if all we do is to stimulate debate and thinking then we'll take that as a win. Here goes...

1 The US economy takes off like a SpaceX rocket leaving the UK and EU in its wake. With Trump more likely to promote policies designed to deliver cheap energy on the back of fossil fuels ("drill baby drill"), lower taxes and less regulation the US is set to boom. No surprise there you might say but the real issue is that we now have a control group that is prepared to challenge the current western liberal consensus. If Trump succeeds, then politicians on this side of the Atlantic will soon have to face some very awkward questions from their own electorate.

2 We are at or near peak crypto. With Bitcoin topping \$100,000 the crypto market has all the hallmarks of a late-stage bubble, with fevered casino style speculation and valuations based on little more than the belief that prices can only go up and that there will always be someone there to buy your crypto assets at a higher price than you paid, otherwise known as the "greater fool theory". Again, no great insight here, however savvy investors should use the opportunity to find pockets of value in overlooked areas of the market while the bitcoin bubble continues to inflate.

3 Ukraine – an end in sight? We made a prediction last year that the war in Ukraine would evolve into a frozen conflict. This appears to be about to come true with Ukraine ceding territory to Russia in exchange for peace/western security guarantees. This could have positive and negative impacts. If Russia is rehabilitated into the world economy, then we could see cheaper inputs (think fertiliser and gas). On the other hand, both countries could ramp up their agricultural exports, putting downward pressure on commodity markets.

4 No drop in land values following the recent Inheritance Tax (IHT) changes. What matters is the RELATIVE attractiveness of an asset class relative to the alternative. A £1m allowance plus 20% tax on the excess, although bad, is still a lot more attractive compared to the alternative – 40% IHT on everything. Farmland therefore remains an attractive investment for those seeking to shelter assets from IHT.

5 Expect some form of Eurozone financial crisis. With the EU's largest countries facing political turmoil and with the German economy having a nervous breakdown with the shift to electric vehicles expect to see financial pressures building. They can only paper over the cracks for so long.

6 Food security comes back into fashion. Ok, maybe not in the next 12 months given the calibre of our political elites, but soon. With the UK's population rapidly increasing through net migration we are increasingly vulnerable to any disruption to our global food supply chain. Initiatives such as rewilding will become viewed as a "luxury belief", i.e. a belief that confers status on the holder but harms society as a whole, especially the poorer members. We may also look back in a few years' time and wonder what we were thinking when we covered thousands of acres of prime arable land in solar panels.

It's difficult to make predictions especially when they are about the future. No doubt 2025 will contain a few surprises. Let's hope most are pleasant.

Are Trusts the Answer to the Agricultural Property Relief (APR) Restrictions?

Since the Budget, many have muted that they feel trusts may be the answer to the Inheritance Tax (IHT) relief restrictions. Trusts are a fantastic tool for succession in the right circumstance however there are downsides too.

In the simplest of terms, the pros and cons of Discretionary trusts are detailed below.

Pros

- Upmost asset protection, assets can be settled into trust and control maintained by acting as a trustee. Beneficiaries can be far reaching to ensure all included.
- Assets out with personal estate and therefore not chargeable to IHT on death, assuming life for 7 years.
- Assets which qualify for Agricultural Property Relief (APR) and Business Property Relief) BPR can be added to trust without incurring Capital Gains Tax (CGT).
- Up to April 2026, APR qualifying assets can be added to trust without incurring lifetime IHT. After that date, assets over £1m will incur a charge.

£1m will of course be subjected to the charge annually. This is a complex calculation but broadly speaking 6% of the value of the trust less £325,000.

- The person who introduces the assets to trust (settlor) cannot benefit from the assets in anyway post transfer.
- Borrowing is difficult to obtain within trusts, some banks will not deal with trusts.
- Trust administration can be cumbersome and costly.
- Annual trust income tax is higher than other rates of tax, this can be claimed back in the future BUT beneficiaries need to be within the basic rate to make a tax savings.

Cons

- Every 10 year there are taxable charges, called 10-year anniversaries, meaning lifetime IHT is payable, previously this wasn't an issue for trusts holding APR/BPR qualifying assets, now anything over

The added uncertainty brought about by the chancellor stating that trusts will have a consultation in the Spring and whether a 'new' tax regime may be applied, urges us to advice clients to tread carefully and seek advice in every case.

Please contact us to discuss trust creation, wind up, and continuation.

When is New Kit a Good Idea?

As the price of machinery continues to soar, the return on the capital employed within the assets begin to become more and more relevant.

Not only should the asset provide a return in its value itself, but it also potentially now has to offer a return on the interest paid on the finance of the asset.

For Example,

A new round baler which costs £40K and is used once a year to bale 1000 bales of Hay for cattle to eat in Winter.

The considerations we should take into account:

- **A contractor could bale the Hay for £4 per bale, this would mean a cost of £4,000 a year.**
 - This means no cost of bale netting.
 - No Labour required
 - No upkeep of the baler, or wear and tear on the tractor
- **The purchase of a baler at £40K**
 - Does the baler need financed? And if so, how much is the interest annually?
 - Could the £40K be put to good use in other areas of the business?
 - The £40K in the bank could earn interest at 4% of £1,600



- The annual upkeep of the baler and effect on the tractor need to be considered
- Can we use the baler to generate more income, i.e. contract to other farmers? Is their time to do this?
- Can the old baler be maintained with a lower annual cost?

We appreciate this is a blunt instrument and there are far more considerations, other than the financial impacts detailed above, but the aim of this article to trigger a thought process.

The elephant on the page being could we use the money on different areas of the same business that will generate a higher return on the capital employed?

A difficult thought process for many and one that has contributed to the decline in suckler beef herds over the recent years. Unfortunately, price rises in machinery and infrastructure meaning modern cattle sheds to house animals, increased slurry storage requirements and a sharp rise in tractor and machinery replacement costs, results in the margin reducing and the investment into the industry not offering the adequate returns.

Taking time to really understand your business and the costs it experiences versus the income it can enjoy is essential now more than ever, careful investment within the most profitable enterprise could be the difference between a profitable year and a bad one.

Important Tax Changes for Double Cab Pick-Ups



From 6th April 2025, double cab pick-ups will be reclassified as cars for capital allowances and Benefit-in-Kind (BIK) purposes. This change will significantly impact tax treatment for businesses and employees using these vehicles.

Key Changes Effective April 2025

- **New Classification:** Double cab pick-ups will be treated as cars for tax purposes.
- **Grandfathering Provisions:** Vehicles acquired before April 2025 retain the current tax treatment until the earlier of disposal, lease expiry, or 5th April 2029.

Impact on Taxable Benefits

Currently, no taxable benefit arises for insignificant private use of double cab pick-ups. From April 2025, private use will result in a taxable benefit, potentially reaching 39% of the vehicle's list price by 2029/30.

Increased Tax Liabilities

- **Employees/Directors:** Taxable benefits will be added to income and taxed at the individual's marginal rate.

- **Employers:** Class 1A National Insurance will apply at 15% of the benefit value, with additional costs for private fuel provisions.

VAT Treatment Unchanged

VAT rules remain unaffected. Vehicles with a payload of 1 tonne or more will still qualify as goods vehicles, allowing VAT reclamation under current rules.

Plan Ahead

Purchasing a double cab pick-up before April 2025 allows businesses to maintain the current tax treatment. For tailored advice, contact our team to navigate these changes effectively.

Pre year-end tax planning



Over the next few months, we look to ensure that our clients are making the best use of all the available tax reliefs prior to the tax year end on 5 April.

Key areas to review are as follows: -

- If you trade as a company, consider whether you can make use of the £500 dividend allowance per shareholder to extract profits tax free from your company.
- Pension contributions are still very attractive, especially if you have exposure to higher rates of Income Tax, where the tax relief on offer is potentially in excess of 40%. The annual pension allowance currently stands at £60,000.
- If you can, make use of your £20k ISA savings allowance to shelter future investment returns from income and Capital Gains Tax (CGT).
- Company directors may wish to pay themselves a salary to make sure they have enough income to utilise their tax-free personal allowance of £12,570, while enabling their company to claim a corporation tax deduction on the cost.

These are just some of the areas to consider and those with more complex tax affairs are likely to benefit from a more detailed review.

June Census

October saw the publication of the results from the Scottish Agricultural Census: June 2024.

A few of the main highlights: -

- 1. Cattle numbers continue to decline, following a long-term trend. Numbers now stand at 1.67m head with a 2.7% decrease in 2024 compared to the last 5 years average.**
- 2. Sheep numbers fell by 3.8% in 2024 to 6.47m head compared with the five-year average.**
- 3. The overall area of land used for growing cereals decreased by 0.8% compared with the five-year average, with a decrease in winter planting being partially offset by an increase in planting of spring barley.**
- 4. The area of vegetables for human consumption, excluding potatoes, grew by 5.3% compared to the five-year average, with 22,600 hectares planted in 2024. The area of potatoes increased by 4.1% compared to the five-year average, with 27,700 hectares planted in 2024.**
- 5. The total workforce on agricultural holdings remained stable, increasing by 0.5% cent to 67,400 people in 2024 compared to the five-year average.**

Follow the link for full details -

<https://www.gov.scot/news/agricultural-census-statistics-june-2024/>

RISE IN EMPLOYERS NIC

The UK Autumn budget 2024's announcement of an increase in the Employers' National Insurance Contributions (NICs) rate from 13.8% to 15% is expected to have a significant impact on the agricultural sector.

The rise, coming in from 6 April 2025, together with a reduction in the secondary threshold for NICs to £5,000 per year, will increase labour costs for farms and all associated processing and packing businesses that rely heavily on seasonal and low-wage workers.

The increase in the Employment Allowance from £5,000 to £10,500 offers some relief, especially for smaller farming operations. However, larger farms with higher employment needs may still face substantial cost burdens.

Speak to your EQ contact to discuss the impact of the employer's NI increases on your business and possible steps to mitigate the increases.

Tax Payments on Account

The end of January sees the next instalment of personal tax payments becoming due. But have you talked to your accountant about the amount payable and if that can be reduced?

Typically, January payments are a mix of a balancing payment for the previous year's tax as well as a contribution towards the next tax year.

If you feel that due to poorer trading results or even a planned spending spree on new machinery, your overall profits will be reduced, then this could lead to a welcome



reduction in tax. Why not take advantage of this now?

Please speak to your advisor before you pay more than you need to at the end of January.

Building the Future

Our success stems from our people. We are more than just a workplace; we are a community where every individual is supported, valued, and empowered to thrive. That belief is at the heart of everything we do, and it's why we are thrilled to announce our plans to expand our recruitment efforts for 2025.

This year, we welcomed 61 talented colleagues into the EQ family. Their enthusiasm, fresh perspectives, and ambition have not only enriched our team but also reinforced our ethos of "With You." This ethos reflects our unwavering commitment to fostering environments where our people—and, in turn, our clients—can flourish.

Why Choose EQ?

When you join EQ, you're stepping into more than just a role—you're joining a supportive community that's dedicated to your success.

Invest in Your Future

As we look toward 2025, we're excited to continue investing in the next generation of talent. Whether you (or a family member) are about to finish school, in the middle of your studies, or newly graduated, there's a place for you at EQ.

Interested in joining us (or know someone else who might be)? Keep an eye on our careers page for upcoming opportunities in 2025. Let's shape the future—together.



Stock valuation for vineyards: a guide to understanding the true cost of your wine

Sarah Fitzgerald
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For vineyard owners, understanding the true cost of producing a bottle of wine is crucial to making informed business decisions. While the answer might seem straightforward, it's often more complicated than it appears. After all, you're well aware of the costs you incur throughout the year, from maintaining your vineyard to harvesting the grapes. However, factors like unpredictable weather can wreak havoc on your crop yield, affecting the number of bottles produced despite your best efforts. So, how do you accurately assess the costs and value of your wine stock?

What costs should you include?

If you have your wine made by a contract winemaker, tracking costs may be more transparent. With invoices detailing the transformation from grapes to bottles, you can usually see where your money is going. However, there are other important costs that often go unnoticed.

For example, do you factor in storage costs? If your wine is made by a third-party winemaker, they might charge storage fees, and you'll need to decide whether to include these costs in your stock valuation. Additionally, some vineyards enter into barter arrangements, where grapes are exchanged for winemaking services or a reduced cost. How do you assign a fair value to the wine returned to you under such agreements?

You'll also need to differentiate between the ongoing costs of maintaining your vineyard and those directly tied to the harvest. Some expenses, such as pruning

or vine care, apply to the entire vineyard, while others are specifically related to each year's crop. In some cases, splitting costs between the two can be a bit tricky.

How to monitor aging stock

As your wine matures, it may exist in different stages of production, each with a unique valuation. Depending on your year-end, you could have everything from juice in tank to bottles aging, or wine ready for sale, with varying degrees of associated costs. Some wines may be stored inside or outside a bonded warehouse, and the tax treatment (i.e., whether duty has been paid) can impact how they're valued.

This variation in stock requires that you accurately track and update valuations based on the wine's stage of production. The stock value shouldn't fluctuate year over year unless there are additional costs – such as storage fees – that affect the valuation. For example, the value of your 2019 vintage should remain the same

unless you've accounted for storage or other relevant costs.

The value of information

As you sell your wine, it moves from inventory to profit, so keeping track of stock by vintage and style is vital. By cross-referencing this information with your sales records, you can ensure your stock counts match your sales allocations and avoid discrepancies when closing out your financial year.

Accurately tracking stock valuation is essential for understanding your business's profitability. A clear and accurate stock valuation also empowers you to set appropriate pricing strategies, which can relieve some of the pressure that comes with managing a winery or vineyard.

How does stock valuation impact your tax?

Accurate stock valuation is crucial when it comes to managing your tax obligations. If you are looking to offset losses from your vineyard business against other income, overestimating the value of your stock could lead to inflated profits and higher taxes. Conversely, undervaluing your stock might reduce your reported profits, potentially limiting your ability to claim future losses that could offset other income and lower your tax burden. Striking the right balance is essential, particularly in the wine industry, where crop yields can vary significantly from year to year. By ensuring your stock is accurately valued, you can make more strategic decisions that not only reflect the true performance of your business but also help you optimise your tax position.

How Carpenter Box can help

At Carpenter Box, we specialise in working with vineyards and wineries to help you understand your costs and the value of your stock. Our experience and expertise

in the wine industry will guide you through the complexities of apportioning costs, including those that relate to ongoing vineyard maintenance and harvest-specific expenses. We also help you navigate the financial impact of your decisions, ensuring you have a solid understanding of the financial health of your business.

Additionally, we can assist you in implementing accounting software that will help you monitor your costs in real-time, providing you with up-to-date management information to track your business's performance.

To learn more about how we can assist with your vineyard's stock valuation and financial decision-making, reach out to a member of Carpenter Box's vineyard team on 01903 234094.

Sarah qualified as a Chartered Accountant in a medium sized firm and has over 25 years of experience in both practice and industry. Before joining Carpenter Box in October 2018, she ran her own accountancy practice in West Sussex. She is passionate about helping her clients grow their business.

Sarah is a partner in the Business Services Group advising owner managed businesses from new start-ups to established family businesses. She specialises in the vineyard sector, advising in business development and strategic planning alongside providing professional tax and accounting support. She understands the pressures small business owners face on a day to day basis and advises on cash-flow management and pricing.



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We are always happy to offer free, no obligation, initial consultations, and often act on a consultancy basis only.

For more information on any of the services outlined in this bulletin, or to discuss a particular issue with one of our advisers, please contact our Agriculture specialists.

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