



**EVOLUTION**

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Chartered Certified Accountants

Summer 2023

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# THE INSIDE TRACK

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**AI and big data  
in agriculture**

**Inheritance Tax planning  
in a changing world**

**Business structures  
for agricultural success**





## Welcome to our Summer Newsletter

Spring may be a bit slow but hopefully summer is on the way!

We have all been through a period of unprecedented challenge and change and it has left us all thinking about the future changes to come. Many are considering enterprise change as markets develop and commodity prices move. Some are thinking carefully about succession and keeping family and staff engaged where businesses are heavily reliant on well trained staff in a period of general shortages of labour.

We have tried to cover some of the planning areas that are relevant to you all when you are considering how your businesses develop and the management and ownership changes over time.

Our aim is to help you think through your planning and if we can help further please let us know.

Margaret

# BASIS PERIOD REFORM AND CHANGES TO THE TAX SYSTEM



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The Government announced in the Autumn Budget 2021 that basis periods would be abolished from 6 April 2024 and replaced with the tax year basis of assessment to aid and facilitate the implementation of Making Tax Digital for Income Tax. The reform seeks to align accounting and tax years to simplify the taxation of trading profits. Despite the recent announcement from HMRC that they will be delaying the proposed changes for Making Tax Digital, the basis period reform has had no such postponement and will be introduced as planned.

### How will this affect me and my business?

Traders with accounting periods that are already aligned with the tax year will generally not be affected by the upcoming changes. Where a business' current year end is not either 31 March or 5 April the way in which the tax is calculated will be changing. The new rules dictate that from 6 April 2024 all unincorporated businesses will be taxed on the profits generated between the start and the end of the tax year (6 April to 5 April). This will apply regardless of the year end that the business prepares its accounts to.

Where a business maintains a year end that does not run in line with the tax year, time apportionments from two separate accounting periods will be required each year in order to populate the figures on the tax return.

### The transitional year

HMRC recognises that this will create significant disturbance when applied in real time and have provided a transitional year 2023/2024. Individuals will be taxed on a long period of account ending 5 April 2024 which will capture all untaxed profits up to this date.

When changing onto the tax year basis in the transitional year, relief will be provided for any overlap profits held (profits taxed twice on the commencement of trading).

For some individuals there may be anywhere from 12 months – 23 months being taxed in the transitional year depending on the accounting year end which is likely to bring an increase in the personal tax liabilities with the extended period. Those with a 30 April year end will be impacted most where profits will be assessed from 1 May 2022 through to 5 April 2024.

There are rules that allow the payment of any tax liability generated from transitional period profits to be spread over five tax years, beginning with the year of transition to help cashflow.

### Example in Practice

Mr Smith prepares his annual accounts to 31 December each year and his profits are as follows: -

- Year to 31 December 2023: £40,000
- Year to 31 December 2024: £75,000
- Overlap profits brought forward: £4,000

When looking at the tax year 5 April 2024 Mr Smith must be taxed on his annual profits for the standard year as usual to 31 December of £40,000. He will also be required to report transitional profits to the 5 April 2024 which will be calculated as follows: -

Profits from 1 January to 5 April 2024 (75,000 x 96/366 days)	19,672
Less overlap relief	(4,000)
<b>Transition profits</b>	<b>15,672</b>

Mr Smith can spread the transitional profits of £15,672 over 5 years.

An added complexity to the scenario above is the Tax return filing deadline will remain 31 January 2025. There will not be sufficient time for the 31 December 2024 information to be pulled together and the accounts completed. Therefore, estimated profits for the period 6 April – 31 December 2024 will be reported on the Tax return to be updated when the accounts have been finalised.

### Should I change my year end to align with the tax year?

It would appear sensible to consider a change of year end to 31 March/5 April unless there is a significant commercial reason not to do so.

The advantage of a 31 March year end date is that it provides the greatest length of time (10 months) between the year end date and the filing deadline which will remain the 31 January. It will also make for more straightforward filings with the avoidance of having to apportion profits between two separate accounting periods or using estimates as mentioned above which will likely come with extra administration responsibilities and increased professional fees.

Businesses will need to think carefully about their year end and whether a change makes commercial and financial sense. There will be some personal income tax implications which should be explored with their trusted advisor.

# A VIEW FROM THE FIELD



**Chris Berry**  
Sheep and Beef Farmer  
Higher Thornton Farm, Devon

Chris Berry lives at Higher Thornton Farm with wife Sarah and their 2 sons George and Henry. He farms in partnership alongside his parents Michael and Michele managing 450 acres. 830 breeding ewes and 60 suckler beef cows make up the farming enterprises. In the last 5 years they have implemented a number of changes in their business to improve their resilience to extreme weather events and reduce their reliance on purchased fertiliser and feed. This has enabled them to increase profit whilst improving lifestyle and enhancing their environment, an achievement which was recognised by Chris winning Devon Farmer of the Year 2022.

What does the future hold for farming? Increasingly I find myself turning to the past for answers.

The ultimate answer is, as they say, 'as old as dirt' and the fact our entire existence is down to the top 6 inches of soil beneath our feet and the fact that it occasionally rains (too much when we don't want it and not enough when we do). My opinion would be that a successful and sustainable farming future has to be one that prioritises that, our greatest asset - soil.

It appears to me, more often than not, that in an attempt to push on to produce and achieve more I am fighting an uphill battle against nature. Am I any better off for it? There are good examples when the

answer has sometimes been yes, visibly yes on a yearly profit and loss sheet at least, and we will gladly take the little wins when we get them. However, I consider too much of the profit OR loss is down to factors out of our control - the prices we receive for our produce and the prices we pay for the inputs that go into producing them, that's before I have even considered what impact those inputs have on the greater health/wealth of our farming businesses and even more importantly our own health.

Over the past few years I've tried to focus much more on things I do have control over. Our biggest input arguably is our time and how we choose to use it. I want a system that I enjoy, one that gives me time for family and friends and time to monitor the farms overall performance.

During my time in Devon Young Farmers I was lucky enough to gain a scholarship to travel to New Zealand to study parasite control in sheep - an exciting subject I know! It was a great opportunity to work on some great farms in incredible surroundings. It gave me a different perspective on livestock enterprises. With farming subsidies removed, their livestock systems had to be efficient and work harder for them rather than work harder for it. With a similar prospect over here I felt there was a lot I could take from their past experiences and adopt here to ensure we could be less reliant on government support and introduce more resilience into our business.

With all of this in mind, I've set about creating a more forage based system introducing sheep and beef genetics to suit using NZ Highlander rams and Aberdeen Angus bulls to breed up from our existing

livestock. Calving and lambing dates match as best as we can to the natural grass growth curve of our farm so they can calve and lamb outside and milk well off forage.

The skill/knowledge set I was missing was how to make best use of the forage or the lack of a very summer dry farm looking to finish stock without the use of concentrate feed. As with changing anything you always come across new challenges and questions that need answering, most of those answers for me came from joining the Precision Grazing discussion group and hiring its founder and director, James Daniel as a consultant.

The discussion group gets like minded farmers together sharing their experiences and learning from one another's mistakes, knowledge transfer in groups like these are invaluable and very underutilised in our industry, as is working with specialist consultants such as Precision Grazing. It cost me money but I saw it as an opportunity to get a cheap degree in grassland management whilst gaining a valuable mentor to keep me on track. I got all that and more, one input that has delivered as an investment 10 fold!

What we have today is a measured rotational grazing system adhering to good rest periods, set up to produce quality forage in reasonable quantities. Herbal leys have been a great addition to the grazing platform, their high legume content reduces the need for artificial fertiliser, its deep rooting components maintaining quality feed through the summer, finishing stock quicker than before whilst also delivering for the soil health and wider environmental benefits. The system is heading ever closer to its optimal sustainable output, producing as much if not more than ever before whilst relying on very little bought in supplements, chemicals, anti-biotics and fuel to name a few, although it has the ability to

pick these up at times when required or prices look feasible to do so. Having much more control over our input costs lately has paid dividends with the recent levels of ag-inflation we have seen across the board.

None of this is terribly new when you look back in time, evolution made sure any animals not fit for purpose weren't bred from. Smaller fields created natural shelter for the animals whilst giving the perfect paddock sizes for good grazing, diversity in those swards that are highly reliant on our inputs. It's still relatively recently that we have introduced chemistry to try and improve a biological system! You cannot deny their ability to lift short term yields, the trouble is you have to keep adding to them at a cost of your soil and your pocket.

I certainly wouldn't want to farm without all the new developments and technologies we have seen over the years and am not an advocate to zero inputs, its all a fine balancing act that comes with compromise but the future for me at least is one that seeks out that 'Optimal Sustainable Output!' It might not be massively ground breaking but I see it working for the People, Planet and Profit scenario, perfectly placed to complement future environmental schemes, potential Carbon credits and Biodiversity Net gain opportunities. Remaining low cost enough that it could be easily/financially expanded over a greater area if potential land parcels came available - especially if our 2 wild boys are mad enough to want to have a crack at it! Ultimately, I want to be growing a successful business that builds and improves its greatest asset... to be increasingly naturally fertile fuller in organic matter making it much more resilient to extreme weather pressures and those I throw at it at times. That in itself is money in the bank even the good accountants can't find!



# BUSINESS STRUCTURES FOR AGRICULTURAL SUCCESS



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UK agriculture is one of the most important and dynamic sectors of this country's economy, we have seen a significant transformation over the past few decades. We fuel the nation, employ thousands, and play a vital role in rural communities.

Agriculture is no longer limited to traditional farming practices, when embracing change, we also need to understand the range of commercial business structures and arrangements to optimise our operations, increase our profitability, and mitigate risk.

In this article, I will explore some of the most popular commercial business structures and arrangements that are being used in UK agriculture.

## Sole Trader

A sole trader is the simplest business structure in which a single person owns and operates the farm or agricultural business. This is easy to set up and manage, and the owner has complete control over the business. This structure is common in smaller farming operations. In this type of farm business, the owner has complete control over the decision-making process and is solely responsible for the liabilities and debts of the business. An example of a sole trader is a small family-owned farm who can benefit from the flexibility and autonomy that comes with running their own business.

## Partnership

A partnership is a business structure where two or more people own and operate the farm or agricultural business. Partnerships can be formed to pool resources, share responsibilities, and share the burden of financial risk. In agriculture, partnerships are common between family members e.g. Dad, Mum and son or two brothers, who share land or equipment. Quite often in the initial stages of the partnership the older generation retain the ownership of the assets whilst the partnership benefits from the enthusiasm and fitness of the younger generation, at some point and dare I say it, before it is too late the older generation need to let go of the reins to allow the youngsters make some mistakes whilst you're still there in support. The partners all share the profits, losses, and risks of the business. A partnership agreement is essential to outline the roles and responsibilities of each partner and to establish the terms of the partnership relationship.

## Limited Company

A limited company is a separate legal entity from its owners. The company can own assets, enter into contracts, and sue or be sued in its own name. The owners of the company are shareholders, who are not personally liable for the debts or liabilities of the company. This structure provides a high level of protection for the owners, but also involves more regulatory compliance and administrative obligations. It is a popular choice for agricultural businesses that want to protect their family assets and limit their financial risk. Limited Companies are common in larger commercial farming operations and ones that add value to raw products and sell direct to the consumer.

## Limited Liability Partnership (LLP)

An LLP is a hybrid structure that combines the benefits of a partnership and a limited liability company. In an LLP, the partners are not personally liable for the debts or liabilities of the business. This provides the partners with the flexibility of a partnership and the protection of limited liability. This business structure is particularly useful when multiple partners want to share management and operational responsibilities but also want to limit their personal financial exposure. LLPs are common in larger agricultural businesses, and ones where the partners may not be family members, for instance, a machinery ring.

## Contract farming

Contract farming is an arrangement where a farmer agrees to produce a crop or livestock for a buyer/landowner, according to predetermined specifications and quality standards. The buyer/landowner provides the inputs, such as seeds, fertilisers, or animal feed, and buys the output at a predetermined price e.g., poultry and pig sectors or in case of an arable arrangement the landowner may sell to a third party. Contract farming provides a guaranteed market for the farmer's hard work and reduces the risks of market fluctuations in the case of the pig sector. However in an arable arrangement the landowner is more susceptible to market forces. An example of contract farming agreements could be heifer rearing, broilers, or contract farming agreement on arable land.

## Cooperative

A cooperative is a business structure owned and controlled by its members, who share in the profits and decision-making process. Agricultural cooperatives are formed by farmers to pool resources, share risks, and market their products more effectively. An example of an agricultural cooperative is a group of dairy farmers (Arla) or soft fruit growers (British Berry Growers) who join forces to process and market their milk or fruit collectively.

## Joint Venture

A joint venture is a business arrangement whereby two or more parties agree to contribute resources, such as capital, land, or expertise, to carry out a specific project or venture. The parties share the risks, rewards, and profits of the project. Joint ventures can be set up as a separate legal entity or a contractual arrangement. This arrangement is common in agriculture, where farmers may partner with other businesses to market their products or collaborate to develop new products or technologies. An example of a joint venture in agriculture would be a group of farmers working with a technology company to develop new precision farming technology e.g. Small Robot Company, where there is an appetite for farmers to work with early stage technology, if farmers were limited to their exposure to the risk of functional failure.

In fact, it's not uncommon for agricultural businesses to use multiple business structures and arrangements at the same time. Here are a few examples of how this can work and why:

## Limiting liability and protecting assets

A farming partnership alongside a limited company:

One of the primary reasons to use multiple business structures is to limit liability and protect assets from potential legal claims or creditors. For example, an existing farming partnership may use a separate limited company to conduct certain high-risk activities, such as developing and marketing a new product (milk at the farmgate, pressing rapeseed, insect protein), to protect the assets of the core farming business. By keeping these activities separate from the core farming business, the partners can limit their personal liability and protect their family assets.

A family farm that is structured as a partnership with a trust:

In this scenario, a family farm is structured as a partnership between siblings. However, the siblings also want to ensure that the farm stays in the family for future generations, so they create a trust that will hold the farm assets and distribute them to their children and grandchildren. The partnership ensures that the farm is effectively managed, and profits are shared fairly, while the trust provides a mechanism for passing on ownership and protecting the farm from potential creditors or legal disputes.

A farming cooperative that also has a subsidiary limited company:

In this scenario, a group of farmers come together to form a cooperative, with the goal of pooling their resources to purchase inputs and market their products. However, the cooperative also recognises that there may be opportunities to expand their business beyond just farming, and so they create a subsidiary limited company to explore these possibilities. For example, the limited company might be used to develop and market a new agricultural

technology product, to rent additional land for high risk, high margin crops or enter the renewable energy market or even the synthetic protein market. By using a subsidiary limited company, the cooperative can take advantage of new opportunities without risking the core business(s).

## Optimising the tax benefits

Different business structures and arrangements may offer different trading profit taxation benefits depending on the circumstances. For example, a farming partnership may allow for more favourable tax treatment of losses and deductions than a sole proprietorship. By using multiple structures and arrangements, an agricultural business can take advantage of the most favourable tax treatment for each activity or investment.

For example, partners who are higher rate taxpayers at 40% and wish to reinvest in the business e.g by buying another farm, may be more tax efficient investing within a limited company where the corporation tax rate is 25% allowing the accumulation of cash and wealth in a limited company structure where debt can be repaid with less profit as an additional 15p in the pound will be available after tax.

## In conclusion

UK agriculture must navigate various commercial business structures and arrangements to optimise their operations, increase their profitability, and mitigate risks. Each structure has its own advantages and disadvantages, and the choice depends on various factors such as the size of the business, the nature of the operation, and the level of risk involved. By carefully considering the available options, agricultural businesses can choose the structure that best suits their needs and achieve their business objectives whilst considering the most effective structure to optimise their tax position and protecting their assets.

Overall, business structures and collaborations are important tools for agricultural families to achieve their goals and expand their operations. By working together with other entities, businesses can leverage their resources, expertise, and networks to create new opportunities and achieve greater success.

Cooperation and collaboration between farmers and the integrated supply chain will be paramount to a farm's success. To reduce the waste within the food supply chain, we need the individual sectors to integrate which needs to incorporate and consider the environmental impact.

Holistic approach to integration and sustainability - here is one idea

Renewable energy combined with batteries, e.g., solar panels/wind produce the energy for a data storage unit which creates the heat for insect protein production fed on food waste which supplies the pet food market - this circular economy of carbon will drive cooperation and collaboration vertically and horizontally in the agricultural sector.

# STRIKING A BALANCE: THE ENVIRONMENTAL IMPACT OF FOOD SELF-SUFFICIENCY IN THE UK AND ITS EFFECTS ON FARMERS



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In recent years, the concept of food self-sufficiency has gained traction in the United Kingdom, with a growing focus on increasing the domestic food supply. Currently, the UK is not self-sufficient in food production; it imports 48% of the total food consumed and this proportion is rising. Therefore, as a food-trading nation, the UK relies on both imports alongside the agricultural sector to feed itself.

Over the coming decades farmers will need to adapt. With a changing climate, growing global population, rising food prices, and environmental stressors, all of which will have significant, yet uncertain impacts on the agricultural sectors sustainability and UK food security.

Change of farm strategy and policy responses to global changes are key. This includes options for handling water allocation, land use patterns, food trade, postharvest food processing, and food prices and safety need to be considered imminently.

This article explores into the pros and cons of food self-sufficiency in the UK, whilst examining its environmental impact and the subsequent effects on farmers.

## **Pros of Food Self-Sufficiency:**

### **Reduced Food Miles:**

Food self-sufficiency strengthens the nation's food security by reducing reliance on long-distance imports. This, in turn, minimises the carbon footprint associated with food transportation, as fewer "food miles" are accumulated. By promoting local production, the UK can contribute to lower greenhouse gas emissions and a more sustainable food system.

### **Preservation of Natural Resources:**

Increasing domestic food production provides an opportunity to adopt environmentally friendly farming practices. Farmers can implement sustainable techniques such as organic farming, agroforestry, and precision agriculture, which help preserve natural resources, reduce soil

degradation, and minimise chemical inputs. This promotes biodiversity conservation and protects vital ecosystems.

### **Support for Local and Seasonal Foods:**

Food self-sufficiency encourages a shift towards locally grown, seasonal produce. This reduces the need for energy-intensive greenhouse cultivation or importing out-of-season crops, resulting in a lower environmental impact. Additionally, supporting local farmers helps to maintain rural landscapes, protect farmland, and promote regional food identities.

### **Resilience to Climate Change:**

As the UK faces the challenges posed by climate change, self-sufficiency becomes crucial for building resilience. By diversifying crops and adopting climate-smart agricultural practices, farmers can adapt to changing weather patterns, mitigate the impact of extreme events, and contribute to overall climate resilience. This strengthens the agricultural sector in the face of an uncertain future.



## **Cons of Food Self-Sufficiency:**

### **Limited Crop Diversity and Dietary Variability:**

Striving for self-sufficiency may lead to a narrower range of crops being grown, potentially limiting dietary variety. The UK's climate is not favourable to growing certain foods, requiring imports to meet consumer demand. A balance must be struck to ensure a varied and nutritious diet while minimising the environmental impact of imports.

### **Increased Pressure on Land and Water Resources:**

Expanding domestic production to achieve self-sufficiency can put additional strain on land and water resources. To prevent ecological degradation, it is vital to adopt sustainable land management

practices, efficient irrigation systems, and water conservation measures. Proper planning and resource management are essential to lessen the environmental impact.

### **Trade-offs between Productivity and Sustainability:**

Balancing productivity and sustainability are a key challenge in food self-sufficiency. While farmers need to increase yields to meet demand, it is crucial to do so in an environmentally responsible manner. Sustainable intensification, agroecology, and investment in research and development can help strike a balance between productivity and the environment.

### **Potential Disruption to International Trade and Collaboration:**

Highlighting self-sufficiency can strain international trade relationships and deter global collaborations on agricultural research and innovation. Openness to trade can provide access to diverse food sources, adopt knowledge exchange, and drive agricultural advancements. A careful balance must be maintained to reap the benefits of self-sufficiency while engaging in international cooperation.

To conclude, food self-sufficiency significantly influences farmers in the UK. While it presents opportunities for market growth, diversification, and investment in sustainable practices, it also demands adaptation to changing agricultural methods and technologies. Farmers must navigate the challenges of increased production costs, resource management, and finding the right balance between productivity and environmental sustainability.

# UNEARTHING THE POTENTIAL - AI AND BIG DATA IN AGRICULTURE



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Recently, Chat GPT's launch has brought the progression of artificial intelligence onto our newsfeeds and into debate. It is a large language model that can hold both intellectual conversation and demonstrate creativity. However, many don't understand the extent to which such technologies have already been integrating within our industries throughout the past decade and farming has not been left behind in this.

Artificial Intelligence (AI) is where computer systems perform functions which traditionally require human intelligence, such as data analysis and decision making. These technologies are then used as tools in industry, such as a robotic milking unit which can not only milk cows but also predict the development of illness or when a cow is on heat. AI uses large quantities of statistical data, referred to as 'Big Data', as the fuel to perform its function. For a robotic milking unit this includes the data collected from the milk testing unit, weigh scales and activity collars. Whilst the robotic milking unit cannot replace the role of a herdsman entirely, harnessing its competencies can allow a herdsman to potentially manage larger herds with less assisting farm workers.

Across all sectors of agriculture, the progression of AI has the capacity to help farmers navigate further pressures that are stacking up against the industry. Firstly, on a ground level, the development of driverless tractors and drone sprayers could help reduce the increasing staff burdens. For farm managers, the further development of 'precision farming' technologies could go beyond the precision fertiliser spreading and drilling we see today and into the use of drones and satellites to be able to identify developing crop diseases and predict prime

harvesting dates over large areas. In support of this, UK policy makers are using the Farming, Equipment and Technology Grant to incentivise farmers, to improve farm efficiency through the investment in farm technology.

The collection of big data across the industry also has the potential to accelerate research and increase the benchmarking data available to farmers. For example, looking back on the past year the particularly turbulent market conditions have left farmers with the challenge of navigating volatile fertilizer, fuel, and grain prices. But, in the future with more real time data available on crop yields and weather implications, there is the potential to predict the movements more accurately in the global markets.

However, when AI is put up for debate, many concerns surface including job displacement, privacy of data and the absence of regulatory platforms. These concerns are endorsed globally, as shown by the open letter which has recently been published, asking to put a temporary pause on the development of the larger AI technologies. This letter has been championed by industry tech leaders including Steve Wozniak, one of the co-founders of Apple, with the motive to allow the industry time to evaluate the ethical threats and establish regulatory guidance. The resolution of these issues is going to be crucial before AI paths its way further into our industries. But once resolved it is inevitable that AI and big data will form part of the solution to helping farmers navigate the future.

From a professional perspective at Evolution ABS, we have anticipated that AI will bring automation to many of our processing functions, but see this as an opportunity to focus on what we are most passionate about - developing relationships with clients and helping them work through complex areas such as business restructuring, succession, and management planning.

# INHERITANCE TAX PLANNING IN A CHANGING WORLD - A CASE STUDY:



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## Background:

Mr and Mrs Knight have been in partnership for many years at Home Farm, which consists of 150 acres of grassland and ancillary woodland in a ring fence. There is a primary farmhouse and a cottage in the farmstead, together with a secondary stead of buildings on western edge of the estate. 250 acres of arable land is let from Manor Farm under a long term Farm Business Tenancy. For many years the farming enterprises consisted of forage and combinable crops on the let land, together with 250 ewes and 100 suckler cows which utilise the grassland and forage.

Mr and Mrs Knight's son, William, and his wife, Imogen, returned home after a several years working away overseas and were admitted as Partners in the business. They have been developing new opportunities emerging from the disruption to traditional farming sectors.

Manor Farm obtained planning permission for a large array of solar panels and entered into an agreement with Home Farm to surrender the tenancy and to provide 50 acres from Home Farm for Biodiversity Net Gain offset. That land is let to the solar developer under a long term commercial agreement. William entered into other agreements with different parties to "stack" nitrate, phosphate, and BNG credits on the same 50 acres, which worked well to maximise the income per acre.

William and Imogen had been involved in an education programme when working on a re-wilding project in the Netherlands and were keen to bring some of the experience gained back to Home Farm. They established a "Nature School" that brought school children aged 5 – 16 to Home Farm on residential stays for a week at a time, re-engaging with nature to better understand how complex food webs and ecosystems function. This worked so well that after a while an eco-tourism business was established on the other side of the farm to allow adults similar opportunities, alongside a rustic cookery school focused on traditional foods.

To allow for the time and attention required by the new enterprises, the sheep flock was reduced to 100 ewes and the suckler cows were reduced to 25, with the western buildings becoming surplus to requirements.

Mr and Mrs Knight had mitigated exposure to higher rates of Income Tax over the years by making periodic pension contributions. They had accumulated substantial investment portfolios and were becoming wary of the volatile stock markets as Artificial Intelligence and other technologies disrupted many key industries. They wanted to invest their funds into something they felt more comfortable with and had more influence over.

Mr and Mrs Knight used their Self Invested Personal Pensions to acquire the buildings on the western side of Home Farm from the Partnership. William and Imogen used the proceeds to fund the development of the tourism business and cooking school.

The pension funds borrowed further funds from the bank and developed the farm buildings into a complex of business units for hi-tech startups developing emerging technologies for rural businesses, the "Home Farm Ag-Tech Hub". The commercial rent roll was not taxable within the pension which enabled swift repayment of the borrowings. Latterly the rents provided an income to support Mr and Mrs Knight as they stepped back from the business.

## What is Inheritance Tax:

Inheritance Tax (IHT) is levied on transfers of value and is charged at different rates depending on when it arises. IHT is levied on different events, such as on the death of an individual (40%), during lifetime when making gifts to certain types of trusts (20%), or on trustees periodically and when distributing property from trust (6%).

Individuals have a Nil Rate Band, currently £325,000, on which no tax liability arises. Where an individual's death estate is valued below £2.35m they can also benefit from a Residential Nil Rate Band, currently up to £175,000, which is applied against the value of the deceased's residence. Together these allowances result in up to £500,000 per individual, or £1m for a married couple, being free of tax.

As well as the allowances that all UK domiciled individuals are entitled to, there are reliefs that can apply or be claimed to reduce the taxable value of certain types of property.

## What reliefs can farmers benefit from:

Agricultural Property Relief (APR) relieves eligible property, which includes land, buildings, farmhouses, and cottages, that are occupied for the purposes of agriculture throughout the requisite period. APR often relieves 100% of the agricultural value, although it can be reduced to 50% where property is subject to a lease commencing before 1 September 1995 and where the transferor cannot obtain vacant possession within 24 months.

Business Property Relief (BPR) relieves the value of relevant property, which can include plant, machinery, stocks, land, and buildings, which are used for qualifying business purposes throughout the requisite period. BPR can reduce the value of relevant property by 100% or 50%. Property that can qualify for 100% BPR includes interests in a business such as a sole trade or partnership, or shares in an unquoted company. Property that can qualify for 50% BPR includes land, buildings, and equipment used by a company controlled by the transferor, or by a partnership in which the transferor was a partner, and certain types of settled property where the beneficiary is entitled to a life interest in the trust assets and uses them within their business. To qualify a business must be mainly trading in nature.

BPR can therefore be more generous because a broader range of property can be relieved and it covers the market value, rather than the agricultural value. APR applies automatically where the qualifying criteria are satisfied, whereas BPR must be claimed. A claim for BPR cannot be made against value on which APR applies, so care is needed to understand how the two interact in different scenarios. This can be particularly important where there is non-agricultural value, such as where there is hope for development or amenity value, and even more so where any APR would be reduced to 50%, perhaps by the onerous provisions of a Partnership Agreement that prevents obtaining vacant possession of land within 24 months.

There is also an exemption for certain types of Heritage Property, albeit that is outside the scope of this article.

## What about diversified businesses:

The case of *Farmer v IRC* (1999) established the principle that a single composite business can qualify for BPR, provided it mainly carries on trading activities.

In this case the deceased carried on both farming and lettings activities, which the judge ruled amounted to one business that was mainly trading in nature. This principle has since been applied in other cases involving diversified farming businesses, such as *HMRC v Brander* (2010), which is sometimes known as the *Balfour* case. Judgements have established five tests to assess whether a business is mainly trading, being the proportion of turnover, profit, staff and management time, and capital employed that relates to the trading activities, and the historic context with the farm. Over time the judges appear to place more weight on turnover and profitability.

As farming businesses diversify, it is important to monitor the level of turnover and profitability of the different activities. Should the investment activities outweigh the trading activities BPR would be lost, significantly impacting the IHT exposure.

## Review your options:

Revisiting our case study from above, as part of a periodic BPR review, the Partners of Home Farm established that with the reduction in farmed area and traditional enterprises, together with the growth in diversified activities, some of which lay in the grey area between investment and trading, the business was getting close to obtaining half of its turnover and profitability from investment activities, before the development of the western buildings.

To avoid jeopardising the availability of BPR on the investment assets held within the Partnership, they decided to transfer the western buildings into the pension funds before their conversion. That way the analysis of the Partnership remained comfortably on the correct side of the scales. As pension funds are not usually subject to IHT, the value of the commercial letting complex was still able to be handed down to the next generation without a charge to tax.

## Summary:

There are many commercial pressures on farming businesses and they continue to evolve to remain sustainable. The tax system is trying to evolve alongside this, to remain fair and effective, hence the recent consultation launched by HMRC in March into the "taxation of environmental land management and ecosystem service markets".

As your business adapts and evolves, ensure that you stay abreast of legislative changes that could impact on succession plans, exploring how best to structure asset ownership across business, personal, and pension vehicles to optimise your tax position.

# OFFICE UPDATE



**Becky Derrick BA (Hons)**  
**Office Manager**

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Following a hectic spring, it's been a little quiet on the domestic front here at Oake House, although with improving weather we have managed to get out and about.

At the end of April we spent an exhausting afternoon at Porlock Weir on the North Somerset coast at the mercy of the team from Exmoor Adventures. We successfully conducted challenges in archery, orienteering and communication, competing against each other in small teams – congratulations to Katie, Becky, Lou, Rosie, Emma, Callum and Mark, who aced the afternoon to claim the chocolates and fizz.

Sadly, we said goodbye to our placement student Izzy in the middle of May, although this did provide another super excuse for a social – a great time was had by all in Exeter with pizza and mini golf and a cocktail or two (three, or four!!). We would like to thank Izzy for all her hard work over the course of her stay

with us and wish her the very best of luck for her final year at Harper Adams University when she returns to her studies there in September.

We are also thrilled to be able to share with you that manager Rosie Bennett has started her tenure as Chair of Council for the National Federation of Young Farmers' Clubs, having received the Chain of Office at the end of February. We are immensely proud to be able to support Rosie in this prestigious role and look forward to reporting on her adventures this year. Watch this space...



And lastly, we will again be attending the annual Honiton Agricultural Show on Thursday 3rd August, please do pop in to see us for refreshments.



**Becky Lee MAAT**  
**Accounts Technician**

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## TEAM INSIGHT

Becky joined Evolution ABS in 2018 and completed her AAT qualification with us the following year. She has been working with Dan and Ellie for a couple of years, assisting them with their portfolio as well as having a people focused role within the team. Becky oversees our preparation team and leads regular meetings with them to discuss improvements to internal systems and processes, she then represents the preparation team as a member of our People Committee.

While taking a break from her studies she became treasurer of Wiveliscombe Young Farmers Club

for a few years as well as progressing her role within Girl Guiding to lead a local group of Rangers (girls aged 14-18). Becky has now given up these commitments to free up her time as she has started studying towards her ATT Qualification.

Having grown up on her family's mixed beef and arable farm, Becky is a keen tractor driver and enjoys getting outdoors when she has the opportunity. She was inspired to give accountancy a go as she enjoyed helping with the farm's bookkeeping years ago and is still roped in to help occasionally!

**If you have any queries regarding any of our articles, or would like any further information, please do not hesitate to get in touch.**

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