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# THE INSIDE TRACK

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**Peter Snell who farms in Dorset gives us an insight into the family business**

**Cultivating Success: Leadership, Growth and Resilience**

**Residential Property: A mixed bag**



# THE INSIDE TRACK



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## Welcome to our Autumn Newsletter

It's that time of year when the sun starts to get up a bit later each morning and sneaks off to bed a little earlier each night. Fewer daylight hours isn't always helpful where there remains plenty to do each day, albeit the wonders that start emerging from the farmhouse kitchen at this time of year make up for it – bring on the beef stew with dumplings, followed by the blackberry and apple crumble – we certainly enjoy the seasonal change to the menu in our household, as the aga starts to earn its keep having been in a period of relative rest over the summer.

It remains an intriguing time for anyone living and running a business in the UK. It is difficult to aptly define the political landscape, perhaps muddled, ineffectual, and unconvincing in varying proportions?

In his letter of 16 May 2023, Rishi Sunak expressed deep appreciation for farming communities and their crucial role in our society. He outlined key principles for British farming's central role in trade, focusing on the protection of sensitive sectors, upholding high food standards, and exploring new export opportunities. All of this sounded helpful as the industry adapts to global changes in diet and purchase trends, economic pressures, and an increasing environmental focus.

Following the recent announcements from the Prime Minister to roll back on a number of the key green policies and scrap parts of the HS2 project, however, it leaves one wondering what else he will be comfortable reneging on and what will come of his statements from back in May?

The move away from BPS continues and it has been illuminating to see some of the applications going through under new schemes. Whilst it will not directly match the income lost from the reducing BPS receipts, the new income stream is making a significant difference for many farming families.

General inflation is easing at last, although interest rates remain strong relative to the last decade. The higher rates are being felt by those borrowing funds, placing additional pressure on profits, particularly those who have reached the end of a fixed period and have needed to restructure debts. On the other hand, savers are starting to benefit from better returns, aiding those that are trying to be financially independent from the farm.

Following a wet August and intermittent harvest, there have been mixed results in terms of both yield and quality across the region. A clear and consistent theme emerging in conversation, however, is the importance of having a skilled, resilient, and engaged team to be able to navigate the challenges of difficult conditions. Whilst technological developments have increased the output of machines and enabled the automation of many processes, it has also required team members to become higher skilled and often broaden their roles to cover a wider range of responsibilities. It would seem that the management and development of people is becoming a central tenet of conversations regarding farm business strategy.

We hope that you enjoy the selection of articles in this edition of our newsletter and hope that it helps prompt conversation around topical issues and emerging opportunities.

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# SALARY SACRIFICE



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Often individuals will be considering their pension contributions as they have a long term goal for their retirement. One option is for employers to offer a salary sacrifice pension scheme. A salary sacrifice pension scheme enables individuals to boost their retirement savings whilst offering benefits for both the employee and employer.

## Understanding Salary Sacrifice

Salary sacrifice is an arrangement between employees and employers which allows individuals to contribute a portion of their gross salary directly into their pension scheme before tax and National Insurance Contributions are deducted. An employee agrees to sacrifice a portion of their salary, typically this is either a percentage or a fixed amount, into their pension fund. The sacrificed portion of their salary is deducted from the employees gross salary before tax and National Insurance are deducted.

## Benefits of Salary Sacrifice:

### 1. Tax Efficiency

One of the key advantages of salary sacrifice for the employee is the tax savings. By sacrificing a portion of your gross salary, employees are reducing their taxable income resulting in lower income tax and National Insurance Contributions.

### 2. Boosted Employer Contributions

Employers may choose to offer to increase their contribution into the pension scheme as they will be saving on Employer National Insurance Contributions by the employee opting to sacrifice a portion of their salary.

### 3. Reduced Student Loan Repayments

If an employee has a student loan, salary sacrifice can reduce the student loan repayments that are payable as the student loan repayments are calculated on taxable income. Salary sacrifice will reduce your taxable income and in turn reduce the student loan repayments due.

### 4. Protected Pension Contributions

Salary sacrifice contributions are not impacted by any salary fluctuations. This ensures that employees continue to contribute to their pension even when there is a reduction in earnings, for example if an employee is being paid Statutory Payments.

## Eligibility for Employees:

### 1. Employer Offering

Salary sacrifice is an option which is offered by employers and it is the employers decision as to whether they choose to offer this to their employees.

### 2. Consent

Employees must volunteer to enter into a salary sacrifice arrangement and an employer cannot force an employee to participate.

### 3. Adequate Pay

An employee should take care in ensuring that after entering into the salary sacrifice pension arrangement they will still receive a net pay which will be sufficient for their financial requirements.

Overall salary sacrifice for pensions is a useful tool which employers can choose to offer their employees that can offer benefits to both the employee and employer. Employers should seek advice from their financial advisor on the options available to them.

# A VIEW FROM THE FIELD



**Peter Snell**  
Arable Farmer and Contractor  
North Farm Horton, Dorset

North Farm Horton is a family arable farming business in North East Dorset. Husband and Wife, Peter and Tora Snell, farm together ably aided by a talented and committed team of four full time staff as well as seasonal labour and local sub-contractors when required. It's a busy farming operation but like many businesses it has evolved over the years. Here, Peter talks us through how it all started, some of the challenges, and what's on the horizon.

"I'm enormously grateful to my Parents and my late Uncles, Frank and Arthur Thomson", Peter writes. "They had such foresight and the commitment they had to working together as a family business was inspiring. In 1979 the Thomson family purchased North Farm as an extension to their milk processing and distribution business – Churchfields Dairy, based in Salisbury. The family set up a 250 head Holstein dairy unit on the farm alongside the modest arable enterprise that was already present. I joined the farm in 2003 having graduated from Seale Hayne but also having worked on a number of other farms in Wiltshire, Lincolnshire and Nottinghamshire, as well as a 12-month spell travelling and working abroad. In 2005, following a period of low milk prices, the decision was made to sell the dairy cows at North Farm. Fortunately, all the land at the farm was suited to crop production so the grass fields were turned over and all the usual combinable crops were planted.

The restructuring of the farm also meant that the previous team of five was reduced to just Peter and Mark – Mark being our arable foreman who had been with the family since the farm was purchased. We then focused all our efforts on crop production. Fast forward to the present day and the farmed area has grown from just North Farm at 700 acres, to 3500 acres across seven holdings, on a number of different arrangements. We are enormously fortunate to work alongside local farmers and land owners and we don't take their good will and trust for granted. Maintaining good communication, and an honest upfront approach has seen relationships maintained even when things haven't gone to plan – and let's face it, farming is a factory without a roof and we all have to adapt and pivot.

The biggest change for our business in recent years has been the successful succession of ownership from my Mother and Uncles to Tora and I. This was made both possible and very straight forward by a very clear and structured partnership agreement, the goodwill and support of the wider family, and support, guidance and perhaps a nudge or two from Dan our accountant at Evolution. Summarising that transition in a few sentences doesn't really do justice to all the careful thought and emotions that went on to make it happen. A family business, a life time of hard work by my Uncles and Mother, the monetary value, the responsibility to make it a success, being fair to other family members, being fair to my family – all emotions considered, all concluded in a few legal documents. We were lucky, I was lucky, but most of all thank you to my Mother and Uncles for that already mentioned foresight and getting the structure and plans in place whilst everyone was alive and well and in agreement.

So as the farmed area grew so did the team. From two of us in 2003, to six full time staff today. That six includes myself, Tora who runs the office, and Mark, Tom, Jim and Scott who operate the machinery and get the job done on the ground. The skill level now required by these operators is enormous (and I'm sure that is echoed in the livestock sector too). The ability to safely and productively operate modern high-tech tractors and harvesters is impressive. Agronomic understanding, mechanical expertise, knowledge of electronics and tractor and equipment interfaces, variable rate applications, GPS systems, legislation, ground works and building projects, working as a team as well as alone, are all skills and abilities that are needed by today's tractor drivers. That knowledge takes time and experience to gain and I am conscious that we need to invest in new entrants as well as look after our existing team. So this year we have a Kingston Maurward student who joined us for harvest and then on a part time basis during his first year at college. He's settled in very well and quickly picked up the basics and hopefully this will be a symbiotic relationship which sees us benefit from the additional pair of hands at busy times, and some knowledge and skills acquired. But how to best develop and look after our existing team? At our recent board meeting an interesting conversation was had around the table which traversed a spectrum of approaches. My Father reminisced on his personnel skills when he employed a much greater number of staff than we do; the succinct summary being that his concern was only really in that they turned up on time and worked hard, and back then candidates were plentiful. Today the younger generation have different needs to their more mature counterparts. For a multitude of reasons and pressures they put greater emphasis on their work-life balance, they are more connected to their friends and family (via smartphones & social media) and hence continually audit themselves on how they are doing. They probably need more support and encouragement, and employer's need to have both empathy and emotional intelligence to keep them content on a number of levels. I do my best on these aspects but sometimes fall short and then have to go around with an HR band-aid and supportive arm – quite different from my Father's management philosophy.

We try and take a pragmatic approach to employment. Yes, we ask a lot of our team at busy times, and they are expected to work hard. I don't think they do the hours that busy forage and muck contractors do but we try and strike the right balance whilst maintaining efficiencies. We do however provide them with the best equipment and tools available, structured time off, continual training, and we take them to a number of industry events including the upcoming biennial Agritechnica show in Hanover, Germany.

Our arable contract farming business has evolved with the changing rural landscape. It is diverse, encompassing the usual conventional crops but also organic crops, stewardship agreements, SFI agreements, and a number of specialist crops. This brings complexity but also reward. Firstly, let's get a grasp on the slightly grating



term 'regenerative farming'. Perhaps an opportunity to project UK agriculture in a better, greener light? But also, slightly patronising and antagonistic to the current or older generation of farmers who have done a great job, but were happy to call this new trend 'mixed farming' or 'good practice'. At North Farm our approach to improving soil health and biodiversity is primarily to diversify the rotation. We are also striving to shallow our cultivations and our 12m controlled traffic farming policy is helping here. We do opportunistic direct drilling, but prefer to adapt to the conditions on the day rather than be fixed in our approach.

Following the recent huge swings in the commodity markets and input costs, a continued movement to speciality crops grown on contract and direct marketing seem sensible. Across the farms we work with we grow approximately 400 acres of herbage seed for both agricultural grass types but also amenities. Herbage seed production offers strong gross margins and a number of agronomic and soil improving benefits. For a number of years, we have been growing grain maize which is combined and dried. The acreage varies between 500-700 per year, and we are building a loyal following of customers who buy direct from us either as whole maize, cut maize or blended with other grains for game feeds or animal feed. We supply in 20 kg, bags, 500 kg bags or can deliver in bulk and blow into silos. Sunflowers have also joined the portfolio and offer some interesting added value options along with very low growing costs. And lastly, we have been growing thatching straw for many years and enjoy lasting relations with a number of local thatchers.

What does the future hold? Closer links to market, premium crops for premium returns, agri-environment schemes and private sector carbon, phosphate and biodiversity trades- all are likely to feature. I think scale will be important, and we'd like to continue to grow our business working with like minded local businesses.



# CULTIVATING SUCCESS: LEADERSHIP, GROWTH, AND RESILIENCE IN AGRICULTURE AMID LABOUR MARKET CHALLENGES



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Our countryside is of breathtaking natural beauty, with farms dotting the landscape, producing everything from dairy and livestock to crops and energy. Yet, despite the countryside charm and appeal as a place to work, it faces a critical issue – the lack of labour! Competing industries, changing demographics, and the seasonal nature of agriculture are among the factors contributing to the scarcity of labour.

The food and farming sector is a key part of the UK Economy and is the largest manufacturing sector. The sector has also faced unprecedented challenges of late, created by covid, leaving the European Union and challenges around the supply and timeliness of energy, fertiliser, and shipping to name a few. However, chronic labour shortage and availability may be the single biggest challenge and a barrier to growth the industry has faced for a while - a scarce resource along with land! How many times have I heard “they cannot make any more land” it appears the same goes for good agricultural labour! Or does it?

Finding and retaining skilled farm staff has become increasingly challenging. It is in this backdrop that leadership emerges as a pivotal factor, shaping not only the work environment but also the opportunities for personal and professional growth in the sector for new entrants.

The industry does not simply need new leaders and entrants, but new strategies, new understandings, and a change in attitudes, to benefit businesses, to look after people, to benefit the environment, and to promote food security. The industry needs to get the message out there to business students, and leaders looking for a career change, that agriculture presents excellent opportunities.

## Leadership's Role in Agriculture

Leadership in agriculture isn't just about holding a title; it's the driving force behind the culture and behaviour

that define agricultural businesses across our country. Exceptional leaders set the stage for how the next generation and farm staff perceive and interact with their workplaces. Industry leaders need skills which ensure proactive behaviours, constantly working towards building an effective enterprise rather than operating from a point of crisis. In this industry, renowned for its sense of community and collaboration, leadership plays a profound role:

### 1. Fostering Positivity

Positive leaders in rural agriculture cultivate an atmosphere of hope and determination, even when faced with the challenges of a tight labour market. They lead by example, demonstrating resilience and a can-do attitude that inspires employees to do the same.

*Imagine a farm manager who, despite seasonal labour shortages, approaches each day with enthusiasm, focusing on the opportunities rather than the challenges. This optimism radiates throughout the farm, creating a collective spirit of positivity.*

### 2. Inspiring Collaboration

Leaders who prioritise teamwork and collaboration ensure that the next generation and farm staff work harmoniously. This not only makes daily agricultural operations run smoothly but also fosters an environment where individuals support one another, essential in a tight labour market.

*Consider a farming business with multiple enterprises where a leader actively encourages collaboration across enterprises. By working together, these farm enterprises can share resources, knowledge, and skills, effectively managing the challenges of a labour market in flux. One could take that a step further within a cooperative or collaborative neighbours.*

### 3. Nurturing Innovation

Innovative leaders inspire creativity and problem-solving among the next generation and farm staff. They encourage employees to think outside the box (there should be no box), explore new ways to approach tasks, and adapt to the evolving landscape of agriculture.

*An agricultural business owner who invests in cutting-edge technology and research to enhance crop yields and reduce labour dependence. This innovative approach secures the farm's future while creating opportunities for the workforce to learn and grow.*

### 4. Cultivating a Learning Culture

Leaders who value continuous learning and development empower the next generation and farm staff to stay updated with the latest agricultural practices. They invest in training and development, reinforcing the importance of growth and self-improvement.

*Consider a farm where leadership allocates resources for regular training sessions, workshops, and seminars. Employees are encouraged to attend industry conferences and online courses to expand their knowledge and skills.*

### 5. Expressing Gratitude

Agricultural leaders who express gratitude and appreciation for their employees' dedication create a culture of recognition and positivity. This not only boosts morale but also encourages loyalty, vital for retaining talent in a competitive labour market.

*Think of a farm owner who takes time to recognise the hard work of each farmworker, perhaps through simple “thank you” and highlighting the importance of the farmworkers input that month. This cultivates a sense of belonging and appreciation among the workforce.*

## Strategies for Thriving in the Tight Labour Market

With leadership setting the trajectory for a positive culture in agriculture, the strategies that leaders can implement to not only survive but thrive in the tight labour market:

### 1. Invest in Training and Development

Leaders can allocate resources and budget for training that empower the next generation and farm staff to upskill and adapt to changing agricultural demands.

*A dairy farm that invests in training perhaps focused on milking techniques and practices, animal health, and equipment operation, enabling existing employees to take on more responsibilities and reducing the need for additional skilled labour.*

### 2. Promote Mentorship and Coaching

Leaders can establish mentorship programs within the business, pairing experienced farm staff with newcomers to facilitate knowledge transfer and career growth.

*A farm that pairs experienced tractor operators with new employees or a harvest student, fostering a mentorship relationship where the more experienced workers impart their knowledge and expertise to the next generation of farm staff.*

### 3. Set Clear Career Paths or Succession

Leaders can inspire and create career development plans for the next generation and farm staff, providing a roadmap for advancement and personal growth within the family business and agricultural sector.

*A family-owned dairy farm where leadership sits down with the next generation or farm staff to discuss their long-term aspirations and devise a clear path for succession or career progression, whether it's moving from scrapping out the yards to herdsman or transitioning to farm management.*

### 4. Encourage Skill Diversification

Leaders can support cross-training efforts, enabling farmworkers and staff to acquire a broad skill set that makes them more versatile and resilient in a competitive labour market.

*Take a diversified farm operation that encourages farm staff to gain expertise in various aspects of farming, from animal husbandry to crop cultivation. This versatility allows for a more flexible workforce.*

### 5. Create a Supportive Environment

Leaders can foster a culture where the next generation and farm staff feel comfortable discussing their career goals, personal development, and any challenges they face on the farm.

*Consider a leadership style that implements regular one-on-one meetings where the next generation and farm staff can openly discuss their career aspirations, receive feedback, and voice concerns. This dialogue creates a supportive atmosphere for personal and professional growth – the appraisal, more than just ticking a box!*

## The Path to Personal Growth and Professional Development in Agriculture

In the agricultural sector, farm staff are not merely labourers; they are the lifeblood of our farms and rural communities. When leadership prioritises culture and behaviour that values growth, positivity, and resilience, and when they provide strategies to address the challenges of a tight labour market, personal and professional development becomes an intrinsic part of the agricultural experience.

The next generation and farm staff, much like the crops and livestock they tend to require nurturing and care. By fostering a culture that promotes growth and self-improvement and by equipping our agricultural workforce with the tools and strategies to excel, we not only survive but thrive in even the most competitive of labour markets.

In conclusion, leadership is the driving force behind creating an environment that fosters personal growth and professional development for the next generation and farm staff. By setting the right tone, agricultural leaders inspire their workforce to overcome the challenges of a tight labour market and emerge stronger, both individually and collectively. Our farms can and will continue to flourish thanks to the dedication and guidance of exceptional leaders.

\*Worth a read – recently published report for the Worshipful Company of Farmers “Future business leaders in agriculture: Who will lead the industry forward?” by Caroline Nye and Matt Lobleby in conjunction with Exeter University.

# RESIDENTIAL PROPERTY – A MIXED BAG:



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Many farming families own and operate residential property, both as employee accommodation, and third party lettings. The tax treatment of these two uses varies considerably and so it is worth recapping the key differences:

## Income Tax:

- The provision of rent-free accommodation is an exempt benefit to an employee where it is provided for the better performance of their duties. The employer may also pay the council tax and rates within this exemption, but the provision of utilities paid for by the employer would be a taxable benefit. Repairs and maintenance costs are deductible against the trading profits.
- Income generated from properties let to third parties is taxed separately from the trading profits and is not subject to National Insurance Contributions. The expenses associated with the lettings are deducted from the rental income, rather than the farming trade. Losses arising from the rental property cannot be offset against trading profits (except where the business is subject to Corporation Tax) and must instead be carried forward against future rental profits. This could be particularly significant in years where significant repairs and maintenance costs are incurred.

## VAT:

- Input VAT incurred on expenses relating to farm worker's accommodation is recoverable through the business VAT return.
- Input VAT on expenses relating to property let to third parties through the farming business can only be recovered where the amounts fall within the partial exemption thresholds.

## Capital Gains Tax:

Where a dwelling has been occupied by a farm worker throughout the period of ownership, a transferor is able to:

- Claim Business Asset Gift Relief ("Holdover Relief") on the gifting of the property to an individual, deferring the tax liability that would otherwise crystallise; and
- Claim Business Asset Disposal Relief, reducing the rate of tax on the disposal to 10% where the other requisite conditions are satisfied.

Claims for gift and disposal reliefs may only apply to let residential properties where they have qualified as Furnished Holiday Lets throughout the transferor's period of ownership.

## Inheritance Tax:

Where a dwelling has been occupied by an unconnected farm worker of the transferor's farming trade throughout the two years preceding a transfer:

- The agricultural value benefits from 100% Agricultural Property Relief, where it is of a character appropriate to the farming business; and
- 100% Business Property Relief can be claimed on value in excess of agricultural value where the dwelling is held as an asset of the business. 50% relief can be claimed where the dwelling is held personally and used by the owners' partnership, or company in which they have a controlling interest.

Where the dwelling is let as part of the holding to a farming tenant, is of a character appropriate, and has been occupied for agricultural purposes throughout the seven years preceding a transfer:

- The agricultural value can benefit from 100% Agricultural Property Relief where the tenancy commenced after 1 September 1995; or
- 50% where the tenancy commenced prior to that date.

Let residential properties that are not occupied for agricultural purposes do not benefit from Agricultural Property Relief. Business Property Relief can sometimes be claimed on the value of let residential property held as part of a mainly trading business, under the principles of the Farmer and Balfour cases.

## Food for thought:

It is not uncommon for multiple dwellings to be owned by different members of the family, some within and some outside of the business structure, and for those dwellings to be used for different purposes.

Where there are changes to the team, and workers vacate or move into property, such as following the sale of a dairy herd, or starting up a new enterprise, it is helpful to take stock of the new position from a tax perspective, to ensure that the relevant transactions are being accounted for correctly.

Similarly, as the family's plans evolve, it is important to revisit the capital tax implications of how different dwellings are occupied. Often, the older generation may like to retain a let cottage to support them during retirement, albeit that the value can then be exposed to Inheritance Tax where the property is held outside of the trading business structure. Reorganising the ownership of assets as part of succession planning can also be impacted by how different dwellings are occupied.

As your business adapts to navigate the continual changes faced by the agricultural sector, take stock of how assets are being used differently and plan accordingly to optimise the position.

# IT TAKES A VILLAGE



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The saying goes "it takes a village to raise a child", and I couldn't be more thankful for mine. Too often they've answered my SOS calls to pick up poorly children, grab milk from the shop or sew in labels to school uniform, as well as looking after them on weekdays so I can be in the office and Steve can chase after sheep.

Like us, many families rely heavily on grandparents to enable them to combine paid work and family life. Recognising the invaluable role that grandparents play in childcare, the Government introduced the Specified Adult Childcare credits in April 2011, some 12 years ago. It is thanks to social media campaigns from parenting groups, that this little-known benefit has seen some media attention over the past few months.

## How does it work?

The credit works by transferring the weekly National Insurance credit a parent gets, as the recipient of Child Benefit, to the Grandparent (or eligible family member), which can help plug any gaps in a National Insurance record. Relatively simple really, but it does have its conditions.

## Eligibility Criteria

You can apply for the credit, as long as:

- You are an eligible family member who provides care for a child under 12
- You were over 16 and under State Pension age when you provided care for the child
- You ordinarily reside in the UK
- The child's parent (or main care giver) has claimed Child Benefit but does not need the National Insurance credit themselves (i.e. they are in employment)
- The child's parent agrees to your application by counter-signing the application form.

## You cannot apply if:

- You have already qualified for National Insurance credit in that year – usually because you are in employment, or receive other National Insurance credits
- You are receiving Child Benefit for any child and already get credits automatically.

Applications must wait until 31 October after the end of the year that you want to apply for.

It is also worth noting that applications can be back dated to 2011, and can even be claimed if childcare was provided online during the pandemic.

The UK offers a range of government-supported childcare schemes, but these are ever changing and so it is recommended that the Government website is reviewed regularly to ensure that you are benefiting from the appropriate schemes. If we can provide advice in this area, then please do contact us.

# PENSIONS TAX PLANNING - A CASE STUDY



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The budget of 15 March 2023 announced some significant changes to Pensions legislation. Amongst the most eye catching of these were the removal of the Lifetime Allowance Charge from April 2023 and the abolition of the Lifetime Allowance for the 2024/25 tax year.

Much had been made in the media of the adverse impact of the Lifetime Allowance for senior NHS staff, whose recourse to preventing Pension charges, was to turn down additional shifts. Rather than taking a scalpel to the problem, the Government's chosen approach was to introduce Pension changes across the board, with potential benefits for all taxpayers with valuable pensions.

Pensions generally sit outside of an individual's Estate for IHT purposes, making them a useful vehicle for tax efficient transfers of wealth across generations, sheltering the value of 'trading' and 'non-trading' assets alike. The abolition of the Lifetime Allowance could make that prospect even more enticing for those with the right circumstances.

It is worth noting that the legislation remains in draft, with a Labour Government potentially waiting in the wings, who have stated an intention to reintroduce a cap if they come into power.

This all comes at a time when Inheritance Tax is increasingly within the cross-hairs of public attention, with ongoing speculation around the reliefs for agricultural and business property, and even whether this unpopular tax should continue at all in its present guise.

Regardless of this uncertainty, there is still plenty to like about pensions for tax planning, as the case study below illustrates.

Pensions advice is regulated by the Financial Conduct Authority (FCA). Whilst the following is intended to illustrate the tax and business aspects associated with pension planning, it is important that you seek advice from a regulated pensions advisor.

## Background

Mr & Mrs Knight farm in partnership. They have recently reduced the scale of their farming operation, with the result that some off-lying farm buildings are surplus to requirements and may not benefit from Agricultural and Business Property Relief (APR & BPR), exposing their value to IHT.

They identified an opportunity to convert the redundant buildings into business units and asked their accountants to carry out some profit forecasting. It was apparent that the revenue generated by the business units and other 'investment' activities would exceed the partnership's turnover from its reduced farming operation. Under those circumstances, Business Property Relief (BPR) is unlikely to be available for the units and potentially other assets used by the partnership.

Naturally the Knights are hesitant, if a significant part of their investment could be lost to IHT on death. The Knight's accountants suggested they contact a regulated pensions advisor, to explore the possibility of developing and letting the units in a government approved Pension scheme, both for tax planning purposes and to provide for themselves in their retirement.

Self-invested Personal Pensions (SIPPs) and Small Self-Administered Schemes (SSASs) are approved pension schemes which enable individuals and companies to manage their own investments, including investments in commercial property, land and buildings. SIPPs were chosen as the vehicle to develop and operate the business units.

## Funding the pensions

The SIPPs would purchase the undeveloped farm buildings at their market value of £350,000 and it is anticipated that a further £300,000 would be required to develop them as business units with a contingency of £10,000 for other costs.

The Knights have contributed to personal pension schemes over a number of years and they transfer part of this value from those pensions into the SIPPs, leaving the remainder of their personal pensions invested in stocks and shares.

They each make a further tax efficient contribution of £48,000 in 2023/24, which HMRC top up to £60,000 as Basic Rate Income Tax relief, taking advantage of the newly increased £60,000 Annual Allowance.

As Higher Rate taxpayers, the Knights also receive a further £12,000 of relief each against their Income Tax liabilities for the year.

The SIPPs borrow an additional £220,000 from the bank (being 50% of the value of the fund), increasing the total funds available to £660,000.

Transfer in from Personal Pensions	£320,000
Net contribution (the Knights)	£96,000
Basic Rate relief (HMRC)	£24,000
Borrowings (max 50% of fund)	£220,000
<b>Total fund</b>	<b>£660,000</b>

## Transferring the buildings to the SIPPs

The SIPPs would purchase the unconverted barns from the Knights at a market value of £350,000, releasing £350,000 of value previously locked up in the pension.

The cash will be very useful to the Knights at this time as they look to settle the £30,000 CGT liability on the sale of the buildings to their SIPPs and to replenish cash reserves following their pension contributions.

The SIPPs would each be liable for £500 of Stamp Duty Land Tax (SDLT) on the value of the property acquired and this is built into the contingency fund.

## Taxing the property and income in the SIPPs

Pensions are not generally subject to IHT on death. By selling the buildings to their SIPPs the Knights have potentially saved their Estate an IHT charge at 40% of the value of the developed units at their date of death.

Cash proceeds from the sale would be subject to IHT where they are retained at death, but this is minimised by selling the buildings in their undeveloped state. They are considering other options to alleviate this and may look to make further contributions in subsequent tax years.

Property held in Pension Schemes are not subject to CGT and the capital value added by developing the units would be entirely free of tax on a future sale by the SIPPs.

Once the business units are up and running, the SIPPs will not be subject to any tax charge on the rental profits, saving the Knights Income Tax at 40%.

Additionally, the farming partnership will rent one of the units at a market rate of £1,000 pcm, adding more value to the SIPPs while saving the partners a further £420 of Income Tax and Class 4 NIC's each year, on trading profits.

The SIPPs will repay the interest and capital of the bank loan out of untaxed income. By comparison, the Knights would pay £420 of Income Tax for every £1,000 of capital repaid.

As the rental business continues, the value of the SIPPs will continue to grow. They will retain a cash balance to fund working capital, covering ongoing expenses and property repairs. The surplus cash may be used to repay borrowings, or alternatively invested in financial assets as an IHT free 'money box', or perhaps used to acquire additional properties as opportunities arise.

They will need to be mindful of how the value of the funds stack up against the Lifetime Allowance at relevant points in time. Of course, this will depend on whether the Lifetime Allowance is abolished from 2024/25, or indeed whether it is reintroduced in future tax years.

The Knights retirement is still some way off. From the age of 55, they would be entitled to begin withdrawing the value of the pension. Under the current rules, up to 25% of the value of the fund may be drawn 'tax free' subject to a current maximum of £268,275. Withdrawals in excess of that limit would be subject to Income Tax charged at the Knights marginal rates of Income Tax, which could well be lower following their retirement. Again, they would take advice from their regulated pension advisor to understand the position as it develops and make those financial decisions.

The Knights do not anticipate that they will require the full value of the fund in their lifetime and hope to leave a significant value to their children and grandchildren as a 'nest egg'.

They will nominate their beneficiaries and leave instructions to their Trustees as to how they should benefit. The SIPPs will pass to the beneficiaries free of IHT and may continue to let the units and accumulate value for the Beneficiaries within the pension 'wrapper'.

If the Knights pass away after the age of 75, their Beneficiaries may be able to draw value from the SIPPs, paying Income Tax at their own marginal rates. If the Knights pass away before the age of 75, then their beneficiaries could be entitled to withdraw up to the full value without having suffered any tax.

# OFFICE UPDATE

What a busy summer it has been! It was great to see lots of friendly faces in our marquee at Honiton Show, despite the wet and muddy weather. Thank you to those who popped in to say hello, we look forward to seeing you all again next year.

In July we welcomed two new members to the Evolution community. Peter Noble joined us as a Tax Adviser and will be working alongside Dan and Victoria on projects and recent graduate Megan Farmer started as an Accounts Trainee. Both have settled into the community quickly and Meg has already successfully started her ACCA qualification, passing her first exam.

Lots of other exam success to report since the last edition; congratulations to Ethan who passed his AAT Qualification, Hugh who passed AAT Level 4 Business Tax and Becky Lee who passed both her ATT Law and Business Tax exams. And it doesn't stop there, well done to Katie and Chloe Fewings who passed ACCA Financial Reporting and Corporate Law exams and Emma-May who was successful at ACCA Performance Management.

In other news, best wishes go to Alice Dibble and Katie who have both flown their respective family nests in the last couple of months. Happy decorating ladies!

More exciting news for manager Rosie, who our regular readers will already be aware, is currently Chair of Council for the National Federation of Young Farmers Clubs. Rosie has recently been nominated for the South West Farmer Inspirational Women in Agriculture Award 2023. Good luck Rosie!

In September we visited Thatchers Cider where we learnt about how a local family farm in Somerset has developed into a globally recognised brand. The business prides itself on continuing to be family owned after four generations. Thank you very much to the staff at Thatchers for showing us around, giving us an insight into the business and allowing us to taste your products. A great day was had by all!

**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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# COMMUNITY INSIGHT



**Chloe Bussell MAAT**  
**Accounts Technician**

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Having previously completed work experience with us, Chloe's interest in agriculture and numbers led her to join our community in July 2017 as a trainee.

Chloe has since completed her AAT and ACCA qualifications and now works closely with one of our client managers, Louise. Her role includes supporting Louise with the accounts and tax returns on a mostly agricultural portfolio of clients. Chloe is also a member of our Technical Committee, where she works with the team to maintain and improve the business's systems and processes.

Outside of the office, Chloe enjoys spending her free time outdoors and in the countryside. She can often be found on hikes with her dog and her camera, taking photos of the landscapes and wildlife – but mostly pictures of her dog!