WINTER 2025

Hazlewoods

Agricultural Focus

BUDGET CHANGES AND YEAR-END PLANNING

Budget 2024 - changes to inheritance tax

Perhaps the tax most impacted by Rachel Reeves' first Budget was inheritance tax (IHT). The most surprising of the proposed changes is the reform of agricultural property relief (APR) and business property relief (BPR), particularly given previous commitments from Labour before the election that APR would not be changed.

Currently, where an individual holds APR or BPR qualifying assets, 100% IHT relief is available on the full value. This will include land and buildings and other assets used in the business including livestock, growing crops and farm machinery.

The proposed changes from April 2026 will continue to see 100% relief apply to the first £1m of combined APR and BPR qualifying assets; however, the relief is restricted to 50% of any value above £1m, giving an effective tax rate of 20%.

The change will also apply to lifetime transfers made on or after 30 October 2024 if the donor dies after 5 April 2026 and does not survive seven years post-gifting. However, gifts of agricultural or business assets made prior to 30 October 2024 will still qualify for 100% APR or BPR if the donor dies within seven years of the gift, providing the asset is still owned by the recipient and continues to meet the qualifying conditions for the relief in their hands.

The £1m 100% allowance will not be transferable between spouses and will be lost if not utilised on death. It will be important to ensure that both spouses own at least £1m of qualifying property and that the relief is secured on the first death, either by leaving assets to the next generation or on trust.

The £1m allowance will also apply to trusts holding APR or BPR qualifying assets. Every trust set up before 30 October 2024 will have its own allowance to apply on both 10-year anniversary and exit charges, even where a settlor has set up multiple trusts; however, the Government's intention is to introduce rules to divide this allowance by the number of trusts created by the same settlor on or after 30 October 2024. A technical consultation will take place in early 2025 to consider the detail of how the policy will work in relation to trusts.

Assets which only qualify for 50% APR or BPR relief e.g. land owned personally which is used in a trade, will not count towards the £1m allowance and relief will continue to be available at 50%.

The effect of these changes is that for every £1m of value above the £1m getting relief at 100%, there will be £200,000 of inheritance tax payable. The tax can be paid in instalments over ten years and will be interest free providing the instalments are paid on the due date. For many farming businesses this additional liability is likely to be unaffordable resulting in a need for assets to be sold to fund the tax.

As expected, it was confirmed that the scope of APR will be extended from April 2025 to include land managed under environmental agreements. This is important with the greater emphasis being placed on SFI and other environmental schemes following the withdrawal of BPS.

There's a lot to consider here, and many individuals will need to undertake estate planning to try to mitigate the impact of these new rules. However, with the technical consultation still to come and lobbying from the farming sector, it is possible the Government could make some amendments to the proposed changes, though it seems unlikely that they will be dropped completely.

Given the uncertainty we would not advise rushing into immediate action but to be prepared so that informed decisions can be made when the time comes. In particular this will involve understanding who owns all the assets, what the potential IHT liability could be and reviewing wills. Where family members have died within the last two years there may also be opportunities to minimise the impact of the changes. Everyone's position is slightly different and there is no one size fits all approach. The changes do not come in until April 2026 so in most cases there is time to plan and explore the options available, such as lifetime gifting. Our Tax team at Hazlewoods are well equipped to advise, so do get in touch if you would like to discuss how the changes impact you.

Tax changes from April 2025

Furnished holiday let (FHL) scheme abolished

From April 2025, the FHL regime will be abolished and the income arising on holiday lets will form part of an individual's property business.

The key changes to how holiday lets will be taxed are:

- **Loan interest** - will no longer be deductible and a 20% tax reducer will be available.
- **Capital allowances** - will no longer be available; however, the replacement of domestic items relief can be claimed. If you have any capital allowance pools, writing down allowances can continue to be claimed.
- **Pension relief** - profits no longer included when calculating the individual's relevant earnings.
- **Losses** - any carried forward losses will be available to offset against other rental profits.
- **Capital gains reliefs** - rollover, business asset disposal (BADR), or gift holdover, can no longer be claimed. Anti-forestalling arrangements apply from March 2024.

Action points prior to April 2025:

- Expenditure which would qualify for capital allowances should be incurred prior to April 2025.
- Review the financing of the FHL and other business assets.
- Consider timing of sale, incorporation, or restructuring.

Capital gains tax (CGT) rates

With effect from 30 October 2024, CGT rates are 18% / 24% on all asset types.

BADR remains, and the rate stays at 10% until April 2025. After which, the rate increases by 4% pa until reaching 18% from April 2026.

BADR relief will give a tax saving for completions:

- Pre-6 April 2025 – £140,000
- Pre-6 April 2026 – £100,000
- Thereafter – £60,000

Anti-forestalling for pre-April 2025 contracts:

- If completed before 5 April 2025, 10% rate applies.
- If completed after 5 April 2025, new rates apply unless parties can demonstrate wholly commercial intentions.

Where possible, ensure exchange and completion of sales pre-April 2025.

Double cab pick-ups – changes in the tax treatment

Following a previous U-turn on the matter, double cab pick-up (DCPU) vehicles with a payload of one tonne or more will be treated as a 'car' for benefit in kind and capital allowances (CA's) from 1 April 2025 for corporation tax, and 6 April 2025 for income tax. There will be no changes to the VAT treatment on purchase.

The existing capital allowances treatment will apply to purchases before April 2025. Transitional benefit in kind arrangements will apply for employers that have purchased, leased, or ordered a DCPU before 6 April 2025. They will be able to use the previous treatment, until the earlier of disposal, lease expiry, or 5 April 2029.

The changes will mean a significant increase in the income tax charge for employees provided with a DCPU and an increase in employers national insurance. In addition, the tax deduction available through CA's will be over a much longer period as the 100% annual investment allowance will no longer apply. Instead these will be available at 18% or 6% per annum.

If you are thinking of buying a DCPU, completing the purchase before April 2025 will reduce the tax and national insurance payable over the next four years.

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Pension changes

In the recent Budget, Labour promised not to increase taxes for working people, but they certainly raised them for former working people, with significant changes announced to pensions and their treatment on an individual's death.

Since the pension freedoms were introduced in 2015, pensions have been a tax efficient way of passing on wealth to future generations. Funds remaining in pensions on death were not deemed part of an individual's estate for inheritance tax (IHT) purposes, though potentially subject to income tax, depending on when death occurs. Generally being income tax free pre-75; income taxable post-75. However, in her recent Budget Rachel Reeves confirmed that from April 2027, funds remaining in pensions on death will be included in an individual's estate, and, therefore, potentially liable to IHT. Particularly penally as the existing rules surrounding payment of income tax remain, meaning there may be a double tax charge for some i.e. IHT initially, and income tax thereafter.

The table below provides a basic summary of the comparable tax position pre and post-April 2027:

Age of Death	Current Tax Rate to April 2027	Tax Rate Post April 2027
<75	0% - Irrespective of income tax position	40% - Irrespective of income tax position
>75	20% – Basic Rate Taxpayer	52% - Basic Rate Taxpayer
	40% - Irrespective of income tax position	64% - Higher Rate Taxpayer

This is a huge change in direction for pensions and returns us more closely to the rules prior to the 2015 pension reforms. This will certainly lead many into revisiting their retirement plans and overall strategy with their pensions. In recent years many individuals have been funding their retirement using other assets such as savings and investments, assets that are deemed part of an individual's estate for IHT, preserving funds in pensions which can be passed on to future generations tax efficiently. With the changes being introduced, it may result in many viewing their pensions as they were previously: retirement planning accounts.

Whilst the changes are naturally disappointing, we still firmly believe that pensions continue to remain hugely important, tax efficient accounts. Whilst there were rumours around other potential changes to pensions in the Budget, these proved to be unfounded, meaning pensions still benefit from tax relief on contributions, tax free growth and the ability to draw 25% tax free at retirement. Sadly though, we've lost the cherry on top!

The changes to pensions mean reviewing your position will be sensible for many. Common things to consider will be when to draw tax free cash and what to do with this; whether to begin taking an income; reviewing the pension/s you have in place; potential gifting or considering other IHT efficient investments.

It is important to look holistically and consider the interaction of pensions with the other assets you hold and potential taxes payable. Like many things, there will not be a one size fits all approach, meaning taking advice is important.

Please get in touch if you would like to discuss your pension position with a member of our Financial Planning Team.

Year-end planning and profit forecasting

Understanding your farm's profitability and cash requirements is increasingly important with the current unrest in the sector. Time is a challenge for many farmers but by setting some aside to engage in year-end planning and profit forecasting ahead of 31 March, businesses can understand their cash flow position and future tax liabilities. This process not only helps in evaluating the past year's performance but also assists in making business decisions.

Short term forecasting

- **Step 1** – Review the performance over the past year. Looking at the harvest performance, livestock productivity, and operational efficiency.
- **Step 2** – Estimate the activity for the remaining period up to the year end to include planned capital and revenue expenditure.
- **Step 3** – Consider the timing of capital purchases, should these be brought forward or delayed into the next financial year?
- **Step 4** – Consider kit sales, if there is no capital allowance pool, the full sale price will increase the taxable profit.

By estimating the accounting profit for the year, this can be converted into an estimated taxable profit, and the potential tax liability for the following January and July. This gives the opportunity to consider the timing of sales of crops in store, expenditure, and whether pension contributions should be made ahead of year end.

Longer term forecasting

With the changeable weather and flooding that the country has recently experienced, farmers will find it increasingly difficult to anticipate next summer's harvest performance. This could result in a cash pinch point over summer 2025 whilst the cost of inputs outweighs income. By forecasting cash flow in advance, you can calculate when additional finance may be required and plan for this.

Some annual hire purchase (HP) repayments have fallen in line with basic payment scheme (BPS) income in December. Following the Government's announcement to expedite the phasing out of BPS payments which will affect income for most landowners in December 2025, businesses should consider early how they will meet December HP payments, and January 2026 tax bills.

It is important to keep on top of changing interest rates on variable borrowing; this may involve refinancing and seeking additional advice to get the best rates. If the business has surplus cash, capital loan repayments can be considered, but it is essential to understand the future cash requirements as short-term borrowing can be expensive.

Quite often decisions to spend money are led by the tax implications. Whilst tax is an important factor to consider, it should not override the commercial decision-making process. Sitting down at the start of a new financial year and planning the timing of annual spending will highlight any pinch points. This could also help when seeking additional finance from a lender.

Year-end planning and profit forecasting are essential for setting your agricultural business up for success in the coming year. By reflecting on past performance, setting clear goals, and preparing for future challenges, you can ensure that your farm remains resilient, and competitive.

Meet the team: Peter Griffiths

Tell us a bit about your career so far

I previously worked for a large international firm before joining Hazlewoods and specialised in tax from early in my career.

I am 'allergic' to being indoors and sitting down! At every opportunity I'd much rather be outside doing something in the countryside, whether that is fruit picking, putting in a gate post or being on top of a hill enjoying the view of the fantastic countryside we have. Even if it is raining... I've not had to have my waterproof skin rewaxed yet!

I'm from a farming background, so if I'm not farming myself what better way to spend my days than talking to people who are farming, helping them to plan their business and family futures in a tax-efficient manner?

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

Extremely busy! The proposed changes announced in the October Budget mean that many farmers are concerned with their future succession planning. We are here to help guide them through, though we will not know the final implications until after the consultation next year.

Why Hazlewoods?

We have fantastic clients who are a pleasure to work with. These range from farms growing 'niche' crops on a relatively small scale, to farms producing food on a large scale for the supermarkets, each with different needs in the type of tax advice they require.

What is still evident in the farming community is the unwritten code of mutual obligation that exists in the countryside whereby your neighbours will always help you in your hour of need. Whether that is to clear the snow so the milk tanker can get through, or getting the harvest in when the rain is on its way.

Hazlewoods

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