# Other Considerations

## Tax treatment of agricultural vehicles

Some specialised agricultural vehicles are exempt from vehicle tax. If a farmer owns a vehicle which is used solely for the purpose of agriculture, horticulture or forestry, it is exempt from vehicle tax. Such vehicles include tractors, agricultural engines and light agricultural vehicles. In addition, certain types of agricultural vehicle are not defined as 'road vehicles' and can make use of rebated fuel and VAT.

## Annual Investment Allowance (AIA)

Farm businesses are eligible to claim the AIA. The AIA applies for up to £200,000 of a year's investment in plant and machinery (except for cars), and is allowed at 100%. Most farm equipment including farm vehicles and even some buildings and structures will qualify for capital allowances and the AIA. The allowance applies for businesses of any size and most business structures, but there are provisions to prevent multiple claims. Also note that 'mixed partnerships' (i.e. those with one or more corporate partners) cannot claim the AIA.

## Business rates

Farmers and those who make use of agricultural property are not required to pay business rates in respect of their agricultural land and farm buildings. This includes fish and most stud farms.

## Cloud accounting software for farmers

As technology advances, cloud accounting offers an efficient and effective way of balancing the management of your finances with the day-to-day running of your business. There are a host of cloud accounting services for those in the agricultural sector, which are specifically tailored to the needs of farmers.

Agriculture cloud accounting software is designed to help streamline the management of farmers' agriculture businesses and their finances, allowing farmers to manage their livestock and crops, alongside handling the day-to-day business accounting issues, including management accounts and payroll. Please contact us for more information on cloud accounting software for your agri-business.

**There are many tax and accounting issues for farmers to consider. We can help you plan to ensure that your business finances are as tax-efficient as possible. To find out how we can assist you, please contact us.**

# Our Services

**Business Planning**

- Business start-up planning and advice
- Strategic and business planning
- Financial management
- Computer and financial systems advice

**Taxation Advice**

- Self-assessment
- Personal tax
- Business tax
- Company tax
- Capital gains tax
- Inheritance tax
- HM Revenue and Customs enquiries
- Value Added Tax
- PAYE and national insurance compliance
- Preparing for Making Tax Digital

**Accounting**

- Preparation of annual accounts
- Preparation of periodic management accounts
- Providing book-keeping services
- Maintaining PAYE and VAT records and associated returns

**Company Secretarial**

- Preparation and filing of statutory returns
- Preparation of minutes and resolutions
- Company formation
- Company searches



**Please contact us for further information.**

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GUIDE TO…

# Agriculture and Farming

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# Agriculture and Farming

**Farmers in the UK are subject to a raft of tax requirements, and there are a number of schemes available which apply specifically to agricultural businesses. This guide highlights some key areas to consider.**

## Agricultural Property Relief (APR) for inheritance tax

APR of 100% of the agricultural value is applicable for inheritance tax purposes, for eligible farming land occupied by the owner or by a tenant under a post-1 September 1995 tenancy (Farm Business Tenancy) or a pre-September 1995 tenancy with less than 24 months' vacant possession. Relief of 50% is applicable if the pre-September 1995 tenancy has more than 24 months to run.

Agricultural property includes land or pasture used for growing crops or rearing animals. Certain 'character appropriate' buildings may also be eligible. The property must be situated in the UK, the Channel Islands, the Isle of Man or the European Economic Area (EEA). Prior to the transfer, the land or property must have been occupied for agricultural purposes for at least two years by the owner, or at least seven years if occupied by someone else.

Whilst APR only exempts the agricultural value of property, Business Property Relief (BPR) will usually exempt the value in excess of this. Advice should be sought to ensure these reliefs are in tact; should HMRC challenge APR on BPR upon gifting or death the financial consequences for the estate could be severe. Gifts that qualified for APR and BPR when being made will still be eligible if they have been held by the person who received them, up until their death (or the death of the person who gifted the land), and if the property has been occupied for agricultural purposes since being gifted.

## Farmers' Averaging Relief for income tax

Farmers' Averaging Relief is available for farmers and market gardeners, allowing them to elect to calculate their profits from farming or market gardening for either two or five years and be taxed on the average figure. However, this does not affect the amount of tax and national insurance contributions (NICs) a farmer must pay for earlier years. Averaging is not available for farming businesses operated through limited companies.

# Farming and VAT

## Agricultural flat rate VAT scheme

Farmers may choose to use this scheme, instead of the standard method of accounting for VAT. A flat rate of 4% may be added to the sale price of qualifying goods or services that are sold to a farmer's customers who are VAT-registered - even where such goods or services would usually be zero-rated for VAT.

Those who register for the scheme do not have to account for VAT or submit returns, and therefore cannot reclaim input tax. They must meet certain qualifying criteria:

- They must be in business as a farmer supplying eligible goods or services: these include crop production, stock farming, forestry and fisheries.
- They must cancel their VAT registration if they are currently registered. (Farmers are only permitted to do this if their turnover for non-farming goods is below the VAT threshold.)
- Applicants for the agricultural flat rate scheme must not have been convicted of any offence in connection with VAT in the three years prior to their application.

Farmers are not permitted to join the scheme if the value of their non-farming activities exceeds the VAT registration threshold of £85,000, if their primary activity is buying and selling animals, or if they are engaged in an activity once removed from trading.

## Rates of VAT on goods and services

Certain supplies are zero-rated under the agricultural VAT scheme, including animals and animal feed, as well as specific plants and seeds. Agri-businesses can zero-rate the sale, hire, loan or share of a live animal, provided the animal falls under one of the following categories:

- Meat animal (certain exceptions apply)
- Dairy animal
- Poultry
- Honey bees
- Fish (excluding ornamental breeds and coarse fish).

## Livery services

The supply of livery services is standard-rated, unless the stabling is a right over land which you have not opted to tax. In these circumstances, the entire livery package is exempt, unless it is supplied by a special purpose stable. Livery packages provided by special purpose stables (e.g. a riding school) are standard-rated.

# The Herd Basis

The Herd Basis is a way of calculating profits and losses for those who keep production livestock. Most farm animals are considered trading stock. However, some which are kept for the products they produce might be considered capital assets of the farmer's business. Tax law gives farmers the option of dealing with 'production animals' under the Herd Basis. These animals are excluded from trading stock and classed as a capital asset.

A farmer must elect to utilise the Herd Basis, otherwise all animals will be treated as trading stock for tax purposes. Farmers must specify the type of animals concerned, and, once the decision to use the Herd Basis has been made, it must be used for as long as the farmer keeps animals of that class.

## Choosing to use the Herd Basis

The treatment for the purpose of computing a herd's farming profits under the Herd Basis is subject to special rules, as follows:

- the initial cost of a herd is not considered an allowable deduction; neither is any increase in herd size thereafter
- an allowable deduction is permissible for the net cost of replacing animals in the herd
- where a small number of animals are sold from the herd and are not replaced, the subsequent profit or loss is taken into consideration when calculating the farming profits
- where the entire herd, or a large portion of it (over 20%) is sold and not replaced, the subsequent profit or loss is not taken into account.

If farmers jointly own animals, for example under a share-farming arrangement, the Herd Basis can be applied.

## Losses

Under the Herd Basis, many losses can be claimed against other income. However, special rules restrict your ability to make a claim in circumstances where your farm is uncommercial, or in situations where you have had a run of losses of more than five years.

## Compulsory slaughter

Farmers can make a claim for spreading relief following the compulsory slaughter of eligible trading stock. Animals slaughtered on the Herd Basis are not eligible for the relief. The relief is usually only given for the slaughter of immature animals in a production herd, mature animals which do not make up the whole of a production herd, animals reserved for sale or slaughter and flying flocks or herds.