AZETS

Now is the time for succession planning for farming businesses

If you are considering succession planning or a restructure of your farming business now would be a good time to put those plans in place while the reliefs are available to use for efficient tax planning. The reliefs may not be around if you put off or delay.

With the Autumn Budget cancelled tax increases are off the table for now. The pandemic is resulting in huge borrowing levels for the UK. The figure is expected to be around £400 billion for the current year. These debt levels have not been seen since the Second World War and will have to be addressed. The one obvious solution to bringing the debt level under control is to increase taxes. But what could that mean for farmers and landowners?

The three big contributors to the Exchequer are VAT, Income Tax and National Insurance but the Government has pledged not to increase the rates of those taxes. Increases in VAT, Income Tax and National Insurance should not be ruled out completely in the medium term however, as these are exceptional times, and the electorate may accept an increase in the circumstances.

There have been reports as to how Inheritance Tax (IHT) might be reformed. Many farmers have traditionally dealt with passing on the farm through their will on death and with the availability of 100% Agricultural Property Relief there can often be no inheritance tax due with the added attraction of the farm passing to the next generation at market value on death for CGT purposes. The suggestion is this CGT uplift should be removed meaning that beneficiaries could face a large CGT bill if they wish to sell. IHT Reliefs for Agricultural and Business Property may be reduced or removed but as these both play key roles in avoiding the breakup of farming businesses this may save them.

Where a farming business also has rental cottages on the farm, at present it is possible to obtain Business Property Relief (BPR) on the farming business and the cottages in line with the 'Balfour' and 'Farmer' cases where the rental business is less than 50% of the combined business (when various factors are considered). The Office of Tax Simplification has recommended that the BPR test is aligned with the CGT 'substantial' test for holdover relief and business asset disposal relief whereby the level of trading activity would need to be more than 80%.

There has been some speculation that a wealth tax could be introduced and applied to net assets (excluding main residence and pensions) above a certain threshold. Some countries in Europe have a wealth tax with rates from 0.2% up to 2.5% with no exemption for business assets. How could this work if the UK introduced a similar model? By applying to assets over £1m at a rate of 0.75% and you own a farm worth £5m with no borrowings, you could face an annual wealth tax bill of £30,000. However, it is unlikely that such a tax will be introduced in the short term. Such a tax could be introduced longer term but reducing allowances and reliefs and increasing the rates of current capital taxes seem a far more likely course of action.

Capital Gains Tax (CGT) on disposal of assets is currently payable at a basic rate of 10% (18% for residential property) and a higher rate of 20% (28% for residential property). These rates could be increased to closer reflect income tax rates so perhaps 20% basic rate and 40% higher rate.

If considering selling or giving away assets in the near future you may wish to accelerate the disposal to take advantage of the current low rates and the rules as they stand, prior to the Spring budget when changes may occur, particularly if it is an asset which may not qualify for a CGT relief, such as a let cottage or stocks and shares.

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