Lentells
Chartered Certified Accountants

RURAL BULLETIN Winter 2021

HOW WILL FARMERS REPLACE BPS?

The gradual phase-out of the Basic Payment Scheme (BPS) is set to have a large impact on farm incomes across England.

Payment Band	2021	2022	2023	2024
Up to £30,000	5%	20%	35%	50%
£30,000-£50,000	10%	25%	40%	55%
£50,000-£150,000	20%	35%	50%	65%
More than £150,000	25%	40%	55%	60%

The first cuts, which happened this year mark the start of the phase-out. After the first cuts, farm businesses face the loss of at least half their basic payment by 2024, with the whole payment gone by 2028.

This will have a significant impact on farm profitability, with incomes expected to be down by as much as £230/ha. BPS funding currently represents approximately 58% of profits across all farms.

The progressive reductions to BPS are outlined in the chart. Future BPS payments can be calculated here; **https://calculate-direct-payment-reductions.defra.gov.uk/**

Farmers who rely on the BPS to support their businesses will have to investigate other income streams. Other farmers will need to think about an exit strategy.

Farmers hoping to replace lost BPS income with payments from the forthcoming Environmental Land Management (ELM) scheme will be disappointed. The fund available will be lower and farmers will have to do more to access the money that is available.

New support schemes are being phased in as BPS is phased out. However, it is unlikely that these will fully replace lost BPS income.

The ELM scheme is scheduled to be up and running from 2024. It will have three levels;

- Entry-level – Sustainable Farming Incentive
- Mid-Level – Local Nature Recovery Tier
- Higher-level – Landscape Recovery Tier

Other schemes include:

- Farming investment fund – capital grants
- Farm resilience scheme – training and advice
- Farming in protected landscapes
- Slurry investment scheme – capital grants for stores
- Skills and training – professional body
- Animal welfare – payments for improved standards
- New entrants scheme – support for programmes rather than individuals

Farmers should review their business performance by benchmarking to provide a good basis for decision making. This makes looking at ways to make changes to the existing business or looking at new opportunities much easier.

It's much easier to look at both new opportunities or changes to the existing business structure after looking at current performance. Reducing costs is a priority, but it is important to be cost appropriate and to introduce changes in a way that maintains margins.

Other key areas to look at are environment management, machinery and diversifications.

Environment management

Environmental schemes are expected to be a significant source of income in the future.

Countryside Stewardship is proving to be a good option for the transition period. Farmers who are yet to enter the scheme have until 2023 to apply for agreements to start in 2024.

The Sustainable Farming Incentive is also worth looking into, which could earn farmers about £70/ha from next year by undertaking in-field practices which increase soil organic matter. This may help make soils more resilient which allows for lower input use and paves the way for ELM and potentially carbon sequestration payments.

Machinery

The BPS phase-out transition period may be a good time to explore machinery sharing and other collaborate projects with neighbouring or like-minded farmers. Machinery is one of the largest costs on most farms and often having a share farming agreement can make sense. Most farm businesses will benefit from collaboration, both in financial efficiencies and social benefits.

Diversifications

Looking into possible diversifications will also be a good way to create new income streams as profits from diversifications can be significant.

For most farm businesses, diversification opportunities come in two forms, the first being creating more from existing assets and the second being when diversification becomes a business in its own right. The latter approach can take time to bring a profit.

More than half of all farmers have diversified their business, with renewable energy being the most popular diversification.

Exit plans

The government plans to offer a lump sum exit scheme to farmers who want to retire from 2022.

The scheme will offer farmers the chance to take a lump sum in place of any further BPS payments up to a maximum of £100,000. Those who take it must stop farming.

It has however been predicted that this is unlikely to appeal to farms larger than 183ha.

Money management for diversified farm businesses

Many new diversification ventures have been set up in the past 18 months, often relating to new threats or opportunities brought about by the pandemic. Below we have set out some key tips for setting up a diversification venture.

SETTING UP A NEW BANK ACCOUNT

If you are going to run a new venture which is quite different to the rest of your farming activity, setting up a separate bank account can be helpful. It will help determine whether the business is generating cash and keep track on costs.

Setting up a new business bank account can take longer than you think, especially if you're looking for a new bank. Many banks are not visiting farms, so it could take months to set up a new business account. If you are using your existing bank, then a new account should be possible within weeks.

STARTING A NEW VENTURE

If the new business contains significant risks, consider running it using a limited company or limited liability partnership. This will ring-fence liabilities of the new business and help protect the valuable land, buildings and stock that farm businesses own.

Where losses are expected from the new business, these may be available to offset against farm profits, reducing your tax bill. However, losses from a new business do need some common ownership for the losses to be used. This only applies to sole traders and partnerships, including limited liability partnerships but not to limited companies.

VAT CONSIDERATIONS

One of the big considerations is often whether to carry out a new venture in an existing VAT-registered farming business or set up a new entity.

If the new enterprise will be making taxable supplies to non-VAT-registered customers such as furnished holiday let accommodation or clay pigeon shooting and the taxable turnover is under the £85,000 VAT threshold, it would be more attractive to have a separate business so there is no need to charge VAT.

Any separate business must be genuinely separate from the main VAT-registered farming business with its own accounting records and bank account. Any transactions between the farming business and diversification business must be on an arms' length basis. For example, if the diversification business is using a tractor for the farm, then the farm business needs to charge a commercial rate plus VAT for that use.

Where the diversification activities are exempt from VAT, this could restrict the ability to recover input VAT and complex partial exemption rules may apply.

ASSET OWNERSHIP

It's common among farming families for land to be held in different names to those carrying out either the farming business or diversified venue. Making sure that asset ownership is clearly documented will help to avoid any tax or legal issues further down the line.

A family business occupying part of the farm for a new venture should be treated in exactly the same way as a third party. Including charging rent and ensuring it is paid on normal commercial terms as per a formal written agreement.

For more information on farm diversification ventures, please contact us.

Capital gains tax reporting deadine

Capital Gains Tax reporting deadline extended to 60 days

It was announced in the Autumn Budget that the deadline to submit a Capital Gains Tax(CGT) return and pay any CGT due, on a disposal of UK homes has been extended from 30 days to 60 days.

Since 6 April 2020 UK residents have been required to calculate, report and pay any Capital Gains Tax (CGT) liabilities on the disposal of UK residential property within 30 days of completion. For disposals that complete on or after 27 October 2021 the reporting and payment deadline will be 60 days after the completion date.

The time period has also been extended for non-UK residents who will now get 60 days to report and pay CGT on all disposals of UK land.

The Autumn Budget also confirmed that for mixed-use properties disposed of by UK residents, only the portion of the gain that relates to the residential part of the property should be reported and paid to HMRC.

No return is required if there is no CGT to pay, for example if the gain is covered in full by losses brought forward, or main residence relief. In most cases a calculation will still be needed to confirm this is the case.

The new return is in addition to the existing tax return and so the disposal must be reported again for individuals who complete a self-assessment tax return at the end of the tax year.

If you are intending to sell a residential property, we recommend you get in touch with us as soon as possible so that we can ensure that all the necessary information is available so that the return can be filed and any CGT payable paid within the 60 days.

There will be penalties for late returns, and interest will be charged on late payments.

SOMERSET'S PHOSPHATES ISSUE

What is the Dutch N case?

It was a court judgement in the Netherlands that concerned agricultural N-pollution affecting protected heathland sites. The general principles from this case are applicable to other pollutants or receptors where there is an increase nutrient loads:

"the essential point being that where the conservation status of a protected natural habitat is unfavourable, the possibility of authorising activities which may subsequently compromise the ability to restore the site to favourable condition and achieve the conservation objectives is "necessarily limited"

An extreme case of what happens where there are excessive nutrients in a water course is the Turkish Sea Snot, where there have been outbreaks since 2007 and the worst being between April – June this year. It's a thick, slimy layer of the mucus-like matter is spreading along the Sea of Marmara near Istanbul, damaging marine life and the fishing industry and is formed when algae is overloaded with nutrients as a result of hot weather and water pollution. Feel free to Google it to see the images! This is a real extreme case and we are a long way away from this disaster but it is worth having an awareness to understand the importance of the effects if left untreated.

Why does this effect Somerset?

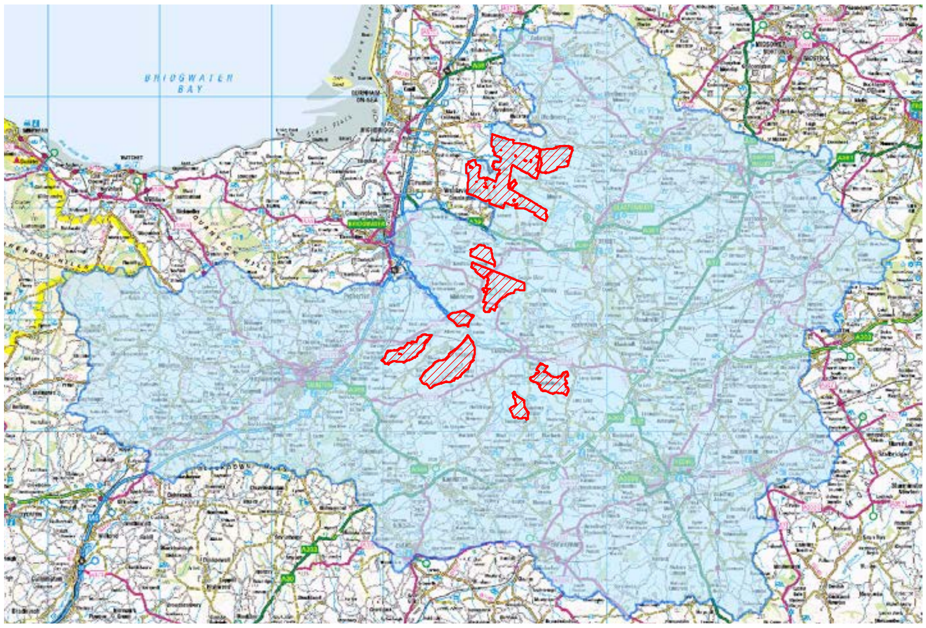
The Dutch N case judgement triggered Natural England (NE) to write to all Somerset Local Planning Authorities in August 2020 due to the unfavourable condition of the Somerset Levels and Moors Ramar Site from the high levels of phosphates. The Ramar Site has a huge catchment area which is why it is causing problems for most applications in Somerset as there are only a few areas outside the catchment. Although the current catchment map is due to be updated shortly...

In the letter, NE advised before a planning application is determined that may give rise to additional phosphates within the catchment, competent authorities should undertake a Habitats Regulation Assessment. The overall aim of any application is to achieve nutrient neutrality.

What planning applications does it effect?

Essentially any application that produces a waste which has a phosphates element, whether that is humans, livestock or an Anaerobic Digester waste. Currently it is affecting both full planning applications as well as some (not all) Permitted Development Right applications.

Applications that are affected are finding the whole planning process is becoming extremely protracted particularly as the county ecology team are under a lot of pressure. It is also making applications more expensive in terms of specialist advise and providing mitigation. However, submitting an application with a proposed solution, will speed the process up and inputting one figure wrong in the phosphate calculator can result in a disproportionately high mitigation requirement.



How do we address phosphates within an application for a residential dwelling?

Firstly, you need to determine whether you are going to discharge to a mains sewer or a private system. If the single dwelling is within 30m of a main sewer you are legally obliged to connect to the mains sewer. If a private system, you need to determine exactly what type of system you propose – currently the Klargester BioDisc Sewage Treatment Plant is the best on the market for reducing phosphates although it still does not achieve nutrient neutrality. It is also worth reviewing the "Interim guidelines on small scale thresholds and nutrient neutrality principles for the Somerset Levels and Moors Ramsar catchment" produced by Somerset County Council to see if it applies.

Then you need to arrange for a suitable specialist to complete the Phosphates Calculator to determine the level of mitigation required for your development. The calculator currently determines the total area of proposed mitigation land for the below uses:

- **Constructed wetland**
- **Open Space**
- **Nature Reserve**
- **Woodland**
- **Heathland/ Bog**
- **Meadow/ semi-natural grassland**

Mitigation can either be provided onsite or the applicant can find somewhere else but within the same catchment, or purchase credits from a trading platform like EnTrade (although currently EnTrade is not live). If the applicant is providing their own mitigation, a Section 106 legal agreement will need to be drawn up between the council and the applicant to ensure this mitigation remains in perpetuity and we are currently unsure of the maintenance obligations required for smaller scale schemes.

How do we address phosphates within an application for an agricultural building?

It depends whether you are increasing herd size to whether phosphates apply. For example, if the building is for hay and straw storage or machinery this does not cause a phosphate issue. Alternatively, if you have lost rented buildings to house your livestock, currently as long as the holding you occupy is not increasing in herd size, this does not cause a phosphate issue. However, where you are increasing herd size, it is more complicated and I am working closely with the NFU, CLA and NE to create some practical guidance and solutions.

Are there opportunities from the phosphate's situation?

The requirement to provide land for mitigation is certainly influencing the land market whether that is by applicants wanting to buy land in a certain catchment or landowners want to explore the possibilities of entering land into the EnTrade platform or other trading platform, which is likely to be more profitable than agricultural use. It will be key you obtain specialist advice from a land agent perspective but also your accountant to consider the tax implications.

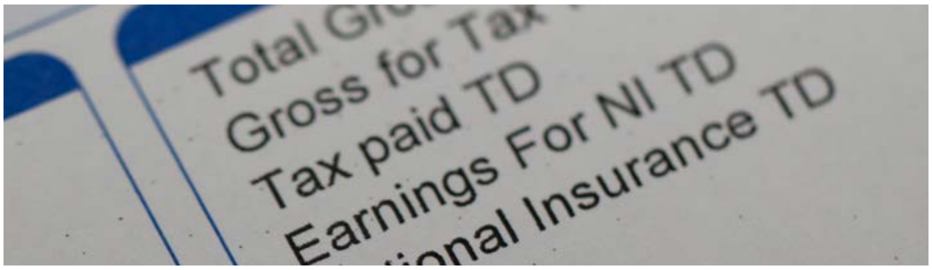
Nicola.quick@carterjonas.co.uk
www.carterjonas.co.uk

Carter Jonas

By **Nicola Quick** BSc (Hons) MRICS FAAV
Associate at Carter Jonas, Taunton

Carter Jonas is a multi-disciplinary property partnership, with offices across the UK. Their rural division deals with all aspects of rural land and businesses. Nicola Quick is a Rural Chartered Surveyor, Agricultural valuer and AMC Agent based in their Taunton office.

EMPLOYMENT COST CONTINUE TO RISE



Following on from the recent announcement regarding the new health and social care charge of 1.25%, further pressure is being brought to bear on employers from 1 April 2022 with a 6.62% rise in the national minimum wage (NMW) for those aged 23 and over.

Employees are eligible to be paid at the apprentice rate if they are within the first 12 months of an apprenticeship, or beyond that point but remain under the age of 19.

Combined with the 1.25% increase in NIC, this will come as a significant rise in costs for many rural employers, which ultimately is likely to be passed onto customers, contributing to rising inflation.

The overall costs for an employee working 37 hours per week, paid at the NMW, who is also auto-enrolled for pension purposes, will rise from £18,802 to £20,246 in April 2022. That represents an increase of £1,444 being 7.7%.

Care needs to be taken to ensure that any reductions from salary, such as salary sacrifice arrangements, do not put an employee's pay below the NMW rates. If HMRC identify failures in complying with the NMW rates, penalties of up to 200% can be applied.

THE NEW RATES	Rate from 1 April 2021	Rate from 1 April 2022
National Living Wage	£8.91	£9.50
21-22 Year Old Rate	£8.36	£9.18
18-20 Year Old Rate	£6.56	£6.83
16-17 Year Old Rate	£4.62	£4.81
Apprenticeship Rate	£4.30	£4.81

Employers & Employees to pay 1.25% increase in NIC's

The government recently announced National Insurance Contributions (NICs) will rise by 1.25% from 6 April 2022 to help fund social care and the NHS.

The government recently announced National Insurance Contributions (NICs) will rise by 1.25% from 6 April 2022 to help fund social care and the NHS.

This will directly affect all employees who earn above the NIC threshold (currently £9,568) as well as employers with staff earning over the employer NIC threshold (currently £9,568).

This will be paid by all working adults, including older workers over the age of 66, and is expected to raise around £12 billion a year.

Employers currently pay secondary Class 1 NICs at a flat rate of 13.8% for all employees who earn more than £8,840 a year. From 6 April 2022, the rate of employers' NICs will increase to 15.05% on qualifying earnings above this threshold. This rate will revert back to 13.8% from April 2023, but the additional 1.25% will apply separately as the new health and social care tax.

Employees have Class 1 NICs deducted from their pay packets at source by their employer if they earn more than £8,840 a year in 2021/22. They currently pay a main rate of Class 1 NICs at 12% on qualifying earnings up to £50,270, with an additional 2% applying on earnings above this. From April 2022, these main and higher rates of Class 1 NICs that apply to employees will increase to 13.25% and 3.25% respectively.

The changes will cost an employee who earns £25,000 an additional £193 per year with the cost to their employer an additional £202 per year.

The self-employed currently pay NICs at 9% on profits between £9,568 and £50,270 with 2% on profits over £50,270. They will also be subject to the rise, which will cost someone with profits of £25,000 an additional £192 per year.

These changes may mean salary sacrifice arrangements become more popular and businesses try to extract profits before 5 April to reduce the impact of the new charge.

LENTELLS AGRICULTURAL DIRECTORS

Debbie Thatcher
debbie.thatcher@lentells.co.uk
01823 286274 (Taunton)
01460 64441 (Chard)

Mike Griffiths
michael.griffiths@lentells.co.uk
01297 20584 (Seaton)

Please register on our website to receive our topical news updates

www.lentells.co.uk