PKF Francis Clark

Farming Matters

Winter/Spring 2025

New year

Welcome to the winter/spring 2025 edition of Farming Matters and as ever hopefully this newsletter will include articles that are both of interest, relevant and thought provoking to you all.

A new year is always a good time to look back at the year that has gone and look forward to the year ahead and the challenges and opportunities it might bring.

2024 saw much political change both domestically and internationally. The snap election saw Sir Keir Starmer and the Labour Party win at a canter with the rural blue South West being all but removed from the political map, whilst on the other side of the pond Donald Trump has been re-elected as US President.

We wait and see what his second term might look like but it is very clear that he has the political backing of the US farmer and no doubt he will try to look after their best interests, and what that might mean for us we don't yet know.

The full implications of changes in governments will become more apparent in 2025 but what is clear is that we live in a world of increased geo-political uncertainty and tension and this will undoubtedly have its impact on global agriculture and ultimately us all.

Our clients across all farming sectors have experienced variable performance, new challenges and some opportunities during the year.

The long-term decline of direct support is now noticeable. This is as a result of inflation, which has eroded the value of support as well as the direct decline due to changes in the structure of support and the well reported Defra underspends, which is clearly frustrating. Recent months have seen a wider uptake in Sustainable Farming Incentive and Countryside Stewardship schemes and this must still be encouraged.

Whilst the variable costs of fertiliser, feed and fuel in particular have fallen, which is of benefit, so have output prices and it is arguably the fixed costs of labour, machinery and finance that are providing continued challenges for many, with cash flow for some being particularly tight.

Employment of labour remains a key issue, both in terms of availability and the cost, with increases in the national living wages and employers' national insurance being difficult to absorb in many cases and this will be an increasing challenge in 2025.

I cannot conclude a brief 2024 review without mentioning the October 2024 Budget, the first of Rachel Reeves as Chancellor, which is covered in much more depth in many of the articles contained within this newsletter.

I have often spoken and written about the value of agricultural property relief (APR) and business property relief (BPR) to the rural community and how it should not be taken for granted, but like most of us I was not ready for the changes that have been announced, which will undoubtedly have a major impact on the farming community and my working life, having never been so busy.

To date, despite the best efforts of the NFU, CLA and other organisations there seems to be little traction in terms of any back tracking or concessions.

We have been lobbying for at the very least APR/BPR allowances becoming transferable between spouses, ideally for the 100% allowance to be bigger to take more active farmers out of inheritance tax (a tax that many cannot afford) and hopefully would like to see some leeway being given to the older members of the farming community, where the making of gifts and surviving seven years is not a realistic option.

The proposed changes have created a huge amount of anxiety and uncertainty in the sector but for now our advice remains to try not to panic and to get proper advice on this matter.

We will see what the detailed legislation will bring in the forthcoming months, hopefully this will be sooner rather than later, and some sense will prevail.

For many, planning will help alleviate any inheritance tax exposure and help protect the family farm, noting that for some such options are not clear or obvious. However, for all succession planning must be on the agenda in 2025!

Finally some colleagues have recently attended the Oxford Farming Conference (OFC), where the heading for the event was 'Facing Change, Finding Opportunity.'

At present, conversations I am having seem to suggest that it is perhaps easier to identify with the changes afoot whereas some of the opportunities are perhaps less easy to identify. However, we will look to work with our clients to deal with both change and grasp opportunities as they arise.

The OFC has seen a series of reforms announced by Defra Secretary of State Steve Reed in his keynote speech as part of the 'New Deal for Farmers'.

This included some positive soundbites with regards to backing British produce, using planning reforms to support food production, diversifying income stream, a fair supply chain and protecting farmers in trade deals, all of which in principle are good news for the industry. We await the detail and what this might mean to the industry in practice.

Similarly, we await the 25-year farming roadmap which is due to be published later in the year. Mr Reed spoke of the intention for government and farmers to work together to identify solutions to the challenges and ensure government support is in place to enable farmers to take the actions that will let their business succeed.

This all sounds very encouraging, however as always for many the issues are those of the right here, right now and to benefit from long term change you need to get to the long term in the first place.

Here's to the challenges and opportunities that 2025 will bring to us all. I remain confident in the resilience of the British farming community to cope with them and we look forward to working with you to achieve your goals.

Happy reading!

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The changing IHT landscape

In many countries across the world farming is considered to be the backbone of society – employing rural communities, caring for the environment and feeding the nation. The announcements in the autumn Budget may significantly harm the Great British farmers, and their rural communities. This article will focus on the changes to inheritance tax (IHT) and the interactions with agricultural property relief (APR) and business property relief (BPR).

It was confirmed that the legislation would come into force in April 2026.

Pre-April 2026

APR remains available at 100% on the agricultural value of land and property occupied for the purposes of agriculture. And for those working farmers any value over and above agricultural would likely qualify for BPR, meaning that on death, the farm, together with diversified, non-agricultural assets of the business, could pass IHT-free to the next generation.

At this point it is very easy to define what IHT 'relievable assets' are, i.e. any assets that qualify for APR or BPR. Why is this important? Most wills are drafted in a way that assets which are subject to IHT are inherited by the spouse – there is no IHT to pay as a result of the spousal exemption on the first death. Any relievable assets tend to then be passed down a generation. This meant that the younger generation could receive the assets on which no IHT is due, with a capital gains tax (CGT) base cost equal to the probate value on death. We will come back to the importance of wills a bit later....

Post-April 2026

IHT relief at 100% is now only available on the first £1m of combined business and agricultural property. Any amount in excess of that limit will only receive relief at 50%. This has a huge impact on the IHT liability from one generation to the next. The spousal exemption is still in existence, so on the first death all assets could be passed to the spouse and be free from IHT. However, the IHT sting will kick in on the second death for farms in excess of £1m (in our experience, that is most farms!). Crucially also, the £1m allowance does not transfer to the surviving spouse, so it is important to make use of this on the first death, where possible. A matter of use it or lose it, with a tax implication of £200,000 if no action is taken.

As promised, we are back to wills – does your will refer to 'relievable assets'? What does that really mean now? The definition is now not so clear cut, and if wills aren't reviewed there is a danger that the (unexpected) IHT sting kicks in on the first death. Redrafting wills to identify the £1m as relievable assets protects this position.

Ensuring your will is reviewed now to reflect the changes is key.

What can you do now?

- **If a member of the family has died within the last two years, should a deed of variation be considered?**
- **Take out a life insurance policy (quotes for those under 50 tend to be surprisingly affordable)**
- **Review wills**
- **Consider gifts to children pre-April 2025**
- **Consider gifts into trusts pre-April 2025**

Deed of variation

Where there has been a death within the last two years, it might be possible to undertake a deed of variation, to direct assets to the next generation if this was not already included in the will. This could then secure up to 100% APR/BPR that would have applied at the date of death, rather than being subject to the 50% relief applicable now.

Taper relief and the seven-year clock

It should be noted that assets that currently qualify for APR can be gifted free of an immediate CGT charge, as a result of meeting the criteria for holdover relief. This does mean that the recipient of the gift inherits your base cost, so any subsequent sale of that asset, would attract the same charge to CGT as if it remained in your hands until that ultimate sale. Any gift will start the IHT seven-year clock and will be a potentially exempt transfer (PET).

This used to be a very straightforward part of the legislation, in that as long as the person making the gift survived seven years, there would be no IHT liability payable on the gift. If, however, the person died within seven years the gift may fall back into the scope of IHT if it no longer qualified for APR. Taper relief starts three years after the gift, which reduces any IHT payable by equal amounts over the final four years.

Going forward the interaction of the seven-year clock rule and the changes to the IHT legislation have an interesting impact on the effective rate of IHT. At this point it is useful to remember that the recipient of the gift is responsible for paying any IHT liability.

To illustrate this we use an example of a gift of farmland worth £5m on 5 April 2025.

£'000	Tax year of death						
	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Value of land	5,000	5,000	5,000	5,000	5,000	5,000	5,000
APR	(5,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
IHT @ 40%	Nil	800	800	640	480	320	160
Effective tax rate	0%	16%	16%	12.8%	9.6%	6.4%	3.2%

Trusts

A number of ownership structures now include trusts. Trusts have many uses, including, but not limited to, the safe passing of assets, whilst still retaining some control (due to having trustees) and as a result are popular. In a lot of cases trusts own agricultural land and property which invariably make very little income.

Relevant property trusts are subject to 10-year IHT charges, at a maximum rate of 6% of the value of the trust. However, the value of the trust is decreased by IHT reliefs, normally meaning that although an IHT return has to be prepared and submitted every 10 years, there is no liability due to HMRC.

Under the new legislation it is likely that a 3% charge on the value of the trust at the 10-year anniversary date will arise. The challenge – how will that liability be paid? Will land need to be sold to fund it? Should assets be appointed out of a trust now?

As the £1m threshold also applies to trusts, one consideration you might have is to simply set up multiple trusts of £1m each, to keep each trust below that threshold. However, any number of trusts set up by the same settlor after 30 October 2024, share the £1m threshold, to prevent people doing exactly that.

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Further hits to delinked payments

While all eyes were on the Budget at the end of October, and with the news of changes to APR and BPR taking the headlines, the government also made a number of other announcements that will impact the farming industry.

One of these was the change to delinked payments. Amid the announcement that a budget of £2.4 billion had been secured to maintain schemes such as Environmental Land Management (ELMS), Sustainable Farming Incentive, Countryside Stewardship Higher Tier and other landscape recovery schemes, one of the casualties was further reductions being made to delinked payments next year.

Delinked payments were introduced to replace the Basic Payments Scheme (BPS), aiming to simplify the payment process and reduce administrative burdens. Unlike BPS, delinked payments are not tied to land ownership or farming activity, thereby allowing farmers more flexibility in their operations. However, these payments are set to decrease progressively until they are phased out entirely by 2027.

Payments in 2025 will be based on 24% of the claim in 2020. Where the claim was greater than £30,000 it will be treated as £30,000. The biggest reductions will obviously apply to those who have historically received the highest payments. The top 4%, who received over £100,000 in 2020, will receive no more than £7,200 by 2025.

For 2025 there will be a 76% reduction to the first £30,000 of payment, while making no payments for any portion of a payment above £30,000.

For example, on a historic payment of £50,000:

	Reduction (£)	**2025 (£)**
Original payment £50,000		
First £30,000 (76% reduction)	(22,800)	
Remainder (100% reduction)	(20,000)	
Final payment		7,200

So, in the above example this represents a loss in income of £42,800.

The government's intention is that this approach will enable more farmers to access funding for environmental schemes.

In the short term this is going to hit cash flows at a time when costs are rising, and cereal prices are falling. Basic payments have provided some financial security to farmers for a number of years now. It is unlikely that many will be able to replace this income as quickly. Many are still tied into legacy schemes such as higher-level stewardship and so unable to access these newer schemes.

This announcement once again emphasises the need for farmers to adapt to a rapidly changing agricultural landscape.

To navigate these changes, farmers should:

1. Review financial plans: Assess the impact of reduced payments on their business and explore diversification opportunities
2. Engage with ELM schemes: Understand the requirements and benefits of ELM schemes and consider how they can be integrated into their farming practices
3. Seek professional advice: Consult with agricultural advisers and financial experts to develop strategies that mitigate the impact of payment reductions

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Local heroes

In 2019, Len, Pete and Jenny Olds of Cornhill Farm took a deep breath and ended their free-range egg contract with Waitrose. Now, they're Cornwall's Farmers of the Year.

Jenny explains how the farm found success by looking local – selling thousands of eggs every day to shops and kitchens within a 20-mile radius.

It's easy to assume that success means expansion – reaching customers further and further afield. But for Cornwall's Farmers of the Year, the Olds family of Cornhill Farm, Kehelland, the opposite is true.

For the past five years, the Olds' free-range egg business has focused on shops and restaurants near the land their family has farmed for more than a century. Even their chickens' feed is grown and milled on site. And they're now feeling the benefit of that decision.

Peter and Jenny were named 'Best Commercial Farmer' at The Addington Fund's Cornwall Farm Business Awards, before taking the overall winner-of-winners title.

"Farming is such hard work," Jenny smiles, "So the award was a lovely surprise. It's recognition for all the hard hours Len and Pete have put in over the years."

A long tradition of change

Walking away from their Waitrose contract is far from the first time the Olds family have made bold changes to keep Cornhill Farm sustainable.

When Peter's great-grandfather moved from Lelant in 1912, the farm was a traditional mixed farm before focusing on producing beef and vegetables for supermarkets in the 1980s. As prices changed, Pete's father, Len, made the switch to arable. And when Pete finished school in 2002, Len embraced the idea of poultry farming to enable Pete to also work on the farm.

"Pete and Len saw a cross section of a hen house at Royal Cornwall on a Thursday," Jenny says. "By the Saturday, they'd signed a free-range egg contract with Waitrose."

A further three sheds followed, taking the farm to 13,500 hens. Cornhill became a circular farming business, where arable, poultry, contracting and environmental stewardship all complemented each other.

But although the egg business was expanding, it was not consistently profitable as the contract egg price was constantly under pressure. Another change was needed.


Try our eggs you'll taste the difference
Cornhill Farm

From price taker to price setter

“Under the contract, we knew every egg would be collected and paid for,” recalls Jenny. “But we took a long, hard look at our business and the price just wasn’t sustainable.”

Encouraged by thriving interest from local customers – along with a hugely popular honesty box stall – the Olds ended the contract.

Jenny approached local shops and restaurants between Truro and Land’s End, while stepping up the farm’s social media presence and participating in Open Farm Sunday. And when the pandemic struck – bringing a surge in home baking – the effect was transformative.

“Now we sell every egg locally, which is a lovely position to be in,” Jenny says. “Dealing directly with 120 local customers is a different ball game, but it’s changed everything. We’re the price setter, not the price taker.”

> We’re selling every egg we produce. There’s a growing appetite for good local food – and when people buy from their village shop, it helps our local, west Cornwall economy.”
>
> **Jenny Olds, Cornhill Farm**

Ready for the next generation

As custodians of a long-established family farm, Len, Pete and Jenny know the importance of investing in the future. As well as focusing on soil health, carbon and biodiversity, the farm welcomes 20 educational visits each year and 1,100 visitors arrived on the farm for Open Farm Sunday in June, which sees lots of other local farmers and businesses also helping on the day.

“When our children started school, we realised how much agriculture needs to be in the curriculum,” Jenny emphasises. “These are future customers and policymakers, and they need to know where their food comes from.

“Thankfully, it’s easy to get children excited about farming. We have loads for them to see: hens, arable, tractors and pigs. I hope more farms start to do it. Some farmers might be nervous about hosting school visits, but they’re such a receptive audience.”

Len has also been proactive about planning for the future, working with Brian Harvey to find the right structure for transitioning the farm business, while staying an active part of farm life.

“You need good succession plans for a healthy business,” Jenny concludes. “We work well as a trio. Len moves fast, and he’s open to new ideas. He designed three of our hen-houses – making improvements each time – and he’s working on a fifth hen-house, which will take us to 17,000 hens. Pete executes the ideas and day to day farming, and I look after the ever-increasing admin and egg marketing.

“Len and Pete are the third and fourth generation of our family to farm here – and our son Jack currently has every intention of being the fifth!”

> “Our business is in much better health because of the support PKF Francis Clark have given us.”
>
> **Jenny Olds, Cornhill Farm**

Don’t let the VERY BIG tax tail wag the dog

Much of what is written about in this newsletter will focus on the adverse changes to the key inheritance tax (IHT) reliefs of agricultural property relief and business property relief as announced in the Budget delivered by the Chancellor on 30 October.

As soon as IHT comes onto the radar, most farmers assume that they are going to die imminently. Of course, thankfully, that is not the case.

There is no doubt that it is wise to understand the impact of any tax changes, particularly those that might affect the survival of a farming business, but it is also important to remember where you are with your existing succession planning.

If I had the time, I could look back and add up the number of occasions I have talked about the need to have open dialogue within the family and agree a succession plan. For those who took on board that advice, they may well be grateful that they have planned ahead but I am afraid to say, the reality is that the number of businesses that have got on and dealt with succession planning, and in particular asset transfers, is extremely limited in our experience.

The fact that businesses have not necessarily proceeded with transferring assets down is not a fault of them or indeed anyone. After all, inheritance tax reliefs, as we have been used to for decades, have generally not encouraged people to transfer assets in their lifetime and there have been tax advantages to passing assets on death rather than by way of lifetime transfer, remembering that assets that pass on death are uplifted to the market value at the date of death for future capital gains tax purposes.

Security of the asset is also critical, and this is the key point that all farming families need to bear in mind as they try to come to terms with the proposed new inheritance tax changes.

If you were concerned regarding the risk of a claim against your farming assets prior to the Budget, those concerns are almost certainly the same now as they were on Budget day last October. With that in mind, why should proposed inheritance tax changes alter your perception of risk and lead you to do something that you were perhaps otherwise not comfortable in doing?

It may be that the risk of a claim against assets has been over emphasised in the past and that every family’s circumstances will be unique. It is also important to understand that transferring assets down the generation can take place in a variety of forms, with a variety of ways in which the risk of a claim can be mitigated. The use of trusts, the importance of written agreements and clear family dialogue and openness all help here.

So the message must be, re-focus on your succession planning, understand what each family member involved in the business is looking to achieve and use open dialogue to firm-up on what succession looks like.

If succession includes the possibility of lifetime transfer of assets, and if the tax advice from your accountant, supported by your solicitor, suggests that lifetime transfers could provide a significant benefit in light of the proposed IHT changes, then you have all the ingredients to seek to navigate these choppy waters that have been created by the Chancellor's attack on business IHT relief.

Clear approach to dealing with the Budget

We have a simple and clear approach to this matter here in the rural and landed estates team at PKF Francis Clark. We continuously remain in contact with our clients to keep them up-to-date with the developing issues arising from the Budget. For those clients who wish to actively take forward advice on succession and IHT mitigation, we follow that clear path which would firstly involve reminding everyone of how they view succession irrespective of tax considerations, then assessing the impact of the proposed Budget changes to the existing business ownership and, at that point, marrying the two components together with advice on how to minimise tax.

Before we deliver advice, we want to see the actual tax legislation, not least we are keen that any decisions are only made when we know the detail in that legislation. We expect the first draft of the Finance Bill 2025 to come mid to late February, so we need to be ready but not jump the gun and end up with clients making important decisions that turn out to not match the final rules.

Further reduction of risk can be considered, including working with the family solicitor to ensure documentation relating to asset transfers is such that the exposure to later claims is also reduced. There are many options to mitigate the overall IHT exposure over and above straight gifts.

The clear message is not to bury your head in the sand but remind yourself what you want as a family, in terms of succession.

Farming is tough, we all know that, but with adversity can also come opportunity and for those families committed to agriculture now is the time to secure the best advice possible.

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Meet the team: David Williams

When and why did you join PKF Francis Clark?

I joined in December 2022, having qualified as a chartered accountant and chartered tax advisor with a small firm based in the South West. I joined PKF Francis Clark for the challenge of working at a larger firm and to return to portfolio management with regular client interactions, where I could help clients find opportunities and have access to various tax specialists to help them achieve their goals. I have friends who have been at the firm for many years, and they told me about the excellent culture here. Since my interview at the Torquay office, it has always felt right for me.

Why did you choose accountancy?

I did some work experience with two local accountancy firms while I was in school and enjoyed it. Maths was a strong subject of mine, and so I chose an accountancy and finance degree at university and things progressed from there. During university, I worked weekends and holidays in turf accountancy helping bookmakers on the point-to-point circuit and at racecourses. I used a manual 'clerking book' at times, which gave me invaluable real life experience in the accountancy world!

Tell us a bit about your role at PKF Francis Clark.

I am a senior manager in the rural team based in our Torquay office. I lead a team of six, and we predominantly act for farmers and landowners, as well as countryside leisure attractions and racehorse trainers. I provide tax advisory services to help our clients meet their short- and long-term goals. I meet with clients, develop staff and support the growth of our client base. We collaborate with the landed estates team in Exeter to be a centre of excellence for agriculture in Devon.

What has been your proudest moment in your career?

I have qualified as a chartered accountant and chartered tax adviser and since worked on complex tax transactions, which are significant achievements. However, the most rewarding moment has been seeing two people I helped train advance to senior accountancy roles.

Where does your interest in the rural sector come from?

I've always been a big horse racing fan, but I truly fell in love with the sport when I first went to point-to-point racing at Buckfastleigh after the course re-opened. Now, I regularly attend 30 meetings each season with my wife and son across Devon, Cornwall, Wessex and the South Midlands. Over the past 25 years, I've met lots of people in the rural sector. I have immense admiration and respect for them, as their way of life requires endless time and commitment.

What are the challenges you feel the farming industry is currently facing?

Rising costs and the phasing out of the basic payment scheme have made life difficult for farmers. Climate change adds to these difficulties, making our clients in agriculture work harder than ever. Despite these challenges, as a nation we are fortunate that many in the farming industry are incredibly resilient and continue to produce high-quality crops, dairy and food.

Are there any changes you would like to see in the farming industry?

I would like to see clearly defined subsidies to encourage today's farmers to continue their excellent work and also make sure that future generations can benefit from farming the land.

What do you do in your spare time?

Aside from attending the aforementioned point-to-point racing, I play golf, football and tennis. I enjoy countryside walks with my wife and three-year-old son, who often requests cake or pasties along the way. I'm also busy teaching him to play rugby, tennis and swim.

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