

Rural and Agriculture Sector Outlook

2020/21

We look at the future of farming plus tax planning and business advice from our specialist rural and agriculture team.

Helping you prosper



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Editor's view of the year ahead

As business people, whether farmers or not, what we all crave is reassurance that the rules and regulations in which we are to trade are known, so we can set up our businesses to work most efficiently.

What this does mean is that we will probably be more inward-looking than we should be, making sure our businesses are set up as effectively as possible so they can withstand the buffeting that we know is coming. However, we must ensure that we are remaining outward-looking in order to see the opportunities that will undoubtedly arise.

For our guest articles this year, we have spoken to two firms who are involved in advising many types and sizes of rural businesses, to find out their advice on new technology and vertical farming. On page 6 we look at how drone technology is paving the way for a more efficient, cost-effective and environmentally friendly agricultural sector and we speak with George Neville-Jones, Director at Elfin Agritech Limited on page 12 to discuss vertical farming.

Ed Gedney, head of rural in our Huntingdon office, looks at carbon accounting on page 8. What is carbon accounting and why is it so important?

It was Rishi Sunak's second Budget, but possibly his first of substance as the 2020 Budget almost paled into insignificance with the events that unfolded throughout 2020 and early 2021. On page 15 we look at the latest Budget update and how the announcement will be of particular interest and impact within the sector.

Although no farm or estate is identical to another, we look at common recommendations in which a farm or estate can set up its management to maximise the potential tax benefits available, such as benefits in kind and stamp duty land tax. Read more about the minor taxes on page 16.

On page 18 we look at the knotty issue of Inheritance Tax relief. For many working in the agricultural sector, there is often a perception that all of their business activities would benefit from either Agricultural Property Relief (APR) or Business Property Relief (BPR) in the event of a death, but this might change over the course of operating a business.

We also look at the pros and cons of the different business structures. On page 20, we have created a potential checklist and comparison between the different mediums, for you to choose the business medium that best suits your situation.

In this ever-changing world it is important to keep informed of future developments, to consider how they will impact you and your business, and to think about what you can do to make the most of any opportunities. We believe this can be best achieved by working closely with your advisers and we hope that you find the selection of articles in our 2020/21 Rural Outlook both informative and thought-provoking and that our articles go some way to us achieving our underlying aim of *helping you prosper*.

If any of the topics covered prompt any questions, you will find our contact details on page 23 – our specialists will be pleased to assist and we look forward to hearing from you.



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Investigating drone technology

In this article, Tim Maris, rural and agricultural partner at UHY Hacker Young speaks with Helen Keevil, Head of UK Sales at Hummingbird Technologies, about how drone technology is paving the way for a more efficient, cost effective and environmentally friendly agricultural sector.

What does your technology do for the rural sector?

Hummingbird Technologies is an independent Data Analytics company within the agricultural sector, both in the UK and also in many international countries. We provide the farmer and agronomists with the tools to remotely view imagery of their fields and crops, to give more informed insight and management decision making options. Through our independent platform, we give the users the ability to use these images to create a wide variety of variable rate applications plans to precision target inputs, reduce costs and limit the negative impact on the environment by applying fertiliser and chemicals more responsibly.

Does it have applications across all farming sectors, arable, livestock – beef and sheep, dairy, veg growers and market gardeners?

Yes we have product services to cater for all of those industries. Our main commercial focused crops include Winter Oil Seed Rape (WSOR), cereals, potatoes, maize and grassland. We have several product services in the R&D phase focusing on fresh produce, such as lettuce.

Is it niche or does the technology have mass appeal?

We have a range of product services to fit the current demands in the UK, and more specialised product services for other specific crop types abroad. What sets us apart from the majority of our competitors is our very high resolution data analytics, which give hugely valuable insights advantages compared to satellite only providers in the marketplace.

Our satellite images also incorporate an in-house cloud detection algorithm, giving infinitely more usable images compared to competitors. We also use drone derived imagery, which for certain product services gives under 1cm resolution. It is this very high data resolution that gives us a standalone product offering and the valuable insights at a deeper level.

Is it equally user friendly to farmers in the hills of Wales, the highlands of Scotland, the rolling countryside of the midlands and the flat lands of East Anglia?

We provide two sources for our imagery; satellite using ESA sentinel 2 data, and drone derived imagery which we collect ourselves with our accredited and insured drone pilots as a full service package. With both sources, weather is always a challenging factor, however we work very closely with our customers to try to ensure timely data is provided and displayed on our platform.

We have developed an in-house cloud detection algorithm which masks clouds out of images which are partially covering the field. It also alerts the user when there is 100% cloud cover. The partly cloudy images can still be used to inform the grower on crop performance and the variability can still be seen in the field on these images. We are also working with satellite providers who have cloud penetrating technology which will be an exciting new development. Rain is always going to be an issue, we cannot fly drones in the rain and, even with satellite imagery, rain refracts light differently so will always be a challenge currently. There are developments in this space and again, this is something we are looking into with satellite providers.

Does it have applications across the ancillary rural sectors, such as vets and consultants?

If a vet or consultant wanted to use our platform and services there are no restrictions there, the question would fall back to them; what are they trying to get from using the platform? Banks and financial institutions. As an example, are interested in the data analytics and insights we provide. We have product services with benchmarking tools, as well as yield prediction algorithms that allow these bodies to monitor farms and crop progression throughout the season to help with and validate insurance pieces.

How well is the new technology being received by the farming community?

The response so far in the UK and global markets has been very positive, especially as we are an independent provider compared to the majority of competitor offerings in the UK currently.

Is it easy for the farmer to use and interpret the data?

For an agronomist or farmer, the platform and product services are very intuitive and easily accessible. To an untrained eye and also to all new users, we provide platform and product training and continued support to help with the customer journey.

What is its appeal why should they invest?

The key benefits from using our platform and product services is the ability to remotely view the entire farm, which provides a very valuable bird's eye view and insight into the crop health and growth

progression as the user goes through the growing season. We have very clear Return on Investment (ROI) case studies from current customers showing positive ROI. It allows users to make informed management decisions on the crops, target inputs, reduce input costs and shows clear benefits to the environmental impacts of overuse of products in farming.

Will it have ecological benefits, reduced sprays, fertiliser usage or just better, more accurate application and timing of operations?

Yes, all of our variable rate applications look to precision target inputs to the area of the field where they are most needed and to move away from blanket spraying fields which, as we all know, is very damaging to the environment. We work closely with farmers, agronomists, government bodies and environmental groups to help promote this message.

What is the payback period on the cost of the technology?

In the majority of cases the payback is instantaneous, as the imagery allows the user to generate variable rate application maps they will then use on the crops in the next few days.

What size farmer do you have to be to use this new technology, can the average farmer afford it?

With our satellite data there is no minimum hectareage they need to sign up to use our Farm Vision service, which offers rolling satellite data for 1 year for £1.50/ha. There is an additional cost to use the variable rate application plans. With the

drone derived imagery, there is a minimum number of hectares we ask for, due to the time and cost associated with having the pilot out on the farm collecting the data. All of these can be discussed directly with us if you would like to know more details.

Are any sectors of the rural community more accepting of the change than others? Are they what you define as the early adopters?

I do not think we can define this by geography or age; the early adopters are all of those users who engage with and embrace technology to farm in a more sustainable and productive way. We definitely welcome and help enable any user who wants to be a part of this journey.

Is the response from the farmers positive overall, and if not, how have you changed your pitch to appeal to the sector?

The majority of farmers who come to speak to us are actively looking to embrace the uses of technology, so are always positive and engaged. The only resistance we have seen is with farmers who are unsure of how to incorporate any new technologies into their current farm practices, which is a scenario seen across a lot of technology based companies, not exclusive to Hummingbird.

Are farmers more receptive to this technological change than other industry sectors you deal with?

This is hard to say, as it really boils down to the individual's appetite and willingness to embrace new technology developments in the industry.

How does the UK compare to the rest of the world in the use of this new technology; are we leading or falling behind?

In many respects the same answer as above applies here. I think the UK market is very progressive and we as an overall industry are very proactive in developing and promoting new technologies. The global markets are all playing a vital role in this, it would be fair to say though with the variety of crops, some very country specific, global markets are developing very specific products that would not be so widely used in the UK, and vice versa.

Are you positive about the future for AgTech? What is the ultimate goal for this technology?

Yes we are extremely excited and dedicated to the continual development and promotion of AgTech and the uses within the UK and global marketplace. I think we are all seeing a very positive uptake of its use which is only going to continue to build momentum. We are all striving towards increasing sustainability, productivity and being more environmentally conscious and responsible. With an ever growing population and demand for food, we all need to embrace the benefits technology can bring to achieving these long term goals.

The use of drone technology that satisfies greater precision in farming providing food production and environmental benefits is the way forward. It is only a matter of time before all food producers will be using this technology on their farms to provide and reassure the public that food production is and can be sustainably grown while at the same time being as environmentally friendly as possible.



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Everything you need to know about carbon accounting

In this article, Ed Gedney, head of the rural department at UHY Hacker Young in Huntingdown looks at carbon accounting. What does it mean and why is it so important?

What is carbon accounting?

Carbon accounting 'is a means of measuring the direct and indirect emissions to the Earth's biosphere of carbon dioxide and its equivalent gasses from industrial activities¹'. In simple terms, it is an account of how much carbon dioxide and other equivalent greenhouse gases (GHGs) are being emitted by an entity.

Why is carbon accounting important?

Greenhouse gases are responsible for global warming and climate change.

All industries have an important role to play in meeting GHG targets (reducing their carbon footprint), and carbon accounting allows GHG emissions to be monitored and facilitates initiatives to reduce the amounts released to the atmosphere.

Carbon accounting in agriculture

The agricultural industry accounts for approximately 10% of the UK's total GHG emissions and 14.5% of global emissions². However, in contrast to the rest of the economy, the majority of the UK's agricultural GHG emissions result from methane (livestock production) and nitrous dioxide (fertilizer use), rather than carbon dioxide.

Methane and nitrous dioxide are more powerful greenhouse gases than carbon dioxide, yet they break down in the atmosphere and will slowly diminish once emissions are reduced. In contrast, carbon dioxide will remain in the atmosphere for many hundreds of years. Importantly, carbon accounting measures the global warming effects (relative to carbon dioxide) of all greenhouse gas emissions.

Although some industries have already started to see significant reductions in the levels of GHGs being released, emission levels from the agricultural sector have remained relatively static since 2009³.

In 2016, Parliament signed the Paris Agreement and later became the first major economy to pass legislation committing the UK to achieve net zero GHG emissions by 2050. Going even further, in its paper "Achieving Net Zero", the National Farmers' Union (NFU) set a goal to achieve this ambitious target across the whole of agriculture in England and Wales by 2040.

To achieve net zero in agriculture, the NFU focuses on the three pillars of boosting productivity, farmland carbon storage, and bioenergy. This is where carbon accounting has an important role to play. With the right resources and techniques, farmers will be able to monitor, manage and improve their GHG emissions. As an added benefit, lower GHG emissions tend to translate into lower costs, actually improving the financial bottom line.

Measuring your carbon account

Currently there is no standardised tool or calculator, however there are a number of free online tools available to calculate your carbon account.

Two such tools currently available on the internet are the Cool Farm Tool and the Farm Carbon Toolkit. Both tools are explained in greater detail below.

There remains some uncertainty as regards future potential GHG reduction incentive schemes. A question that some farmers have is whether or not they will potentially miss out on financial benefits (such as grants or payments) if calculations are made now, and beneficial changes are implemented, before such incentive schemes are commenced. Are farmers better to hold off and make improvements later? Although there is that uncertainty, it is likely that the government will take into account the totality of farmers' efforts to reduce their carbon footprints when any future payments or incentives become available.

The NFU are encouraging all farmers to start calculating their carbon footprint using the carbon accounting method and maintaining records so that current improvements and efficiencies can be used as evidence at a later date if required.

Please note that although there is no standardised tool, it is recommended that each farm uses the same tool year on year to ensure that the results being generated are comparable and consistent.

Product footprint vs whole farm footprint

What is the difference?

Product footprint

Carbon footprint is measured per product

- measured as; per tonne of grain, per litre of milk, per kg of beef
- can easily be compared against product averages across the industry
- can be used as a benchmarking tool.

Whole farm footprint

- carbon footprint for all emissions on farm or estate
- measured as; per hectare
- harder to compare than product footprint
- can be used to measure individual performances and set KPIs
- takes into account diversification.

Which tool should I use?

As mentioned above, there are multiple tools available online that you can use to calculate your carbon account. Below is a brief summary explaining the differences of two of the online tools which are currently available to use, the Cool Farm Tool and the Farm Carbon Toolkit.

Cool Farm Tool

This tool can be used to measure your product footprint. It is a very user friendly tool and once data has been entered, graphs, tables and pie charts etc. are automatically generated which detail your carbon footprint and summarises information that can be easily interpreted.

Farm Carbon Toolkit

This tool is a little more comprehensive and will enable you to also account for renewable energy. This is a whole farm tool, it will identify hot points on the farm and can be used as a decision-making tool, (e.g. data can be amended to show how results would look if something on the farm was to be changed).



¹ <https://www.sciencedirect.com/topics/engineering/carbon-accounting>

² & ³ - CLA Carbon Accounting seminar March 2020

What data is needed for a carbon account?

The level of data required to calculate your carbon footprint can be quite extensive but a summary of some of the key data that is required is set out below:

Farm type: land area, location, year, soil types.

Farm inputs: diesel, energy, water use, renewable energy.

Crop data inputs: area, crop yields, mineral feed inputs, organic manure inputs, fertilizer and pesticide use.

Livestock data inputs: grazing dates, housing systems, cattle numbers.

Livestock product outputs: milk, meat, eggs.

Woodland & forest inputs: hedgerows, permanent pasture, soil health.

Having advice is critical and it may be beneficial to work with your agronomists and/or financial accountants for input or assistance with any of the information, figures, or calculations required.

Net zero strategies

How can farms work towards achieving the NFU target by 2040?

Cereals: Drive productivity with the same inputs, optimise nitrogen use efficiency, improve soil drainage and soil health, and consider alternative land use for non-productive areas.

Livestock: Improve productivity, nutrients, and manure management.

Dairy: Improve animal health and welfare to drive milk production, feed efficiency, and reproductive efficiency, optimise nutrient management, and improve energy use efficiency.

Pig & poultry: Improve feeding, manure management (storage & spreading), and energy usage, ie. ground source heat pumps and offsetting.

Horticulture (ordinarily a high carbon footprint per hectare): Improve greenhouse energy efficiency, invest in rainwater harvesting, and reduce product waste by investing in infrastructure to increase shelf-life.

Government policy

Proposed agricultural policy includes multiple schemes such as the Environmental Land Management scheme (ELMS) which may include a carbon accounting aspect, achievement of which may prove to be very financially beneficial. Carbon accounting will also be useful as a measuring tool for the Farm Emissions Reduction Plan, Tree Strategy, and Carbon Markets.

Summary

Despite its potentially dreadful long-term consequences, after many decades of being considered by most to be a niche

environmental issue, the threat of climate change has now truly entered the public consciousness and arguably become the foremost global political concern of the age, with compelling evidence suggesting that it is already affecting global weather events and ecologies.

Addressing climate change is a global challenge in every sense, requiring worldwide solutions from practically every economic sector and industry. There seems little doubt that carbon accounting will become a more prevalent tool in this battle, allowing progress to be monitored and beneficial behaviours to be both recognised and rewarded. In agriculture, such incentives are likely to form part of ELMS or other schemes.

Unlike many industries, where the only option is to progressively reduce their carbon footprint, farming finds itself in the unique position of being able to actually remove carbon dioxide from the atmosphere by locking it in the soil and turning it into food, fibre and energy.



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Technology in the rural and agricultural industry

In this article, we interview George Neville-Jones, Director at Elfin Agritech Limited on the use of technology within farming, particularly focusing on vertical farming. The premise of Elfin Agritech is building an indoor farm utilising technology, on-site biomass and solar energy to grow herbs, salads and edible flowers for the catering trade.

Elfin Agritech intends to deploy commercial-scale vertical farms in the East of England. They intend to grow both food and non-food crops into the UK supply chain, from salads, herbs etc., to non-food crops such as medicinal supplies, cosmetic supplies, etc.

What is vertical farming and what different technologies are there?

Vertical farming is a colloquialism for controlled-environment agriculture, much closer to laboratory conditions than it is to a field. It typically involves the growth of crops in vertically stacked trays in controlled indoor conditions, using LEDs to provide 'sunlight', nutrient mixes piped directly to the root systems, air and water systems tightly controlled and dosed.

There are two leading vertical farming technologies. Hydroponics, is the growth of plants in nutrient rich water, where the root systems are flooded with nutrient-rich water but remain exposed to oxygen stress, because water doesn't carry oxygen particularly well. The advanced technology is aeroponics where the plants are grown in a nutrient-rich mist. The use of mist eliminates the oxygen-stress as well as the water and nutrient stress. With aeroponics, you get a yield and growth rate advantage.

Finally there is aquaculture/aquaponics which are the use of vertical farming systems alongside fish farming, where the fish are fed on crop byproducts and the crops fertilised with fish byproducts. The result is not quite a closed loop system, but is nearly closed loop, with the inputs being sunlight, some water and some nutrients. Aquaponics is a far more complex system than the previous two technologies.

Is it possible to use vertical farming for products such as livestock?

Possibly, but in the UK the economics of growing cattle feed for example, are not proven so it's not viable. There is a company called Dry Gro who are commercialising the growth of animal feed using duckweed in Africa to replace soya and effectively using a very large scale hydroponics system similar to the size of an Olympic swimming pool with acres of covered pools to grow animal food. That level of scale, and being in a lower cost environment like East Africa, are needed to go into the supply chain efficiently. So there is that application within the industry but it's not something that we're looking at within Elfin.

How big is Elfin Agritech and how did you start out?

We are a team of three plus a number of external collaborators. The original intent was to establish a profitable diversification route for an existing arable farm in Suffolk. We began researching aquaculture (combining vertical crop farming and fish farming) but simplified that because the existing aquaponics systems are struggling to be competitive, as they are complicated and there are a number of systems where they've abandoned the fish farming element completely. So we focused on vertical farming alone which is what we're developing.

Who are other people you work with and how did the idea start? Was it a long term process?

The idea for Elfin Agritech was created with a farmer friend of mine, Robbie Dennis. Robbie started his career as a corporate lawyer and then returned to the family farm, so he's a commercially astute farmer with broad business acumen. We'd been talking about diversification options for a little while. The partnership is a family-based partnership with a number of his siblings involved as well as his father. Robbie noticed the need for the farm and people to diversify and we began to look into the diversification routes, to find something novel with a higher potential.

We initially started with aquaponics. The idea was to farm fish and grow salad alongside it. We are looking at developing this venture as a limited company outside the partnership but still with a very close working relationship and mutual support.

Even though you haven't broken ground yet, have you had any trouble setting up?

One limitation is that there are only a small number of suppliers in the UK. We work with LettUs Grow in Bristol who are a sophisticated, technologically advanced supplier with a strong product and some proven performance, which is rare in the industry. We are looking to set up a number of farms, rather than just one small farm, so building a long term relationship with a UK supplier is essential.

What are the pitfalls/potential pitfalls you have come across?

Deploying a commercial vertical farm is hard. The technology is really young and the cost of production is high, so it demands scale to ensure viability. We need to be able to confirm that the farm is viable in order to attract investment. A young technology which demands significant investment can create a negative feedback loop, as investors are wary of investing in something that's unproven. It is very much an economic challenge.

How easy or difficult was it to start a business in this industry?

Starting a business in agritech is relatively easy because there are many support organisations and grants available. We had one of the last LEADER grants in the UK until it fell away on 31 of December 2020. We also had a great collaboration with the Judge Business School on a non-food technical project through their EnterpriseTECH programme where your project is evaluated by a student group who undertake market analysis and develop a business model for the technology. Our team has looked specifically at non-food applications for vertical farming which has been very useful.

How is technology evolving?

In the Judge Business School, a company called Outfield assesses blossom concentrations to make a yield judgement for apple harvests, which had previously been done for 100s of years by the farmer by eye.

There is an acknowledgement that there is a benefit to technology but what is less clear is where to find it, how to deploy it, and what the investment case is. Is it better to use new technology than traditional farmer's maps or gut feel? That's the sort of question we're asked so often. And the higher the capital expenditure, the more challenge you receive.

How important it is to keep up to date?

I think that depends on the industry and the technology, and it all concerns capital expenditure. Where this is a 'creeping' adoption, a creeping improvement eg. vehicle technologies or farm management software, they are constantly developing in small ways so it's essential for a farmer to stay on top of that constant development or they're going to have to make big jumps forward, which is much harder.

The move from traditional soil-based agriculture to vertical farming (both hydroponics and aeroponics) for the growth of salads, herbs and microgreens will occur over the next five years as these technologies reach maturity. This shift will be driven by evident yield and quality advantages and customer-driven.

Customers will realise that they can get their herbs, year round, grown in the UK, at a very consistent quality and at a sensible price without the negative implications of importing herbs in the winter from South Africa or South America. The expectation of growers will be to get the same quality product from the UK in February to win the contract. That will drive a seismic shift in the industry.

There are two sides to the adoption challenge. In some parts of the industry it's going to be a slow creeping adoption where the farmer needs to stay on top of it. And on the other side, it will be precipitous and will be more sudden; as soon as the technology hits maturity it will just blossom through the industry, creating capital stress on those parts of the industry so we need to be aware and ready to deal with it.

Are there any other technologies available that farmers could consider?

The two examples that spring to mind are vehicle guidance software and automation on the one hand and farm management software on the other. Farm management software is a move away from the ledger system to an additional system where you're beginning to track more variables, more input, and tracking price more accurately etc.

As additional variables will be monitored, the whole system becomes more effective and the farm becomes more efficient. The farm may go from one system to another and that may be a very small change. After that, there are typically many more changes that occur on an ongoing basis and it might just be a case of buying extra software which is very much a creeping adjustment; a creeping improvement, and it's important for the farm to stay on top of those improvements and having an awareness of what the rest of the industry is doing.

What are the difficulties with convincing traditional farmers about vertical farming?

In terms of vertical farming, it remains quite an immature technology. There's a quite good awareness of it as a technology that exists, but there is no real confidence in its ability to deliver over and above traditional methods within the UK agricultural industry. Where there have been some very significant deployments, they have been by businesses that have been set up specifically to take forward vertical farming rather than companies who are diversifying their operations.

With any agritech product, there needs to be real confidence in what the technology is going to deliver in order to justify the investment. However, efficiency improvements, reductions in carbon-output, reduced labour burdens are just some of the potential benefits from improving utilisation of technology. There are few negatives associated with the adoption of more effective technology by farmers.

What does the future hold for agritech?

Agriculture has long been a capital-intensive, grant/subsidy supported industry. That grant/subsidy regime is under review as Brexit takes us out of the Common Agricultural Policy (CAP). To maintain competitiveness, it is essential that a large-scale government-sponsored investment programme is retained because it comes down to capital expenditure and being willing to spend the money. If farmers have access to debt and/or cash grants, that will enable them to continue to invest and make it easier to adopt slightly less proven technologies.

Farmers do not hesitate to buy a tractor because they recognise that a tractor is better than a carthorse, but they might hesitate to buy an automatic tractor when they know they can employ a labourer who has been driving that tractor comfortably for the last ten years and the automatic tractor might cost a huge amount more.

Agriculture in the UK continues to adopt new technologies and benefit from associated improvements in efficiency. Having the confidence in the technology to make additional capital investments can consist of two levers; either pull the 'confidence lever' and improve people's confidence in technology or you pull the 'improve the cost of capital lever' to make it easier for the farmer to access the capital they need and therefore they'll spend the money more readily.

In your experience, are some sectors keener to adopt this technology?

In horticulture, hydroponics has been adopted incrementally. There are a number of growers who utilise traditional soil-based and some hydroponics within their going operations. And I think that's how we expect it to continue to roll out. We expect the pace of adoption of hydroponics and aeroponics to increase as the customer recognises the benefits of the technology.

The greater your scale, the less relative cost an investment has to you. As a generalisation, if you want to put a vertical farm in and it costs £250,000 and you've got 500 acres that is a huge amount of money. However, if you have 5,000 acres, it becomes a less serious investment decision. I would expect it to be easier for a larger farm to adopt, to make the capital decision needed to adopt new technologies.

The challenge we have is that the technology is that much more nascent. Making a wholesale change in a company's growing technique is very unlikely to happen, which is why it's being adopted more incrementally in that industry. We're talking to businesses who might turn over 15% of their growing capacity to vertical farming from traditional methods. So because the technology is nascent, the adoption rate is slower. If we see improvements in technology, then the adoption rate would increase.

And finally, would you say the growers are more receptive to changes like vertical farming than other sectors?

Vertical farming is only really suitable for salads, herbs, microgreens, crops and not for maize or wheat as there's not benefits in terms of value of crop or suitability in terms of the space required. So it's a smaller leap for a business that's growing salads at the moment to look at growing salads by a different method than it is for an arable farmer growing maize.



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Budget 2021 update

Budget 2021 was delivered on Wednesday 3 March 2021, with much anticipation. It was Rishi Sunak's second Budget, but possibly his first of substance as the 2020 Budget almost paled into insignificance with the events that unfolded throughout 2020 and early 2021.

The Chancellor was still fundamentally in support mode for the 2021 Budget, with the extension of furlough, the announcement of new guaranteed loan arrangements, a Self-Employed Income Support Scheme fourth and fifth grant and an extension to the business rates holiday.

Other matters that will affect the sector will include:

1. From April 2021, the National Minimum Wage (NMW) and National Living Wage (NLW) will be increased, as it was last year. The NLW will be increased by 2.2% and be extended to 23 and 24 year olds for the first time. Therefore for those over 23 years of age the rate increases from £8.72 to £8.91.
2. If businesses within the sector are able to offer Apprenticeships and traineeships, they will be able to claim funding for those employees. The level of funding will be age dependant and will also depend upon when the employee is taken on.

There were then additional announcements made signposting tax rises in future years, which will affect the sector.

3. The basic personal allowance will rise in 2021/22 to £12,570 but then will then stay at that level until 5 April 2026. Similarly, the basic rate band of income tax will rise to £37,700 from £37,500 and so higher rate tax is applied on income over £50,270. Again these bands of tax will stay the same until 5 April 2026. This in essence will mean that more individuals will pay tax at both basic and higher rates of income tax over the next five years.

4. Businesses that are run through a corporate structure will also potentially see an increase in their corporation tax bills from 1 April 2023, as the main rate of corporation tax will rise to 25% for companies earning profits in excess of £250,000. The 19% rate will still apply but only to those companies with profits under £50,000. A taper system will apply to those businesses with profits between £50,000 and £250,000.
5. Capital Gains Tax remains unchanged, including the rates of tax applied, and the annual exemption of £12,300 will remain unchanged until 5 April 2026.
6. Inheritance tax similarly remains unchanged in terms of the Nil rate band, rates of tax and allowances available and so APR (Agricultural Property relief) and BPR (Business Property Relief) remains unchanged on the statute book.

Additional reliefs announced included:

7. Companies and sole traders alike will enjoy a temporary extension to the availability of loss relief such that losses incurred between 1 April 2020 to 31 March 2022 for companies and for 2020/21 and 2021/22 tax years for unincorporated businesses, will be able to carry back those losses for three years to obtain a refund of tax.
8. Companies that are able to invest in new qualifying plant and machinery between 1 April 2021 and 31 March 2023 will be able to claim a 'super-deduction' of 130% in the year of acquisition against their profits of that year. This relief is not available to unincorporated businesses.

For more information on the Budget 2021 and the impact on the latest announcements, please contact Brian Carey or your usual UHY adviser.



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The minor taxes and how to structure your business for the most benefit

This article looks at ways in which a farm or estate can set up its management to maximise the potential tax benefits available to it from the, so called, minor taxes. Although no farm or estate is identical to another, many of these recommendations will be common to some or all.

Inheritance tax

The **Balfour case** may be familiar to you. If you have a farm entity, you should consider including let cottages in the business, even if these have no connection to the farm business.

This could draw the cottages within the Agricultural Property relief available to the overall farming operation and make

them free of Inheritance Tax (IHT). There are important guidelines that you should follow to be able to qualify for this relief and you should take advice to help, as the rules can be complicated.

Discretionary Trusts can be a useful tool to pass on assets to the next generation and minimise IHT. For a typical couple, property up to a value of £650,000 can be transferred into trust every seven years, without paying any capital gains.

A potential charge to IHT arises every ten years but only at 6% on the value over £650,000. A non-tax benefit of the trust route is that the estate does not lose its identity and ownership is retained within the close family.

VAT

Typically, estates will have a number of domestic properties on them and VAT will not be reclaimable on expenditure. If work has to be done on a commercial property or farm, then it may be worth considering opting to tax that property.

Any VAT can be recovered on the work, but note that subsequent rents of the property will have to include VAT, and VAT will be an issue should the property be sold.

It is worth looking at any commercial woodlands which you may own as these can be subject to VAT. For an estate that principally rents out its land, a woodlands account may be a vehicle for recovering VAT that would otherwise be difficult to claim.

You may want to consider using the flat rate scheme. We find that, for a number of specialist businesses, including shoots, a flat rate scheme can offer VAT savings when compared to the usual 20% method.

Benefits in Kind/National Insurance

Make use of the dispensations offered by tax legislation. It is important that HMRC clearance is given to allow farm and estate workers to live in property owned by the business for the better performance of their duties. Otherwise, any rent-free element may be subject to tax on the employee. In addition, you will need to complete P11Ds and pay Employer's National Insurance at 13.8% on the benefit. Clearly a shoot would also want to claim the dispensation for keepers on the same basis.

Stamp Duty Land Tax/Land Transaction Tax/Land and Buildings Transaction Tax

These are the hidden taxes of any property purchase and, in recent years, have become increasingly expensive. They are also often forgotten until the last minute and so do not form part of budgets and costings. Commercial tax rates are considerably lower than domestic; mixed-use is treated as commercial. In a recent tax case, the interpretation of mixed-use was tightened to make it important that any land bought with a house should be used for commercial purposes. The whole entity can then be considered to have mixed use. As an example, the SDLT and LBTT (Scotland) rate for a house in the £925,000 to £1.5m bracket is 10%, whereas mixed-use is only 5%. In Wales,

the LTT would be 10%, compared to 6%. Consider carefully therefore how to identify and claim the mixed-use basis.

You should also include in your planning that you may be subject to 3% higher rate duties if you buy additional domestic properties that are not your own residence. You may want to consider special vehicles as a means to avoid this, particularly if the expenditure is high and the duty material.

How can we help?

This article is designed to offer a quick oversight of the minor taxes. If you want further information, contact your usual UHY adviser.

We would therefore recommend anybody who has received an ongoing or historical assessment to get in touch to see if we can assist.



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Structurally sound – The knotty issue of Inheritance Tax Reliefs

For many working in the agricultural sector there is often a perception that all of their business activities would benefit from either Agricultural Property Relief (APR) or Business Property Relief (BPR) in the event of a death. This may of course be true whilst a farm continues in its traditional form however, for many of our clients, decisions taken over the course of operating a business can change the underlying Inheritance Tax (IHT) position.

Let's start with the farmland; whilst it continues to be used for a qualifying agricultural purpose, the whole value should be relieved with one or other relief – correct? Unfortunately, it is not quite as clear cut as this. Areas that require particular consideration include:

- Whether the land is presented on the farm balance sheet or not. Though APR should apply to the agricultural value of the land, what about any value in excess of this i.e. hope value? To relieve the hope value a claim for BPR would need to be made. If the land is on the balance sheet, 100% of the hope value will be relieved. If not, relief would be restricted to only 50% of the hope value which,

in cases where development potential is high, could leave a significant exposed asset.

- Often a specific area of a farm may be occupied by a corporate entity, as a result of a diversification project into a non-agricultural trade. In these situations, the use of a separate entity may make a great deal of sense for the purpose of income/corporate taxes and VAT but there is a knock-on effect to the IHT position. On the assumption that the company is undertaking a trade, providing the landowner has control of the company, BPR would still be available on the land but this is likely to be restricted to 50% of its total value. APR would not be available as the trade is not agricultural in nature.

Particular care needs to be taken in structuring the corporate entity where other shareholders are involved to ensure control sits with the landowning shareholder. Should any rent pass between the landowner and the company, this would make the land an investment asset of the landowner with a resulting loss of BPR altogether.

- Even without the use of a corporate structure, farm diversification projects can impact IHT reliefs; renewable energy projects, caravan sites, holiday cottages,

letting of surplus buildings formally used in the farming trade and liveryies can all result in a loss of APR. Though BPR may apply to some projects, others could be viewed as investment activities, or simply not operated on what HMRC view as a commercial basis, therefore limiting the potential to claim BPR.

- Sometimes farmers may seek to withdraw from in hand farming and let their land on a farm business tenancy (FBT). Provided the tenant continues the farming activity on the land, the benefit of APR should continue, though as there would be no in hand business continuing on the land a claim for BPR would no longer be possible. Any hope value on the let land would therefore become an asset potentially exposed to IHT.
- For land held within companies, the benefit of APR only accrues to shareholders that have control of the company. Though BPR may help if the company is actively trading, should the company be holding farmland for investment purposes (for example with an onward FBT) then it would not. Careful consideration should be given to the company structure.

The farmhouse

Moving on to look at the farmhouse, as readers will know, this is in many ways a subjective area of IHT and claims for APR have been the subject of much scrutiny. The array of tax cases on this issue are outside the scope of this article, though your UHY adviser can assist in making an assessment of whether or not APR is likely to apply to the farmhouse looking at all factors in the round. It is worth specifically mentioning a couple of points that do merit consideration when structuring farms and their associated operations:

- Should a decision be made to let the land on an FBT, this produces a separation of the land from the farmhouse. The farmer no longer farms in hand and the farmhouse is no longer the base of a farming operation. It is usually the case in these situations that a claim for APR is then no longer possible on the farmhouse itself.
- If this loss of relief would create potential tax exposure, other options such as share farming or contract farming agreements could be considered, though there are wider implications of both that should not be ignored.

- It is worth noting that when a farmhouse is valued for probate purposes it is common for APR to apply to only 70% of its market value at the time of use (this being the proportion that HMRC views as the agricultural value of the property). The other 30% cannot be relieved by BPR which leaves a proportion of the asset within the individual's estate and potentially exposed to IHT.

Whether the loss of relief that can arise as a result of the arrangements outlined above actually results in a potential tax cost will, of course, depend on your own situation and the availability of the reliefs provided by the Nil Rate Band and the Residential Nil Rate Band (with the potential to transfer both between spouses if conditions are met). A closer analysis of your situation will confirm the extent of those reliefs versus the chargeable assets in your estate, which in turn would provide a starting point for considering appropriate steps to improve the position.

Please contact your usual UHY adviser for advice on your own situation.



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Choosing the right structure for your business

Many of our clients in the rural and agricultural sector come to us for advice on how they should best set up their business for trading (and tax) purposes. Choosing the right structure for your business can be complicated with lots of variables to consider, so we have put together the following case study of 'Farmer Giles' to address the pros and cons of each option. We will continue to follow Farmer Giles throughout his journey in order to address common issues that we come across in the sector and the potential solutions.

A young well-dressed individual sat in my meeting room awaiting my presence.

"Hello, Mr Giles," I said on entering the room and taking my seat. "My secretary advises that you are looking for business advice on your latest project."

Mr Giles, then regaled his story about wanting to buy a piece of land and become a farmer and how he should trade. Having listened to him I sent him a response, a few days later, setting out his options.

Choosing the right business structure

The options most probably available to Mr Giles are one of four: sole trader, partnership, registering a Limited Liability Partnership or Company. Below we set out the relative pros and cons of each structure.

Sole trader

Pros

1. Ease of business – no formal paperwork to get set up/Need to register with HMRC
2. Full control of the business is retained
3. Low cost and easy to set up
4. Very little financial reporting
5. Tax position is normally quite straightforward, in that what you make in profits is taxed on you personally and the residue of monies is yours.

Cons

1. Business risk – potentially everything you own is at risk on the business failing
2. You are on your own – potentially there is no one to solve problems with
3. The tax cost of the business is generally higher
4. You would lack business credibility
5. The business is you, so if you stop the business stops.

Partnership

The pros and cons are generally the same as those of the sole tradership above, with the addition of the following:

Pros

1. As there are at least two of you, business decisions can be discussed
2. There is more potential to raise finance; as you have more business credibility
3. Business risk is divided

4. The business will not solely rely on you being available
5. A partnership structure is fairly easy to introduce new partners to.

Cons

1. There will be a need for two or more tax returns and filings
2. Whilst business risk, is hopefully divided, you will be held joint and severally liable with your partners
3. Business decisions may be taken slower
4. A partnership can be messy to wind up if things don't work out.

Limited Company

Pros

1. There is potentially less personal financial exposure
2. You operate under a more favourable tax regime
3. Better business credibility, thus enabling the business to work with more clients
4. With better credibility, comes the opportunity to raise more funds externally (banks and investors).

Cons

1. Administrative and regulatory demands are heavier
2. Annual accounts and financial reports are within the public domain.

Limited Liability Partnership (LLP)

Pros

1. There are the advantages of a partnership and company combined
2. It is quite flexible, especially around the admission of partners.

Cons

1. Profits are still taxed as Income
2. Partners' income is disclosed
3. LLP cannot be dormant for any length of period post incorporation.

Whilst the list was not exhaustive, it acts as a potential checklist and comparison between the different mediums, for you to choose the business medium that best suits your situation. The traditional path may be to commence as a sole trader and bring in people as partners as the business develops. When a 'critical mass' has been achieved and you have a substantial business you may wish to incorporate, all of which is achievable, both legally and in a tax efficient manner.

However starting as a company and reverting back to a sole trader is less easy and potentially tax inefficient.

Having received our letter and following a subsequent meeting, Mr Giles decided to start out as a sole trader, as he felt the business risk was acceptable and finance at the outset was not an issue for him.

How does Mr, now Farmer, Giles get on? We'll see next year.



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Our rural and agricultural expertise

We act for a range of farming, horticultural and rural businesses, as well as landed estates and renewable energy clients; advising them on a range of issues affecting their businesses. Whether it is tax, business structuring, succession planning or diversification, we can help.

We understand that the rural and agriculture sector is a specialist sector, with unique practices and conventions, making rural enterprises unlike other commercial enterprises. Our approach to each client is therefore tailored to recognise your unique circumstances. We always build an in-depth knowledge of your business so that we can ensure our services are bespoke and add value wherever possible.

Our national rural and agriculture team have a genuine knowledge of the sector and the relevant experience to help. We have a thorough understanding of the business structures through which rural and agriculture businesses operate, whether that is a company, partnership, sole trader or trust. We understand the practicalities of farming and are at home speaking with, advising and acting for our clients.

We provide a comprehensive range of accounting and taxation services that will give you the confidence to develop your business. To find out more, visit our dedicated page at www.uhy-uk.com/sectors/rural-and-agriculture.

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