LandFamilyBusiness

Autumn Budget 2022

What it means for the farming industry

Overall, the Budget was fairly good news for the farming industry compared with some of the recent expectations – however there is a sting in the tail which I mention at the end.

Most tax allowances and bands were already frozen, and this will continue until April 2028 for the income tax personal allowance and higher rate threshold, as well as the main National Insurance, VAT, and inheritance tax thresholds.

The income tax additional rate threshold will be reduced from £150,000 to £125,140 from April 2023, so will result in additional tax of £1,200 for those affected. We would encourage Individual farmers who think they will fall within this tax band to contact us so we can help plan the timing of machinery purchases and pension payments.

We have many clients with companies as well as the farming partnership and we have been advising shareholders to routinely take annual dividends up to the £2,000 tax free amount. This allowance will reduce to £1,000 in April 2023 and to £500 in April 2024. Therefore, it will be important to make use of the allowance in the current tax year. These reductions do not apply to dividends in wrappers such as pensions or ISAs.

It was announced back in September that the Annual Investment Allowance (AIA) will permanently remain at £1m as from April 2023. This allowance had been planned to reduce to £200,000 and has varied greatly over the past few years and at one stage was only £25,000. AIAs on machinery purchases have a large effect on the taxable profits of farming businesses although they should not drive the decision to purchase.

Capital Gains Tax rates were rumoured to increase in line with income tax rates but have remained the same at 10% and 20% for non-residential property gains. However, the annual exemption currently at £12,300 will be cut to £6,000 in 2023 and halve again to £3,000 in April 2024. Where potential sales or gifts of capital assets are planned and no rollover or holdover relief is likely to be available, we would advise that contracts are exchanged before 5 April 2023 to make use of the £12,300 tax free allowance.

We still have the old Entrepreneurs Relief, now called Business Asset Development Relief with a tax rate of 10% on the first £1m of disposals of certain business assets. We regularly assist clients in claiming this , however due to the eligibility criteria, it is important to plan well in advance of a sale.

Now what I see as the sting in the tail. The Government have announced they will allocate £79m in the next 5 years to HMRC to tackle tax compliance risk for wealthy taxpayers. They aim to raise an additional £725m of tax. This means claims for reliefs such as Agricultural Property Relief (APR) or Capital Gains Tax roll over relief could be scrutinised in the future. In our strategic tax work for families and other accountants we come across many farming businesses with complex structures that vary widely - such as how land and property is held, inter-family Agricultural Holdings Act (AHA) tenancies, contract farming agreements and grass keep arrangements. Due to the complex nature of this work, it is likely to be subject to additional examination by HMRC in the future.

Should you wish to discuss your individual situation regarding the changes, or any other matter please contact one of the tax team

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