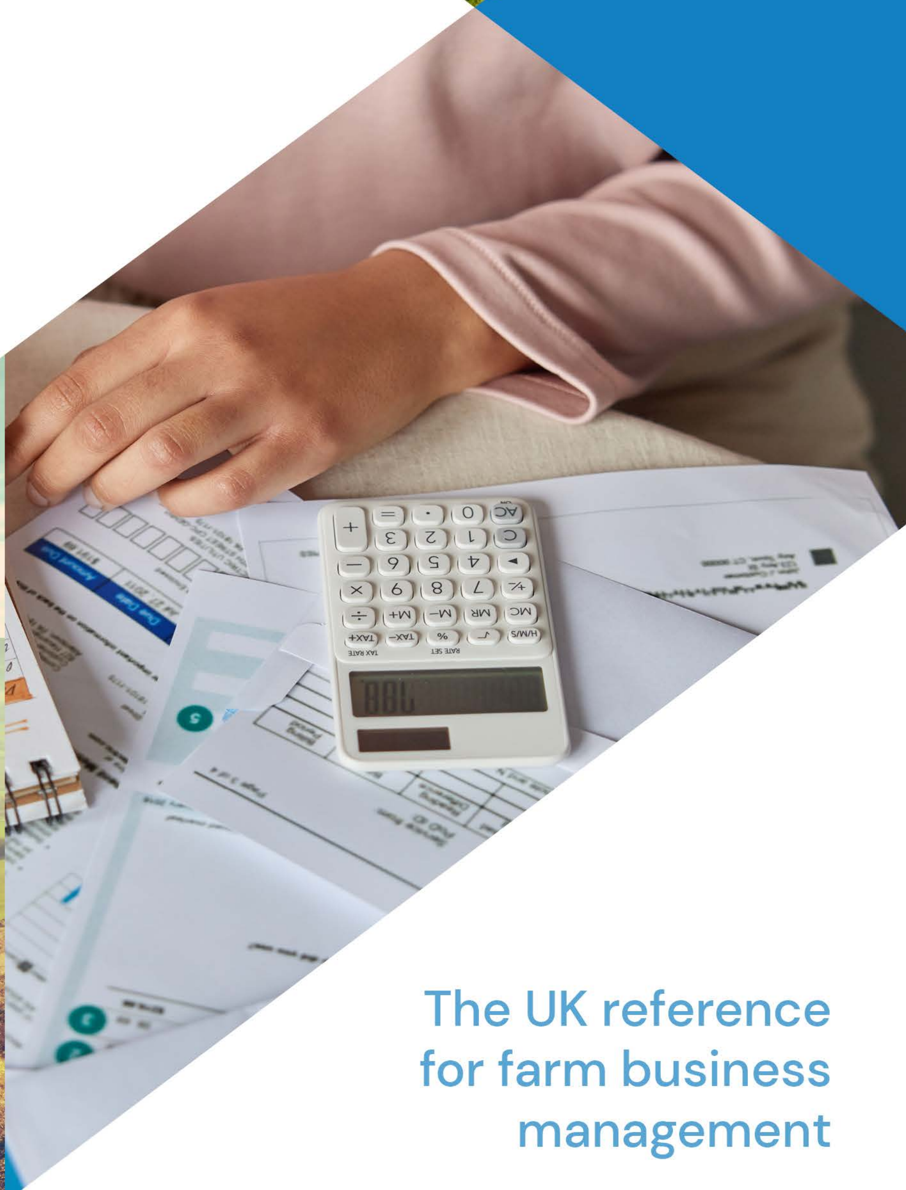
The Farm Management Handbook

Farm Advisory Service

Taxation



The UK reference for farm business management

Part of Scotland's Rural College (SRUC)

Updated October 2024

Introduction

This section is designed to provide background information on how tax may affect the farm business and contains a summary of how the system operates. Tax is an increasingly complex subject and there are thirteen tax rates that could apply to income and capital gains of a Scottish Taxpayer.

The tax year which started on 6 April 2018 was the first year in which the Scottish Government's devolved powers were used to any significant impact. Before then, despite some tinkering with rate bands, the Scottish Rate of Income Tax (SRIT) had been kept the same as the rest of the UK (RUK). Now we have five specific rates/bands imposed by the Scottish Government and the table shown on page 26 illustrates the complexities involved.

Although every effort has been made to provide accurate details, no responsibility can be taken for any omissions that may have occurred in the treatment of this specialised field.

The Taxation section of the Handbook has been updated by CT (formerly Chiene + Tait LLP). CT is an independent accountancy firm which offers an extensive range of personal, business and advisory services to a wide range of clients and has a significant agricultural practice. If you would like to discuss the range of services provided by CT please contact their offices on 0131 558 5800 (Edinburgh), 0141 488 1200 (Glasgow) or 01463 575400 (Inverness) to speak to a member of the agricultural group or email agriculturalgroup@ct.me.

Tax Headlines for the 2024/25 Year

It has been another eventful year in UK politics and, as such, there have been several key changes to tax legislation announced by both the UK and Scottish governments which came into effect on the 6 April 2024. We have highlighted some of these below:

Income Tax:

- For Scottish taxpayers, the government have introduced a new Advanced Rate tax band. As a result, any income falling within the £75,000-£125,140 threshold will be taxed at 45%. Also, the additional rate band has been increased by 1% to 48%.
- As of 6 April 2024, the UK government abolished Class 2 National Insurance Contributions (NICs) for self-employed individuals with profits exceeding £12,570. These individuals will still receive an NI credit towards their state pension and preserve their entitlement to other state benefits.
- The dividend allowance has been reduced from £1,000 to £500.

Pensions:

- The Annual Allowance for pension contributions remains at £60,000.
- The Lifetime Limit for pensions was abolished on 6 April 2024 and has been replaced by new allowances; the lump sum allowance of £268,275 and the lump sum and death benefit allowance of £1,073,000.

Capital Gains Tax:

- The annual exemption has reduced from £6,000 to £3,000 for individuals and from £3,000 to £1,500 for most trustees.
- The higher rate of CGT applicable to residential properties has been reduced from 28% to 24%.

VAT:

- The VAT registration and deregistration thresholds increased with effect from 1 April 2024 to £90,000 and £88,000 respectively.

Corporation Tax:

- The main rate of corporation tax increased from 19% to 25% with effect from 1 April 2023 for companies with taxable profits above £250,000.
- In addition, a small profits rate (SPR) was introduced for companies with taxable profits below £50,000. Companies falling within this rate will continue to pay corporation tax at 19%.
- Companies with taxable profits between £50,000 and £250,000 will pay tax at a marginal rate between 19% and 25%.
- The limits of £250,000 and £50,000 are reduced if there are any associated companies (broadly companies under common control).

Income Tax

Income tax is calculated by applying the appropriate rates to taxable income. The amount of a person's income chargeable to tax in any year is calculated according to the specific rules applicable to the various types of income. Farming profits are assessed as trading income.

The net profit in the accounts usually requires an adjustment because some costs may appear in the accounts which are not allowable for tax purposes (e.g. depreciation) and some income may not be subject to income tax at all, or not taxed as trading income.

All taxpayers are entitled to £1,000 allowances for both property income and trading income. This means that the first £1,000 gross of most sources of property income and/or trading income is exempt from income tax. If gross income exceeds £1,000, then the taxpayer can either deduct the £1,000 allowance or deduct allowable expenses.

Main Income Tax reliefs

Allowed at top rate of tax	*2024/25*	*2023/24*
Personal Allowance [1]	£12,570	£12,570
Blind Person's Allowance	£3,070	£2,870
Marriage Allowance [2]	£1,260	£1,260
Dividend Allowance (DA) [3]	£500	£1,000
Personal Savings Allowance (PSA) [4]		
- Basic Rate Taxpayer	£1,000	£1,000
- Higher Rate Taxpayer	£500	£500

Allowed only at 10%		
Married Couple's Allowance (MCA) [5]	£11,080	£10,375
Income limit for age-related allowances	£37,000	£34,600

[1] The personal allowance is withdrawn at £1 for every £2 by which total income exceeds £100,000 such that allowances become nil at income of £125,140.

[2] Up to 10% of the personal allowance can be transferred to a spouse who is no more than a basic rate taxpayer. Not available if the married couple's allowance is being claimed.

[3] The DA taxes the first £500 of dividend income at 0%.

[4] The PSA operates as a nil rate band for interest income.

[5] Only available if born before 6th April 1935.

UK Income Tax bands and rates

	2024/25	*2023/24*
Basic rate band	£37,700	£37,700
Higher rate band	£37,701 - £125,140	£37,701 - £125,140
Additional rate band	over £125,140	over £125,140

The tax rates differ for Non-Savings income (NS - salary, pensions, business profits, rent), Savings income (S - interest) and Dividend income (D).

	2024/25			*2023/24*		
	NS	*S*	*D*	*NS*	*S*	*D*
Basic rate	20%	20%	8.75%	20%	20%	8.75%
Higher rate	40%	40%	33.75%	40%	40%	33.75%
Additional rate	45%	45%	39.35%	45%	45%	39.35%

Reduction to the Dividend Allowance

As of 6 April 2024, the Dividend Allowance was reduced from £1,000 to £500. As a result, only the first £500 of dividends received during the 2024/25 year will be taxed at 0% with any residual dividends taxed at the above rates. No further reductions to the Dividend Allowance have been announced however, this may change following the change in government.

Scottish Rate of Income Tax (SRIT)

Since April 2017, the Scottish Parliament has had the authority to vary the rate bands as well as the actual tax rates. The SRIT will apply to Non-Savings Income belonging to a 'Scottish Taxpayer' regardless of where that income arises. The rules for defining a 'Scottish Taxpayer' can be complicated but will broadly apply where the individual's main family home is in Scotland.

From 2017/18 onwards, a Scottish Taxpayer who receives Non-Savings Income (salary, pensions, business profits, rents) as well as Savings income and Dividend income will need to consider both the UK tax rates and tax bands and the Scottish tax rates and tax bands in order to work out their income tax liability.

With effect from 6 April 2024, the Scottish Government have created a new Advance Rate of tax. This band taxes any non-savings income falling within £75,001 to £125,140 at 45%. Any income received in excess of this band will be taxed at the Additional Rate which was increased by 1% to 48% as of 6 April 2024.

For 2024/25, the Scottish rates of income tax and tax bands are as follows:

	Tax Band	***2024/25***
Starter rate	£12,571 - £14,876	19%
Basic rate	£14,877 - £26,561	20%
Intermediate rate	£26,562 - £43,662	21%
Higher rate	£43,663 - £75,000	42%
Advance rate (new)	£75,001 - £125,140	45%
Additional rate	Over £125,140	48%

Important investment annual limits

	2024/25	***2023/24***
Individual Savings Account (ISA)	£20,000	£20,000
Junior ISA [1]	£9,000	£9,000
Enterprise Investment Scheme (EIS) [2]	£2,000,000	£2,000,000
Venture Capital Trust (VCT) [2]	£200,000	£200,000
Seed Enterprise Investment Scheme (SEIS) [3]	£200,000	£200,000

[1] Available from 20 November 2011 to all UK resident children who do not have a Child Trust Fund account. From 6 April 2015 it has been possible to transfer a Child Trust Fund to a Junior ISA.

[2] Income Tax relief at 30% for both EIS and VCT

[3] Income Tax relief at 50% for SEIS

Full details of the rates of income tax and the main allowances can be found on the HM Revenue and Customs (HMRC) website at www.gov.uk.

Property Rental Income

Since 6 April 2017 tax relief on finance costs for rental businesses with residential property has been restricted. Until 5 April 2017, any finance costs incurred annually were offset against rental income when calculating taxable profits. For the 2020/21 tax year onwards, taxpayers can only treat finance costs as a tax reducer at the basic rate of tax.

Tax Credits

The system of tax credits is a method by which financial support is given to those in work, or with children, on low incomes. Tax credits comprise working tax credits and child tax credits. The term tax credit is a misnomer: tax credits are a form of financial support, and they are administered by HMRC. The financial support (itself tax-free) consists of payments to claimants, and not offsets against tax liabilities. The income tax system treats members of a family independently. By contrast, tax credits are based, where appropriate, on the circumstances of couples living together, whether married or not. Tax credits are being replaced by the Universal Credit on 5 April 2025.

Further information on tax credits can be found on the tax credit website at www.gov.uk.

Pensions

It is recognised that state pensions do not provide an adequate income in old age and it is for this reason that individuals may wish to contribute to pensions other than under the state pension scheme. Pension contributions attract tax relief up to set limits and the contributions are accumulated in a fund that is free of income tax and capital gains tax.

The rules for tax relief on pension contributions have undergone significant changes over the years with a view to simplification. Complications remain with rules for the carry forward of unused relief and advice should be taken on the tax implications before a pension contribution is made. Broadly, however, anyone can contribute up to £3,600 (gross) each year, regardless of earnings. Pension payments are made net of basic rate tax relief so the individual would pay £2,880 and the government would add £720 to the pension fund to bring the total up to the £3,600 figure. Higher rate tax relief if applicable is then given through the individual's self-assessment tax return or PAYE code. For 2024/25, the maximum tax-efficient contribution will generally be £60,000 (gross) or 100% of current earnings unless there is unused pension relief available to carry forward from the previous tax years. With effect from 6 April 2020 the maximum contribution is tapered where 'adjusted income' (i.e. including pension contributions) is more than £260,000. The

reduction is £1 for every £2 of income over £260,000 and the minimum allowance will be £10,000.

There is also a lifetime limit to the value an individual can contribute to a pension fund tax efficiently. As of 6 April 2024, the Lifetime Allowance was abolished and replaced with two new pension allowances; the lump sum allowance of £268,275 and the lump sum and death benefit allowance of £1,073,100. It is therefore still possible to incur a tax charge where these limits are breached. Please speak to a pensions advisor if you believe that these changes may affect you.

Occupational schemes are available to employees who have an employer offering such a scheme and the Pensions Act 2008 included provisions requiring employers to set up pension arrangements for all employees. The rules for compulsory work pensions include a government "auto-enrolment" scheme called the National Employment Savings Trust (NEST). There are now alternative private pension providers offering auto-enrolment scheme options in addition to the government NEST scheme. The implementation date for compulsory pensions is phased according to the number of employees. Staging dates started in the final quarter of 2012 for the largest employers and all existing employers should now be complying.

From 6 April 2015, those with a money purchase pension (i.e. not final salary schemes) will be able to have unrestricted access to the full value of their pension fund. Any withdrawals above the level of the tax-free amount (currently 25%) will be taxed at the individual's marginal rate of income tax. To prevent recycling funds into another pension to increase the tax relief available, a Money Purchase Annual Allowance (MPAA) was introduced. Until 5 April 2017 the MPAA was £10,000, however, with effect from 6 April 2017 it has been £4,000.

Recent tax changes have resulted in pensions becoming increasingly beneficial for inheritance tax planning matters.

Capital Allowances

Main capital allowances - plant and machinery	***Allowance %***
Annual Investment allowance: £1,000,000 (from 1 Jan 2019)	100
Full expensing capital allowances (only available to companies)	100
Electric cars, cars with zero emissions and equipment for electric charging points	100
Writing down allowance: general pool	18
Writing down allowance: special rate pool*	6

* The special rate pool includes long life assets, integral plant in buildings, thermal insulation, solar shading and cars with CO_2 emissions over 50g/km.

In the accounts it is normal practice to write-off part of the cost of plant, machinery, vehicles and buildings as depreciation each year. In calculating taxable income, this depreciation is added back to profit, and capital allowances are deducted.

Since 6 April 2008, it has been possible to claim the 100% Annual Investment Allowance (AIA) for plant and machinery (excluding cars). On 1 January 2019, the AIA increased to £1,000,000 and is currently still held at this level. The AIA is available to partnerships made up of individuals, but it is not available to 'mixed partnerships', i.e. partnerships that include a company or a trust.

Since 1 April 2023 companies have been able to claim full expensing capital allowances. These new rules give a 100% first year deduction on qualifying main pool expenditure and a 50% first year allowance for qualifying special rate pool expenditure. The assets must be new and unused, and cars are excluded. When the asset is later disposed of there is a clawback whereby the proceeds are taxed in that period.

Capital allowances for new cars are related to the CO_2 rating of the car. New electric cars or cars with zero emissions enjoy a 100% first year allowance. Cars with a rating up to 50g/km will go into the general pool and receive 18% allowances. Cars with higher ratings will go into the special rate pool and only receive 6% allowances.

Expenditure on integral features of a building such as electrical and lighting systems, cold water and water heating systems and expenditure on solar panels qualifies for special rate allowances at 6%.

A 'Structures and Building Allowance' ('SBA') is available at a rate of 3% per annum on a straight-line basis for qualifying expenditure on the construction of qualifying commercial property. Qualifying properties can include agricultural buildings, as well as other non-residential properties such as offices.

Farmers should review their expenditure on buildings to ensure that any expenditure which may qualify for plant and machinery, or integral features allowances are identified. It is also important to review the timing of capital expenditure to maximise allowances.

Losses

When an individual makes a trading loss for a tax year, the loss can be relieved against any other income of the same tax year, against any other income of the previous tax year, against capital gains of either year or by carry forward against future trading profits from the same trade. There are also special loss relief rules for losses made in the early years of a business and the last twelve months before the cessation of trade.

However, from 6 April 2013, the amount of *income tax* loss relief available to an individual in a tax year in respect of a trade loss is capped at the greater of £50,000 or 25% of income.

In addition, the amount of loss relief that a sole trader or partner may claim against general income has been limited to £25,000 if the loss is from *non-active trades*. An individual is deemed to be non-active if they spend an average of less than 10 hours per week personally engaged in the trade's activities. The existing rules for restricting tax relief for losses incurred for more than five consecutive tax years under the "hobby farming" provisions also still apply.

For companies, subject to the "hobby farming" rules above, trading losses can generally be:

- Offset against other profits in that period;
- Carried back against profits of the previous year;
- Offset against other profits in the same group; OR
- Carried forward indefinitely for offset against future taxable profits, provided that the same trade is still being carried on.

Relief for Fluctuating Profits (Farmers Averaging)

Relief for fluctuating profits (also known as Farmers Averaging) is available to any individual or partnership carrying on a trade of farming or market gardening. Prior to April 2016, it was possible to average two consecutive years of assessment where the profits of one year are at least 30% below the profits of the other. From April 2016, it has been possible to choose to average over a five-year period.

Averaging claims can result in significant savings of tax and national insurance contributions. Averaging is a valuable relief for farmers, particularly now that income tax rates can be as high as 48%.

Herd Basis of Livestock Valuation

Under the herd basis of livestock valuation, fluctuations in the value of production animals are not taken into account in computing profits, nor is the cost of the original herd or flock deductible. The values of the original production stock numbers are held constant throughout the period that the herd is in existence.

An election to adopt the herd basis of livestock valuation can normally only be made at a time when a production herd is first kept and provided that a herd of that class has not been kept in the preceding five years. Once made, an election is irrevocable and will come to an end only on ceasing to keep a production herd of the particular class for a period of five years or on a change of business structure, e.g. when a sole trader introduces a partner to the business. The time limit for making an

election to adopt the herd basis of valuation is two years after the end of the first tax year affected by the purchase of the herd.

The advantage of the herd basis is the exclusion from taxable profit of changes in value of production animals. In addition, when a whole herd or a substantial part of it (over 20%) is sold without replacement, any difference between sale value and book value is not taxable for income tax or capital gains tax purposes.

Basis Period Reform

Changes have recently been announced which will affect the taxation of unincorporated business profits (i.e. sole traders and partnerships) that do not have a 31 March or 5 April accounting year end.

Under the current rules, business profits are assessed according to defined “basis periods”. Broadly, a business’ basis period will match its account period, with the profits from the accounting period ending in the tax year being those subject to income tax. More complex rules applied to businesses that were in the early or final years of trading.

In 2022, the UK Government announced that the concept of “Basis Periods” would be abolished and, instead, replaced by the “Tax Year Basis” with effect from April 2024. The new rules ensure that profits and losses are apportioned to tax years where a business does not have a 31 March or 5 April year end. Therefore, all businesses will be taxed on profits arising in the tax year from 2024/25 onwards. To assist with the changes, Transitional Rules were introduced for the 2023/24 year.

Where a trader or business has transitional profits for the 2023/24 year, the rules will spread these profits over a maximum period of five tax years. However, the trader may elect to spread these profits over a shorter period, if preferrable.

Where transitional profits take a taxpayer’s adjusted net income over the £100,000 threshold, the taxpayer’s personal allowance will be restricted. However, transitional profits are not taken into consideration when assessing whether the £50,000 threshold for Child Benefit has been breached or the tapering threshold for the pension Annual Allowance.

With the changes coming into effect, affected sole traders and unincorporated businesses should ensure that they have good forecasts for expected cashflow and likely profits/losses for the coming years. It may also be beneficial to consider aligning their accounting period with the tax year to minimise the administrative burden going forward.

If you require any advice or guidance regarding the Basis Period Reform, please speak to an advisor.

Self-Assessment Procedures

Every personal tax return carries a self-assessment section in which the taxpayer is normally expected to calculate his or her own income tax and capital gains tax liability. The submission deadline for paper tax returns is 31 October following the end of the tax year. The submission deadline for tax returns delivered electronically is 31 January following the end of the tax year. Penalties are imposed for the late submissions of tax returns.

Tax liabilities are settled via two interim payments on account and a final balancing payment. The two interim payments on account are payable on 31 January during the tax year and 31 July following the end of the tax year. The balance of any income tax due and the full amount of any capital gains tax due is payable on 31 January following the end of the tax year. Interest and surcharges will be due on tax paid late.

Records of personal income, such as bank interest and dividend income should be retained for a period of one year and ten months following the year of assessment to which they relate unless the taxpayer also has a business or let property in which case all records must be kept for five years and ten months.

Corporation Tax Procedures

Companies have 12 months from the end of the accounting period to file their tax return. For most companies, tax payments are due nine months and 1 day after the end of the accounting period and large companies pay tax in instalments.

Corporation Tax Rates

Year to 31 March 2025

Main rate	25%
Small profits rate	19%

As of 1 April 2023, the Corporation Tax main rate for non-ring-fenced profits was increased to 25% applying to profits over £250,000. A small profits rate (SPR) was introduced for companies with profits of £50,000 or less so that they will continue to pay Corporation Tax at 19%. Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective Corporation Tax rate. Please note that these limits of £250,000 and £50,000 are reduced if there are any associated companies (broadly companies under common control).

If the farm trade is carried on through the medium of a company, corporation tax on the profits must be paid by the company. Corporation

tax is charged on the trading profits, capital gains and other income of an accounting period. Directors' salaries and fees are a charge against profit. Capital allowances are deducted where expenditure is incurred on the acquisition of qualifying plant and machinery.

Annual Tax on Enveloped Dwellings (ATED)

From 1 April 2013 an annual tax charge has been imposed on certain 'non-natural persons' (broadly, companies, partnerships with a corporate partner and collective investment schemes) which hold UK residential dwellings. From 1 April 2016 properties valued at more than £500,000 on specific valuation dates are subject to the charge. For 2024/25, the charge is determined as follows:

Property Value	***Annual Tax Charge***
£500,000 - £1,000,000	£4,400
£1,000,001 - £2,000,000	£9,000
£2,000,001 - £5,000,000	£30,550
£5,000,001 - £10,000,000	£71,500
£10,000,001 - £20,000,000	£143,550
More than £20,000,000	£287,500

A capital gains tax charge may also arise on disposal, regardless of whether the company is resident in the UK or overseas. A 15% SDLT or LBTT charge may arise on the acquisition of such properties.

A new valuation was required on 1 April 2022 for 2023/24 ATED returns, which then applies to ATED returns for the next five chargeable periods to 2027/2028. Residential properties owned by non-natural persons must be revalued every 5 years. The next valuation date is now 1 April 2027, applying to ATED returns from 2028/2029.

For existing properties, ATED returns are due to be submitted and the tax paid by 30 April during the first month of the ATED tax year (ATED years run from 1 April to 31 March). The next ATED returns for 2025/2026 are due to be submitted by 30 April 2025.

If a property is purchased part-way through the ATED year, then the deadline for submission of the return and payment of tax is only 30 days from date of purchase.

Capital Gains Tax

The annual exempt amount for 2023/24 for individuals has been reduced from £12,300 to £6,000, and, for most trustees, the exempt amount is reduced from £6,150 to £3,000. The Capital Gains Tax (CGT) rates for 2023/24 are 10% (for the element within the basic rate band) and 20% for gains falling with the higher and additional rate bands. As of 6 April 2024,

the higher rate of CGT for residential properties was reduced from 28% to 24%. The basic rate for residential properties remains at 18%.

CGT is a tax on the increase in value of certain property which is sold or given away in a lifetime. It applies to the sale or gift of assets such as land, shares, or other capital assets. CGT does not apply to transfers of cash or the disposal of trading stock. Lifetime gifts between spouses do not give rise to a chargeable gain.

Capital losses are set against other capital gains of the same year or carried forward to reduce gains in excess of the annual exemption in future years. Capital losses cannot be carried back unless they arise in the year of death.

From 1 April 2013, CGT was payable at 28% in respect of any gain arising from the disposal of residential property owned by UK resident or non-UK resident “non-natural persons”. As of 6 April 2024, this rate has been reduced to 24%.

From 6 April 2015, CGT is payable on the disposal of UK residential property by non-resident individuals. On sale, there are two options. The property value can be rebased at 5 April 2015 and the chargeable gain arising on disposal will be the difference between the 5 April 2015 valuation and the value at date of sale. Alternatively, the gain arising over the whole period of ownership can be calculated and apportioned, with only the element of the gain arising after 6 April 2015 being liable to CGT.

From 6 April 2019, CGT is payable on the disposal of all UK residential and non-residential property (i.e. commercial property) by non-resident individuals. In determining the CGT position, it is possible to rebase the property to reflect its value at 6 April 2019.

From 6 April 2020, there is a new reporting and payment requirement for a UK resident individual who disposes of a residential property and the disposal gives rise to a charge to CGT, i.e. the gain is not covered by a relief (such as main residence relief), losses or the annual exemption. The individual is required to make a return in respect of the disposal to HM Revenue & Customs within 60 days, and at the same time make a payment on account of capital gains tax.

Business Asset Disposal Relief was known as Entrepreneurs’ Relief before 6 April 2020.

Business Asset Disposal Relief applies to disposals of a sole trade or interest in a partnership trade or shares in a trading company where the shareholder owns at least 5% of the ordinary share capital **and** has at least 5% of the voting rights **and** is entitled to 5% of the profits on winding up and is an officer or employee of the company. There is a requirement to meet the qualifying criteria for a minimum period of 24 months

(previously the minimum ownership period was 12 months). Qualifying gains are taxed at 10% up to a lifetime maximum of £1m.

Principal Private Residence Relief (PPR) will generally exempt the gain arising on the sale of the farmhouse and up to half a hectare of grounds. The relief will be restricted if any part of the residence is used solely for business purposes. Where a property had been occupied as the owner's only or main residence, the last 9 months of ownership will qualify for PPR even if the property was no longer occupied.

Gift Relief is available on the gift of assets used in a trade carried on by the transferor, agricultural property (including tenanted land) or shares in an unquoted company. The capital gain is calculated as normal but does not become chargeable if both the transferor and the transferee agree to "hold over" the gain. If an election is made, the transferee will be deemed to acquire the asset at its open market value less the gain held over. In this way the tax charge is deferred until the transferee sells the asset at arm's length. Gift relief is restricted if there has been any non-business use of the asset.

Roll Over Relief can be claimed when a capital asset which has been used for trade purposes (e.g. a building) is sold at a gain and the whole of the sales proceeds are invested in other qualifying assets to be used for trade purposes. The value of the new asset is deemed to be reduced by the amount of the gain arising on the sale of the first asset. The sale proceeds must be reinvested in the period commencing twelve months before and three years after the sale of the original asset. If the entire proceeds of the sale are not reinvested, only partial roll-over relief is available.

Inheritance Tax

Nil Rate Band (NRB)	£325,000
Rate above NRB	40% [1]
Lifetime transfers to certain trusts	20%
Annual exemption for lifetime gifts	£3,000
Small gifts - annual amount per donee	£250

[1] There is a reduced rate of 36% for an estate leaving 10% or more to charity on or after 6 April 2012

Tapering relief applies to reduce the tax on transfers within 7 years of death. The reduction in tax is 20% for survivorship of 3-4 years, 40% for 4-5, 60% for 5-6 and 80% for 6-7 years.

It should be noted that it is now possible for a nil rate band which is unused on a person's death to be transferred to the estate of their spouse or civil partner. Chargeable transfers at death are subject to IHT, but there is no IHT charged on lifetime gifts to individuals. Such transfers are

known as potentially exempt transfers (PETs). Where the donor dies within seven years of making a PET, the transfer is taxed on its value at the date of the gift, using the death rate scale applicable at the date of death.

An additional tax-free band worth £175,000 per individual (£350,000 per married couple) applies from April 2020 in respect of the transfer of an individual's main home on death. The £350,000 allowance applies where the property is passed between spouses on first death and then on to children or grandchildren.

The combination of this new allowance and the existing IHT Nil Rate Band of £325,000 per individual means that a married couple now has a combined NRB of £1 million. However, this new allowance is only available in full where the value of the deceased estate is under £2 million. In deceased estates with a value of over £2 million, the allowance is reduced by £1 for every £2 over £2 million. This means that deceased estates with a value of more than £2.35 million will not benefit from the allowance.

Several transfers are left out of account in arriving at the cumulative total on which a person is chargeable. These include transfers between spouses, lifetime transfers made in a year up to a value of £3,000 and transfers to charities.

Wide ranging changes to IHT were announced in 2006 which have had a significant impact on UK estate planning using trusts. As a result of the scope and complexity of these trust rules it is not possible to consider the detail here. Farmers would be advised to consult their tax advisers to review the terms of existing trusts and their wills.

Agricultural and business property relief can in some circumstances reduce the value of the chargeable transfer to Nil.

Agricultural Property Relief (APR)

Nature of property	*Rate of Relief*
Vacant possession or right to obtain vacant possession within 12 months	100%
Agricultural land let after 1 September 1995	100%
Any other circumstances *	50%

* The 100% relief can apply in certain circumstances where land has been owned and let since before 10 March 1981 and by Extra Statutory Concession F17.

Agricultural Property Relief (APR) only applies to the agricultural value of farmland. Where the farm has additional development value this may qualify for Business Property Relief (BPR).

Agricultural property includes "such cottages, farm buildings and farmhouses, together with the land occupied with them, as are of a character appropriate to the property". To qualify for APR, the transferor must either have farmed the agricultural property for two years before the transfer or have owned it for seven years before the transfer, during the whole of which time it has been occupied for the purposes of agriculture.

In order to obtain APR for a farmhouse it is necessary to show that the farmhouse is of a character and size appropriate to the property and the requirements of the farming activities conducted on the agricultural land. Relief may therefore be denied where the farmhouse is excessively large in relation to the farm. The definition of farmhouses and other agricultural property has been considered in a number of cases. HMRC will review APR claims more or less as a matter of course and specialist advice may be needed now, i.e. on a proactive basis, or in the event of an HMRC challenge.

Business Property Relief (BPR)

Nature of property	*Rate of Relief*
Business or interest in a business	100%
Controlling shareholding in quoted company	50%
Shareholding in unquoted company	100%
Controlling holding in unquoted securities	100%
Settled property used in the business of a life tenant	100%/50%*
Land, buildings, plant used in company or partnership	50%

* 100% relief is available where the property is transferred with the business on death otherwise the 50% rate applies.

BPR is a relief against IHT on business assets, including a tenant's capital items such as machinery and livestock. To qualify for BPR, the property should have been owned by the claimant for two years before the transfer (or it must have replaced other qualifying assets owned for at least two out of the five years before the transfer). BPR is not available if the business or company is one of "wholly or mainly" dealing in securities, stocks or shares, land or buildings or in the making or holding of investments. Some business activities are borderline and particular care will be needed for mixed estates comprising farming and letting activities.

Value Added Tax

Value added tax (VAT) is an indirect tax on sales of goods and services. In general, a taxable business pays VAT on its purchases (input tax) and charges VAT on its sales (output tax). Taxable businesses are required to pass on the output tax to HMRC and may reclaim input tax. From 1 April 2024 until 31 March 2025, businesses with an annual turnover of taxable goods and services of more than £90,000 are required to register for VAT. Businesses with a turnover of less than £88,000 may elect to

deregister. It is also possible to voluntarily register for VAT where turnover is below £90,000 if this is seen to be beneficial. Once registered VAT returns are normally submitted to HMRC quarterly (although it is possible to apply for monthly VAT returns subject to certain conditions - see below).

Standard rate (1/6 of VAT-inclusive price)	20.0%
Registration level from 1 April 2024	£90,000 per annum
Deregistration level from 1 April 2024	£88,000 per annum

There are three rates of VAT applicable to taxable income: a standard rate, a reduced rate of 5% and a 0% rate. The standard rate is currently 20% and has been at this level since 4 January 2011.

Some income streams are not taxable, and are exempt from VAT. This can include supplies made in connection with land, i.e. renting or selling land or property. It is possible to 'opt to tax' land or property so that you can make the lease, licence or sale taxable. This is beneficial if there is input VAT to claim on expenditure connected with the property. The option to tax does not apply to residential accommodation.

Since farm businesses often have zero rated taxable income they can often be in a position where VAT being reclaimed from HMRC exceeds output VAT paid. In such situations, it is advisable to apply to HMRC to submit monthly rather than quarterly returns to aid cashflow. This can be done online.

Farmers may deregister for VAT and elect to use the "flat rate" farmers' scheme. A "flat rate" farmer cannot reclaim VAT on inputs, but charges and retains a flat rate addition of 4% on designated farming activities. This applies even if some of the goods would otherwise be zero rated. If the farmer is involved in other non-farming activities (e.g. bed and breakfast) which have a turnover above the VAT threshold, the flat rate scheme may not be available.

The following is a brief summary of the VAT rates as they apply to typical farming activities and expenditure.

VAT - exempt Items

Banking
Certain subscriptions
Cottage rents other than for holiday purposes
Granting of credit and loans
Instalment credit finance charges on a hire-purchase
Insurances
Land let for growing grain, etc*
Postal services
Purchase or sale of land and existing buildings*
Rent*
Easements, Wayleaves, Servitudes, Rights of Way*

* The grant of a lease, licence or sale of land and property is exempt from VAT. Therefore, the above activities marked with a * are exempt from VAT unless an option to tax is in place. If an option to tax is in place these supplies are standard rated.

VAT - standard rated goods and services

Accountants' fees
Artificial insemination
Binder twine
Business activities of a Government Department
Camping facilities and car parks
Charges for storage of goods in enclosed spaces
Commission
Consultants' fees
Contract work for which a payment is in cash or kind
Cottage rents if let as holiday accommodation
Domestic fuel (special rate of 5% - provided supplied for "qualifying use")
Farmyard manure
Fencing and drainage
Fertilisers
Fishing and shooting rights
Fuel - petrol, diesel, and other heavy oil (for road use)
Grazing wintering and land let (with care of animals)
Haulage
Hire of machine or implements
Horses and ponies
Leasing charges
Machinery and vehicle repairs
MLC recording fees
New or second-hand machinery
Non-edible horticultural products
Non-residential construction
Property repairs
Quota sales and leases
Room lettings where catering is included
Sheep dogs
Soil and silage sampling charges
Sprays
Subscriptions, if association VAT registered
Telephone accounts
Tourist accommodation and meals
Trees and hedgerow timber
Paint
Pet foods
Veterinary services and medicines
Wood
Wool

VAT - zero rated goods and services
Animal feeding stuffs
Bees
Crops
Energy Saving Materials installed in residential properties (from 1 April 2022 to 31 March 2027)
Eggs
Sale of new residential buildings
Construction services in relation to a new dwelling
Grazing and wintering (no service included)
Livestock but excluding working animals
Milk
Newspapers, books and periodicals (including online since 1 May 2020)
Seeds of food and seed plants
Trees and bushes if used for production of edible fruit

Outside the scope of VAT
Grants
Compensation
Insurance Claims
Dilapidation payments

Car fuel scale charges
Other than farm vehicles, where fuel is purchased for vehicles which are used for private and business purposes, VAT is only partially recoverable. To make things simpler businesses can use the VAT Fuel Scale Charge. When using this system the business reclaims all VAT incurred on fuel and then accounts for the private use using the fuel scale charge. Alternatively, the business can elect to not recover any VAT incurred on fuel.

The VAT road fuel scale charges are based on the emissions rating of the vehicle and were updated with effect from 1 May 2024. These figures should be used only from the start of the next VAT accounting period beginning on or after that date. These figures along with previous years can be found on the HMRC website at https://www.gov.uk/guidance/vat-road-fuel-scale-charges-from-1-may-2024-to-30-april-2025

Basic Payment Scheme Entitlements
The receipt of BPS from the Scottish Government is outside the scope of VAT.

The sale or lease of BPS entitlements by a VAT registered business is treated as a supply. This means that the purchase price would be subject to VAT at the standard rate and farmers would be looking to recover this input VAT.

Brexit
The UK's transition period with the European Union came to an end on 31 December 2020 and therefore new rules came into force from 1 January 2021 for trading with suppliers and customers based in the EU.

Businesses that trade with EU suppliers and customers should consider their position following the exit from the EU to make sure the correct treatment is followed.

Energy Saving Materials
A new zero rating was introduced from 1 April 2022 for the supply and installation of energy saving materials into residential property including solar panels, heat pumps and roof insulation. The zero-rate will be available for five years and will revert to the 5% reduced VAT rate from 1 April 2027.

New Penalty Regime for VAT
The new penalty regime for VAT defaults came into effect for taxpayers from **1 January 2023**. This replaced the previous default surcharge regime for late submission and payments of VAT.

Late submissions: The new regime for late submissions of VAT returns introduced a points-based penalty system where taxpayers will not receive an automatic financial penalty until they have acquired the necessary number of 'points'. The points issued will be proportionate and the aim is to penalise the small minority of taxpayers who persistently miss submission obligations rather than those who make occasional mistakes.

Taxpayers will receive a point each time a submission deadline is missed with HMRC. A notification of each point acquired will be sent out to the taxpayer by HMRC. Once the taxpayer has received a certain number of points, a financial penalty of £200 will be charged to the taxpayer. The points threshold is determined by how often the taxpayer makes submissions to HMRC. The taxpayer will also be placed into a period of compliance during which all submission obligations are to be met within the period. This is summarised as follows:

Submission Frequency	**Penalty threshold**	**Period of Compliance**
Annual	2 points	24 months
Quarterly	4 points	12 months
Monthly	5 points	6 months

Late Payments: The new late payment penalty consists of two separate charges. The first charge becomes payable 30 days after the payment due date and will be based on a set percentage of the balance outstanding.

A second charge will also become payable from day 31 and will accrue on a daily basis, based on amounts outstanding. As with the first charge, the taxpayer can agree a time to pay with HMRC.

First Charge		
Days after payment due date	**Action by taxpayer**	**Penalty**
0 to 15	Payments made or taxpayer proposes a time to pay that is eventually agreed.	No penalty is payable
16 to 30	Payments made or taxpayer proposes a time to pay that is eventually agreed.	The penalty will be calculated at half the full percentage rate (2%).
Day 31	No payment made, no time to pay agreed.	2% of what was due at day 15, plus 2% of what was due at day 30.

Late Payment Interest: From 1 January 2023, HMRC will charge late payment interest from the day your payment is overdue to the day your payment is made in full. The late payment interest will be calculated at the Bank of England base rate at the time **plus** 2.5%.

National Insurance Contributions (NICs)

Class 1 (employees)	***Main rate***
6 April 2024 to 5 April 2025	
Employee contributions	
- on earnings £242-£967 pw	8%
- on earnings above £967 pw	2%
Employer contributions	
- On all earnings above £175 pw	13.8%

Employer contributions (at 13.8%) are also due on most benefits in kind and on tax paid on an employee’s behalf under a PAYE settlement agreement.

From 6 April 2024, Class 1 NICs for employees on earnings between £242-£967 per week have been reduced from 12% to 8%.

Class 2 (self-employed – voluntary)	
Flat rate per week	£3.45
Small earnings exception: profits per annum	£6,725

Class 3 (voluntary)	
Flat rate per week	£17.45

Class 4 (self-employed)	
On profits £12,570 - £50,270	6%
On profits over £50,270	2%

From 6 April 2014, every business or charity in the UK is entitled to benefit from an “allowance” in respect of their employer Class 1 NIC liability. As of 6 April 2022, this “allowance” increased from £4,000 to £5,000.

Previously, self-employed individuals would pay both Class 2 and Class 4 NICs and these will be collected through the Self-Assessment tax return. However, as of 6 April 2024, the UK government abolished Class 2 NICs for self-employed individuals with profits above the lower profits limit of £12,570. As a result, these individuals will no longer have to pay Class 2 NICs but will continue to receive a NI credit towards their state pension and other state benefits. For individuals whose self-employed profits fall within £6,725 and £12,570, they will also receive an NI credit. Going forward, Class 2 NICs will therefore only be payable by self-employed individuals whose profits fall below the £6,725 threshold and wish to make voluntary Class 2 NIC payments of £3.45 per week (£179.40 for the year) to preserve their entitlement to the state pension. Please note that no NIC is levied if the individual is over state pension age.

Stamp Duty (SD)

	% of Total Consideration
Shares and marketable securities (nil if value up to £1,000)	0.5%

Stamp Duty Land Tax (SDLT)/Land Building Transaction Tax (LBTT) in Scotland

SDLT/LBTT imposes a charge on land transactions. LBTT applies in Scotland only. SDLT applies in England and Northern Ireland. Land Transaction Tax (LTT) applies on land transactions in Wales.

The tax is calculated as a percentage of chargeable consideration with different amounts applicable for residential and non-residential transactions. The person liable to pay the tax is the purchaser. In general, the tax must be paid at the same time the return is made. Interest is charged on late paid tax, and on late paid penalties.

We have summarised below the current LBTT and SDLT rates and thresholds which apply on the purchase of residential and non-residential properties.

For lease transactions in Scotland, different rates and thresholds apply, with LBTT payable based on the net present value (NPV) of the rent payable.

Non-Residential Property			
LBTT		***SDLT***	
Up to £150,000	0%	Up to £150,000	0%
Over £150,000 to £250,000	1%	Over £150,000 to £250,000	2%
Over £250,000	5%	Over £250,000	5%

Residential Property (Single Property)			
LBTT ***Rates from 1 April 2021***		***SDLT*** ***Rates from 23 September 2022***	
Up to £145,000	0%	Up to £250,000	0%
Over £145,001 to £250,000	2%	Over £250,000 to £925,000	5%
Over £250,001 to £325,000	5%	Over £925,000 to £1.5m	10%
Over £325,001 to £750,000	10%	Above £1.5m	12%
Above £750,000	12%		

A supplement applies for both SDLT and LBTT purposes where a second residential property is purchased by an individual for more than £40,000. The rate is 3% for SDLT purposes and 6% for LBTT purposes. A similar regime applies in Wales for LTT purposes. The 6% supplement also applies for LBTT purposes when certain “non-natural persons” (broadly, companies, partnerships, collective investment schemes) purchase a residential property, even if it is their first and only residential property. A 3% supplement applies for SDLT purposes. In Wales, higher rates of LTT are payable in similar circumstances.

For buyers purchasing their first home, the thresholds for LBTT and SDLT vary slightly from those noted in the table below. For those purchasing their first home in Scotland, the LBTT nil rate threshold is increased to £175,000, after which the normal rates apply. For SLDT purposes, the nil rate threshold is increased to £425,000 for those buying a residential property worth £625,000 or less. There is no first-time buyer’s relief under the LTT regime.

In Scotland and Wales, Multi Dwellings Relief (MDR) is available on transactions which involve the purchase of one or more residential properties in a single transaction or series of linked transaction. The relief ensures the buyer does not pay LBTT/LTT at a higher rate than if bought separately and lower rate bands would have applied. For SDLT purposes, MDR was recently abolished, with effect from 1 June 2024.

Single Farm Payment Scheme/Basic Payment Scheme

The BPS is a regional area-based scheme. BPS receipts will be liable to income tax or corporation tax (if paid to a company) and should be included in the taxable trading income in the relevant accounting period. The BPS will continue in Scotland in its current form until the end of 2024.

For more information on the BPS, see Rural Aid Schemes section.

Commercial Woodlands

Commercial woodlands enjoy a tax favoured status.

For income tax purposes, sales of timber from commercial woodland can be outside the scope of income tax. However, in circumstances where land is predominantly occupied for another purpose, receipts from the sale of timber may fall outside the exemption. For example, receipts from the sale of trees planted on a farm should be included as part of farming profits. An owner of commercial woodlands who simply lets the land will receive income in the form of rent and this would be classed as profits from a rental business.

In relation to capital gains tax, profits from the sale of trees are exempt, but there may be a charge to capital gains tax on a profit on the sale of land (i.e. the solum). Furthermore, the occupation of commercial woodlands is a qualifying activity for roll-over and hold-over reliefs.

Inheritance tax exemption is potentially available through 100% Business Property Relief once a two-year period of ownership of commercial woodlands has been established. Agricultural Property Relief would potentially be available on woodlands whose occupation is ancillary to the agricultural land. An example of this would be a woodland shelter belt.

For more information see the Forestry and Farm Woodlands section.

Anti-Avoidance

The “General Anti-Abuse Rule” (“GAAR”) came into force with the enactment of the Finance Act 2013 on 17 July 2013. The rule counteracts abusive tax avoidance schemes and applies to income tax, national insurance contributions, corporation tax, capital gains tax, inheritance tax, petroleum revenue tax and stamp duty land tax.

The measure supports the Government's objective of promoting fairness in the tax system by deterring taxpayers from entering into abusive schemes that might succeed under current law. The GAAR provides that tax advantages arising from such arrangements are counteracted on a just and reasonable basis.

The UK GAAR legislation has a 'safety net' arrangement in that there is a requirement for HM Revenue & Customs to seek opinion from an independent panel before invoking the GAAR legislation. There is now a separate Scottish GAAR which initially will only apply to the two devolved taxes (Land and Buildings transaction tax (LBTT) and Scottish landfill tax). The Scottish GAAR has no requirement to bring in an independent perspective and, therefore, gives much more power to Revenue Scotland. It is intended that the Scottish GAAR will extend to all devolved taxes in the future.

Making Tax Digital

In the March 2015 Budget, the Government announced its vision for a new digital tax administration and there was much publicity about this being the death of the annual self-assessment tax return. The transformation of the tax system, to be fully in place by April 2020, was hailed by HMRC as being simpler, more effective, and more efficient.

Under Making Tax Digital (MTD) there will be a requirement to keep accounting records in a digital format and to submit income details, expenditure details and tax computations to HMRC using MTD compatible software on at least a quarterly basis. The new system will have a fundamental impact on record-keeping and businesses/landlords will be required to use digital tools such as cloud software or apps, which will have the ability to upload information to HMRC. Each taxpayer will have an online ‘digital account’ where they will be able to view their payments.

For VAT periods beginning on or after 1 April 2022 it is now compulsory to keep VAT records in a digital format and to file VAT returns using MTD compatible software.

Originally, HMRC had announced that sole traders and landlords with income of more than £10,000 would be required to file their income tax self-assessment information through MTD from 6 April 2024. However, in December 2022, HMRC announced that, due to delays, the first phase of MTD for ITSA will instead begin in April 2026 and will apply to sole traders and landlords earning above £50,000. From April 2027, the scheme will be extended to those with income exceeding £30,000.

Eventually all businesses and organisations will have to comply with MTD. Quarterly MTD returns will replace the annual corporation tax return and the business pages of self-assessment tax returns. A quarterly return will need to be made for each tax a business pays. Therefore, there will eventually be a requirement to submit a quarterly VAT return, as well as a quarterly corporation tax or income tax return.

Summary of Income Tax and Capital Gains Tax Rates

Rate	Description
8.75%	Basic Rate for Dividend Income
10%	Capital Gains Tax Rate for gains attracting Business Asset Disposal Relief
10%	Capital Gains Tax Rate for gains up to Basic Rate limit
18%	Capital Gains Tax Rate for gains on Residential Property up to Basic Rate limit
19%	Starter Rate for Scottish NSND (non-savings/non-dividend) Income
20%	Capital Gains Tax Rate for gains above Basic Rate limit
20%	Basic Rate for Scottish NSND Income
20%	Basic Rate for RUK NSND income
20%	Basic Rate for Savings Income
21%	Intermediate Rate for Scottish NSND Income
24%	Capital Gains Tax Rate for gains on Residential Property above Basic Rate limit
33.75%	Higher Rate for Dividend Income
39.35%	Top Rate for Dividend Income
40%	Higher Rate for RUK NSND Income
40%	Higher Rate for Savings Income
42%	Higher Rate for Scottish NSND Income
45%	Advance Rate for Scottish NSND Income
45%	Top Rate for RUK NSND Income
45%	Top Rate for Savings Income
48%	Top Rate for Scottish NSND Income

Notes

The Scottish Rate of Income Tax (SRIT) only applies to certain types of income. This is non-savings/non-dividend income (NSND) which is broadly salaries, self-employment profits, pension income and rental income.

Please note that if you live in Wales, then you pay Welsh income tax on your NSND. The rates and thresholds of Welsh Income Tax on your NSND are the same as the UK rates.