Farmland Value Increase – More Reason For Succession Planning

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In Tax

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Values continue to rise in early 2023

Land values have continued to rise in 2023, with most agents expecting the slightly increased supply to continue through the year. January to March saw values for bare land rise by between 1.6% and 2%, according to Savills and Knight Frank, respectively. More land was marketed in all English regions than their 10-year averages, except for the East Midlands, says Savills, whose figures now include tenanted acres. There does seem an “insatiable” demand and at last increased supply. The reasons for selling remain varied, said Strutt & Parker. The high market level and further cuts in basic payments are factors, as is the opportunity to benefit from delinked basic payments after 2024, even after selling land. A change in government and a possible shift in capital tax policy is a driver for some. A big reason for going to the market is the death in the family of a farming partner and other family members not being able to buy out.

While there is great interest from environmentally focused buyers, more often than not, they have been outbid by more traditional tax-driven, farmer or amenity buyers.

Inheritance tax planning

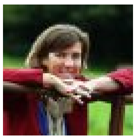
The Spring Budget 2023 announced possibly extending the definition of APR to include environmental projects. Diversification often makes good commercial sense, but without careful tax planning, the favourable and generous reliefs available to farm businesses can be lost. When considering how these reliefs have been applied, HMRC looks at a farming business in the round, taking into account how the land was used and occupied.

While APR may be lost due to diversification, business property relief (BPR) can in some cases be applied to help reduce inheritance tax (IHT). To qualify for BPR, the land must be used as part of a trading business, rather than the land generate an investment income.

When it comes to diversification, there could be a fine balance between qualifying for APR, BPR or losing all IHT reliefs. If, for example, the diversification is for storage and the business is paid a large rent annually, the market value of the lease on those acres is going to be worth more than it would be for agricultural land. It would, therefore be considered an investment and wouldn't qualify for APR, nor even BPR. As a result, the business is at risk of being deemed to be a predominantly investment activity, and no BPR is due, even on the livestock and machinery.

Reflecting on the current consultation into environmentally friendly farming schemes, it must be remembered that it is just a proposal, and there is a "scary reality" as to what will happen in the "gap" before the results of the consultation. For example, land currently being administered on the death of a farmer. There is no timetable for the government's comments on the consultation nor action arising therefrom. So currently, APR has not been extended BUT environmental schemes are in place. For those faced with this dilemma then evidence and analysis must be prepared for both APR and BPR to protect such land.

It is important to regularly review the business accounts to ensure that the business remains predominantly a trading enterprise without too many investment activities and to understand the environmental projects. It may involve getting a land agent to advise on the valuation. Farmers must be constantly reviewing matters as circumstances and valuations change.



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