Capital farming

Julie Butler and Andy Case discuss tax planning principles that apply to FETF grants and farm equipment.

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The tax planning around grants and equipment is complex. At the time of writing, the FETF (Farming Equipment and Technology Fund) applications will have been safely submitted by 10 July 2025 and it is hoped that farmers will have come to their tax adviser in advance of the application. In this article we consider the full spectrum of capital allowances from assets eligible for FETF to windfarms. The tax principles apply to all small businesses.

FETF grants

Grants of between £1,000 and £25,000 will cover between 40% and 50% of the total cost of items from a long list of kit. Applications are scored on their productivity and environmental benefits, along with the level of adoption by the industry. Funding will be given first to the highest scoring applications until the fund is all allocated. However, no minimum score has been set – this will be actioned by the Rural Payments Agency (RPA) once all applications are in. While many of the items are the same or similar to those in previous FETF rounds, advisers recommended a careful check of the lists, as some have changed.

Farmers were able to apply for a grant if their business is based and registered in England and they are a farmer, horticulturalist, forestry owner or contractor carrying out services to farmers, horticulturalists or forestry owners. Only one application was allowed to be submitted for each theme, and the success of the application will depend on the score it achieves as well as the number and value of applications the RPA receives. Equipment must be installed and operational before farmers can claim the funding and photographic evidence is required. The grant applies only to brand new items; any ineligible items must be invoiced separately. The timing delays can cause uncertainty for those drafting the farm accounts. The unlikelihood of achieving grants is relatively small, as long as the conditions are met that mean the tax advice obtained is likely to be a success. There are common sense rules and advice.

Key points

- Applications for grants from the Farming Equipment and Technology Fund closed 10 July 2025.
- Funds may be obtained for orchards and vineyards.
- Achieving 100% annual investment allowance is key to maximise cashflow and tax efficiency.
- The various financing options for funding unrelieved purchases will need to be considered.

- Can the business really afford, and does it really need, the items? Many stressed that farmers were not to be tempted to invest on the basis of grant aid – applicants still have to pay for the kit in full before the grant cash comes in. The identification in the accounting records will be key for tax compliance.
- Items must continue to be owned for at least five years from the date the full payment is made. This is a point that should be noted in accounts production.
- Make sure the address on the invoice is the same as the one in the RPA system – while mistakes can be catered for, it is a time-consuming process.

What could have been bought?

Examples of the items that could have been funded are:

- cattle crushes;
- cattle auto drafting systems;
- sheep handlers;
- automatic weighing and drafting crates for sheep;
- electronic weigh systems;
- weigh bars and platforms; and
- automatic drench guns.

Applications can be small infrastructure items that need careful planning on capital allowances. For those preparing farm accounts after the event without explanation from the farmer it is key to look out for the grants coming in and to match the grants.

Orchards and vineyards

This is an ideal opportunity to throw the spotlight on orchards and vineyards where a lot of equipment is also needed. It is a timely reminder that orchards and vineyards do qualify as farming for tax purposes and were eligible to apply. Examples of items eligible for funding under the FETF are:

- electronic tray filling machine;
- tractor mounted flail mulcher for orchards and vineyards (large);
- remote substrate sensors with datalogger;

- tractor mounted sensor for precision orchard management;
- front mounted orchard pruner;
- drone for spraying whitewash on to glasshouses;
- intra row weeders 1.8 metres; and
- inter row hoe 3 metres and 6 metres.

A range of other equipment is available under the productivity theme for FETF, such as for water and irrigation, including digital weather stations and field drain cleaners; as well as forestry, grassland and arable equipment. For more on the complexity of the accounts and tax work involved in the vineyard see my and Fred Butler's article, 'The grapevine', *Taxation*, 26 October 2023.

Capital allowances

The grants will only cover about half of the cost. The grant must be deducted from the cost so clear farm bookkeeping and accounts will be important as mentioned above.

With the 100% annual investment allowance (AIA) unaffected by the recent Budgets, the purchase of machinery continues to be very tax efficient. It is therefore important to look at the best way to buy machinery over and above the grant to help cashflow and tax planning. Beware of the rules on the timing of capital allowance claims on machines financed by hire purchase. The full allowance cannot be claimed unless the machine is brought into use in the tax year that the claim is made. However, when financing machinery with a loan, or cash, the 'brought into use' rules do not apply in the same way.

One final point on the timing of capital allowances – if an asset is bought outright, with no finance, the full allowance might not be available on delivery of the asset where delayed payment terms of more than four months are in place. In such cases, the payment date becomes the relevant date for allowances. It is therefore important to have all these details available when running the calculations.

Farm capital allowances claims have become very marginal with continued questioning by HMRC. A lot of farm diversification focuses on UK tourism and education and the First-tier Tribunal decision in *Acorn Venture Ltd* (TC9006) provided welcome tax news for farmers and their advisers. In that case, the tribunal found that the basic camping pods provided to school children for residential adventure holidays qualified for plant and machinery capital allowances. However, the pods with greater facilities for teachers did not (see my article with Libby James 'Capital pods', *Taxation*, 24 May 2024). Pods and other moveable camping facilities are used in farming throughout the UK in a number of situations. This case shows the marginal nature and that it is important that these different claims need to be examined on an individual basis.

Funding the balance

We have mentioned cashflow, and farm finance may be needed. When taking on farm finance, careful costing and comparing rates are obvious first steps, but also ask for the full cost over the life of the agreement and compare the options on this basis. Check the terms and conditions for fees and charges, especially in relation to late payments or ending the agreement before the full term has run. While general wear and tear through normal use is usually allowed for in agreements where the user is not the owner of the equipment, some things may not be covered. For example, damage is usually chargeable, so check the terms on this and question anything that is unclear and always think tax planning.

The various financing options have vastly different tax implications, so it's worth obtaining independent financial advice on this aspect, including on the timing of transactions. When cashflow is tight, the inference is that machinery purchases will get pushed back. When the machine is reliable and working well, that's fine, but if it's older and out of warranty then keep a watch on it with careful costings. The low depreciation on an old, reliable tractor with low repair costs can work out cheaper than a short-term hire of machinery – the spreadsheets must be prepared at every level.

Large equipment can be problematic

The FETF has helped make farmers focus on equipment and capital allowances. In anticipation of the purchase of equipment there should be a forward calculation of the tax computation and what the capital allowances – AIA – can be set against. If it creates a farm loss, the impact needs to be thought through. This highlights the need for prompt accounts, management accounts and business plans so as to be using the allowances and possible tax loss effectively. The very large value equipment purchased can be a headache for farm tax advisers. The FETF applications apply to relatively small items but the marginal nature of capital allowances are important at all levels of farming, especially, for example, grain stores (*S May and another* (TC6928)) and cold storage (*JRO Griffiths* (TC8203)). Such large purchases can result in tax losses.

On the subject of large, complicated and marginal capital allowances claims, let's look at windfarms. The Court of Appeal's decision in *Orsted West of Duddon Sands (UK) Ltd and others v CRC* on capital allowances hinged on the interpretation of 'qualifying expenditure' under CAA 2001, s11 where allowances were available on landscape, seascape and visual assessment; ornithology and collision risk; noise; and telecoms and radar interference studies of the offshore windfarm arrangement. This case has given tax advisers thought for claiming capital allowances on new onshore capital allowance projects and tax planning in respect thereof.

Key on all capital allowance projects, including FETF, is careful understanding on timing, eligibility and analysis of exactly what is being purchased.

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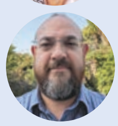

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