

007. Natural capital accounting and tax

Further to practical point 253 in the November 2020 issue of *TAXline*, it is key to look at natural capital and the tax and accounting position. 'Natural capital accounting' is the process of calculating the stocks and flows of natural resources in a given eco-system or region. How natural capital is accounted for in the context of a farming business is something that must be considered as the Agriculture Act 2020 was passed into law on 11 November 2020. Currently, direct area subsidy payments are being replaced by the Environment Land Management Scheme from the Department for Environment, Food and Rural Affairs.

A big question for farming will be: in what accounting and tax period do the income and expenses fall? Another consideration is whether the expenditure to increase the natural capital and possibly generate income is capital or revenue in nature. The recent case of *Steadfast Manufacturing & Storage Limited v HMRC* [2020] UKFTT 0286 (TC) shows how marginal the decision between capital and revenue expenditure can be.

With an ageing population of farmers and landowners, questions have to be raised over the impact on capital gains tax (CGT) and inheritance tax (IHT) reliefs. Will the land still qualify for agricultural property relief (is it still agriculture) and business property relief (BPR) for IHT? For example, does the improvement of natural capital count as trading or business? Rewilding

and natural capital present significant questions for agricultural tax advisers, indeed all farmers and landowners, looking for capital taxes protection.

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