Natural Capital – which path does the tax adviser travel?

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The Agriculture Bill received Royal Assent on 11 November to become the Agriculture Act 2020. It is a key time to consider tax planning around "natural capital" and other "public product" subsidies that face the farming industry.

We now look at the potential tax and financial planning around "natural capital" and how it can integrate into the farm operation. "Natural capital" refers to all the elements of the natural environment – soil, water, wildlife species and habitats, forests etc. Farmers can be paid for creating environmental benefits or maintaining natural resources that provide value to wider society. By identifying and evaluating the amount of natural assets (such as clean water, carbon-capturing plants and healthy soils) on a holding, the farmer can include this capital within a business model. When well-managed, these provide many benefits to humans, from food and drinking water to recreational spaces and

carbon storage. By measuring and valuing these natural capital assets they can be managed to maximise the environmental benefits.

The impact of the corporate sector

Within the UK, the biggest market for this is in the corporate sector, where companies will pay a landowner for green credentials that will improve their image, such as carbon offsetting. Some of the benefits produced from well-managed "natural capital" will be of interest to others beyond the business that owns or manages the land. The government will pay for public goods via the Environmental Land Management Scheme (ELMS) and the private sector is increasingly interested in investing in "natural capital", whether to offset their carbon emissions by paying for tree planting or to safeguard the resilience of their supply chains.

To prevent corporate entities buying land and pricing farmers out of the market, land used needs to be layered, with food production taking place alongside environmental benefits, and the pricing strategy must be correct. For farmers, land and water should be a business opportunity and could become the cornerstone of income. Public funding for public goods is an exciting idea, but private sector buyers are also emerging.

Obviously for farmers the income will be taxable and the expenses will be tax allowable. With this will come the normal questions of how the receipt and costs of producing the income will be shown in the accounts and on the tax computation. There will be debates over deferred consideration and whatever the outcome the treatment should, of course, be consistent. The significant question then arises what about capital taxes? Does the activity qualify for Rollover Relief for CGT and for APR/BPR for inheritance tax?

There has been much written about "natural capital" accounting of stock and flows of natural resources in a given eco system or region but what about how a farming company or business will pay income or corporation tax together with

the implications on capital taxes, e.g. qualifying for the business reliefs of CGT, Rollover and BADR together with IHT, i.e. BPR?

Such considerations come at a very critical tax planning time with the APPG (All Party Parliamentary Group) suggesting that APR/BPR should possibly be lost in favour of a more streamlined lower rate. Likewise, the OTS suggest a reform of CGT to bring it more aligned to income tax. Who would want to be either a farmer or farm tax adviser with so many changes to embrace?

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