HEWETSON & JOHNSON

RURAL BUSINESS AND ESTATE MANAGEMENT

RURAL CONSULTANCY | SALES | VALUATIONS | ESTATE MANAGEMENT

Directors' Welcome

As Hewetson & Johnson celebrate their 5th anniversary, the political background enveloping the United Kingdom has provided some interesting headlines of late. With a General Election due on 12th December and a revised Brexit deadline scheduled for 31st January 2020 uncertainty remains the main concern for rural business.

Conversely any degree of apathy to 3 years of ongoing debate seems to have been brushed aside by an industry renowned for its resilience to structural change. Whilst many clients have already assessed the potential implications of a 'No Deal' Brexit, this is an evolving position creating a pool of opportunity to change the direction of your business or traditional income streams.

Being both optimistic and pragmatic, we see enormous opportunities. The need for provenance and sustainability in our food production has never been more prevalent, creating direct marketing opportunities underpinned by the government's announcement to invest a further £1bn to support the roll out of 4G to 95% coverage in rural areas by 2025 creates new marketing opportunities.

The rural sector has always had a strong entrepreneurial spirit which we hope to embrace and work with our existing and new clients as we enter the next chapter of Brexit. We hope you find the articles within our newsletter useful and encourage you to visit our revamped website for further regular updates during these changing times.

Get Ahead...

1. 2020 Septic Tank Regulations - The General Binding Rules (GBRs) means anyone with a septic tank discharging into a water course must replace it or upgrade it by 1 January 2020 or sooner if the property is to be sold by this date. Check that your treatment systems comply.

2. Homes (Fitness for Human Habitation) Act 2018 - From 20 March 2019, Landords must comply with this new legislation. It aims to boost the standard of rented homes for the health, safety and welfare of tenants. It provides a new platform for a tenant to request works are undertaken.

3. Farming is Changing - DEFRA Guidance

- With the passage of the Agriculture Bill and Environment Bill held up in parliament, the implications of both could affect your business. With direct payments being phased out from 2021 – 2027, possible delinking from 2021 and an end to the current round of Rural Development Programme funding at the end of 2020, it's critical to keep actively reviewing the policy changes and opportunities available now and being proposed when reviewing land tenure options.

4. Changes to Capital Gains Tax

- The established position of paying Capital Gains Tax (CGT) on the disposal of an asset in say 2019/20, would mean paying the tax due on 31 January 2021. The proposal is that from April 2020, CGT will be payable within 30 days of the sale or gift.

There are further proposals for a reduction in the qualifying period for the ancillary Principal Private Residence (PPR) reliefs from 6 April 2020. The changes will affect those claiming final period of ownership relief which is being reduced from 18 months to 9 months. Lettings Relief will also change post 6 April 2020.

5. General Licences Consultation

- Following Wild Justice's intervention in Spring 2019, DEFRA have launched their current review of the General Licencing system and are due to report by 29 February 2020.

In the meantime, the revised General Licences GL34,35 & 36 can be used subject to their conditions. For areas of SAC or SSSI, please ensure that current S.28 consents are in place for their use.

6. Minimum Energy Efficiency Standards - Residential Property

- From April 2020, it will become illegal to continue to let qualifying residential property to existing tenants without an Energy Performance Certificate (EPC) of a Grade 'E' 39 points or higher. Review your EPC and follow in sequential order the recommended improvements to achieve a higher energy rating, subject to the costs not exceeding the cost cap of £3,500 per property, in which case consider applying for an exemption.

7. Tenancy Reform Consultations

- The government's consultation on proposed amendments to agricultural tenancy legislation closed on 2 July 2019. To date, the government have not announced their findings, but the proposals included bringing about structural changes to improve productivity and the overall sustainability of the tenant farming sector. It's anticipated the results of these proposals will be available in November 2019 which may present further opportunities in the context of restructuring of tenancies.

8. S.21 Changes

- The Ministry for Housing, Communities and Local Government (MHCLG) is currently consulting on abolishing 'no fault' evictions (S.21 Notices) and improving S.8 grounds under the Housing Act 1988. The consultation closes on 12 October 2019.

Landlords have relied on the 2 month notice provision under the S.21 provisions to obtain vacant possession rather than pursue the more cumbersome S.8 route through the courts which requires evidence of a breach of the tenancy or non payment of the rent. The implications of a return to a Rent Act style of tenure giving greater powers to the tenant, could have a significant impact on the residential letting market.

9. Water Abstraction

.- A reminder following the Environment Agency regulations introduced in January 2018, those relying on an exemption when abstracting more than 20 cubic metres a day, may have to apply for a new abstraction licence by 31 December 2019.

10. Countryside Stewardship Schemes

- For those not in a stewardship scheme, or those who have an existing one expiring this year, it is advisable to review your options to secure a new scheme in the 2020 application window to bridge the reduction in Basic Payment from 2021 and the advent of the Environmental Land Management Scheme set for introduction in 2024.

Capital Grants are available as a one off 2-year scheme for those not wanting to alter their farming systems.

Rural Office Space - Diversify Your Diversification

Back in the early 2000s when farm rents were stagnated many owners decided that the future of their estates lay in diversification away from a core income based on agriculture to one that included commercial property. Not only estates but farms with traditional buildings decided that conversion in to commercial space would provide a good return and future proof them against poor farm incomes.

At times like these it pays to be step ahead of the competition and a quick look around a new office development or through the pages of the property press soon gives you an idea of where the market is. Tenants in the market now are as likely to ask about health and well being as they are about rates per square foot or the EPC rating. This is all very well if you have such things on offer but when most rural offices were converted the thought of putting in a gym, break out areas or a cinema was non sensical- a waste of good space.

So perhaps now is the time to be ahead of the curve and to add those extras that so many businesses want to see. The workplace is no longer somewhere people go to sit at desk for 8 hours. Staff want to form friendships, network, exercise together and even take the dog for a stroll in the countryside. Providing these elements whether it's new build, further conversion or converting office space could well be worth the investment.

To take this a step further we are working with Estates to future proof incomes and provide long term sustainability models. For years planners haven't considered house building in areas with no jobs or transport links. Rural estates are able to offer the ideal sustainability model much like they did when workers cottages were built for the farm or the coal mine back in the day. Only this time the workspace will generate housing need and people will be able to buy or rent a house within a walk of where they work. What planner wouldn't agree with that?

The Office of Tax Simplification's latest recommendations for the simplification of Inheritance Tax

By Martyn Dobinson, Director at Suffery Champness

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The Chancellor's original brief, which was submitted in January 2018, asked the OTS to review a wide range of administrative and technical aspects of the tax.

The OTS's first report focused on the administration of IHT and improving the user experience of HM Revenue and Customs' (HMRC) IHT systems. This second report focuses more on the technical aspects, including looking to 'address distortions in operation and scope of reliefs such as those for business and agricultural property'.

Agricultural Property Relief (APR) and Business Property Relief (BPR) are widely relied upon in the landed estates and farming sectors as valuable tools to efficiently pass family assets down the generations, where they help prevent the break up and sale of family businesses to finance settlement of IHT liabilities. The OTS's report does recognise this fact. Any proposed changes to these reliefs are therefore met with great scepticism and nervousness.

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The availability of APR on let land was considered the relief most at risk. However, surprisingly, there were no recommendations made in this respect.

Some areas, including the residence nil rate band and charitable legacies reducing the rate of IHT charged on death, have not been considered in the report. Trusts are also being considered as part of a separate consultation.

Although some of these proposals, such as alignment of the FHL IHT, income tax and CGT treatments would provide welcome clarity and simplicity for the taxpayer, others, such as raising the trading test bar for BPR, would create significant challenges, especially for businesses relying on this relief as part of their long-term succession planning.

Similarly, a removal of the uplift in the CGT base cost of assets on death, where an IHT relief or exemption has been claimed, is likely to require a fundamental review of many taxpayer’s wills and associated succession planning.

It is important to remember that this is not draft legislation and given the current political turmoil, it is not yet known which recommendations will be taken forward by the Government and which will not. However, given the wide-ranging scope of this report, it seems probable that the current rules will be subject to some change. We will be watching the Government’s next steps very closely.

The following principal recommendations were included in the OTS’s latest report:
Consideration of whether the trading/non-trading activity test for BPR should be aligned with that for Capital Gains Tax (CGT) reliefs. The current test for BPR is a ‘wholly or mainly’ test (commonly interpreted to mean more than 50% trading). This would raise the bar to an 80% trading test;
Simplification of the rules around lifetime gifts by creating an annual lifetime gift allowance, abolishing taper relief and reducing the seven-year exemption run-off period to five years, with a review of the current exemption for gifts out of surplus income;
Removal of the CGT base cost uplift that occurs on death, in the case where an IHT relief or exemption has been claimed;
Review of HMRC’s approach to the eligibility of farmhouses for APR in ‘sensitive cases’, for example where a farmer leaves the farmhouse for medical treatment or to go into care;
Clearer guidance from HMRC regarding the requirement for valuation of a farm or and whether an estimate, rather than a formal valuation, is sufficient;
Clearer guidance on who is liable to pay IHT and application of the nil rate band, particularly where lifetime gifts come into charge;
Consideration of alignment of the IHT, income tax and CGT treatments of Furnished Holiday Lets (FHLs); and
Removal of the requirement for life insurance policies to be written into Trust to ensure that proceeds paid out on death are not included in the death estate.

Brexit or no Brexit – improve business efficiency to prosper

At the time of writing, the date the UK will leave the EU is set for 31st January 2020. However, we have been here before and with the passage of the new Agricultural Bill through Parliament delayed and our future trading arrangements unknown, the Government's policy for UK farming remains undecided. The only thing that is known is that when we do leave, it will be a moment that will set a number of wheels in motion which will have a profound impact on rural businesses.

After Brexit, regardless of your location in the UK, it is generally agreed that financial support from Westminster will not be as much as farmers and landowners are currently receiving through CAP and the various environmental schemes. Couple this with a new trading arrangement with the EU and the rest of the world, farming incomes will come under pressure. However, opportunities will also be there for those that are looking for them. The businesses which plan for these changes as best as they can and also keep an open mind to how they operate will prosper. Over the last 3 years, we have been advising our clients that they should have a very close look at their business in order to be in the best shape for Brexit – both those farming directly and those that rely on farm rents/farming businesses for income. This advice is still relevant now and will remain so whatever the Brexit outcome and it is not too late to make changes to your business to increase its efficiency and robustness. The following are steps that can be taken:

- Review all farming and estate management procedures – do not get caught by the 'it has always been done like this' maxim. Can efficiency be improved? Would a joint venture farming arrangement be better than your current operation?
- Carry out a thorough review of all expenditure. This is something we encourage our clients to do on a regular basis, Brexit or no Brexit. You will need good accounts information to be able to pin-point various costs and if you have any willing members of staff, regardless of their position, it can be useful to involve/challenge them in a 'bottom up' review so that they buy in to any findings and changes that may be brought in.
- Diversify your business and increase the number of income streams. Location and funding will have an impact on what you can do but if you have not already done so, start looking at income sources like tourism and

leisure, power generation and storage and natural capital. Can you add value to existing products and respond to opportunities? Be imaginative but do your homework.

- Understand the impacts on your business from a reduction in BPS. Whether farming in your own right or relying on farm rents underpinned by BPS, you should fully understand the affects the proposed reduction will have on your income stream. Carry out a sensitivity analysis – forewarned is forearmed.
- Review any bank borrowing you may have in place. Rates remain low and if you can lock in now, this could offer some savings over the coming years.

Although the above has been written with Brexit in mind, all the points made are what any business that wants to prosper should be reviewing on a continual basis to stay ahead of the pack. A business which is always challenging itself is one that will be ready for any bumps in the road and with Brexit, the bumps will be there but with some planning and thought, any effects can hopefully be minimised as well as opportunities grasped. If there are further delays to Brexit or the effects are not as pronounced as some commentators are predicting, you have undergone a thorough business review which will only benefit you.

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