A new trade in renewables

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In the third part of his series on farming tax, Michael Steed looks at the opportunities available by diversifying into renewables

Key Points

What's the issue?

Farmers will be looking anew at diversification into renewables in the light of the COP26 Glasgow Climate Change Conference.

What does it mean to me?

That as advisers we need to be able to look at the whole landscape, tax and non-tax, to properly advise our clients on renewables.

What can I take away?

That the ‘green tide’ comes in and offers us incentives and then, perhaps inexplicably, it goes out again, so careful checking of what’s on offer is essential.

This is the third and final part of my Back to Basics articles on farming tax and I want to review some of the tax effects of farmers diversifying into renewables. So what’s on offer for farmers seeking diversification into renewables? Let’s start with some bad news. There have been some UK government incentives for producers of renewable energy in the near past, but these have now reduced to a trickle.

We have seen the Non-domestic Renewable Heat Incentive for non-domestic heat producers closed to new applicants in March 2021. The Green Homes Grant, designed to help people increase the energy efficiency of their homes, closed in March 2021. We still have the Domestic Renewable Heat Incentive for small scale heat generation at the domestic level and even this is closing in March 2022. The Boiler Upgrade Scheme is being introduced in the spring of 2022, to offer capital grants of £5,000 for home owners to install heat pumps in their properties, as an alternative to older fossil fuel boilers.

The Domestic Renewable Heat Incentive

This is a domestic subsidy, designed to subsidise biomass boilers, solar water heating and certain heat pumps, so it is a subsidy towards renewable heating costs in your home. Under the Domestic Renewable Heat Incentive, payments are made for seven years and are based on the amount of renewable heat made by your heating system.

If the renewable heating system heats only a single property which is capable of getting a domestic Energy Performance Certificate (EPC), then you can apply for the Domestic Renewable Heat Incentive. The Energy Performance Certificate is the proof needed that a property is assessed as a domestic dwelling. Without one, you can’t join the scheme. The scheme is essentially for one dwelling, although it will cover home offices and annexes in some circumstances.

Note that some older farmhouses will not have an Energy Performance Certificate, but it is still possible to join the domestic Renewable Heat Incentive scheme with an exemption certificate (commonly used for listed dwellings).
From a tax perspective, Domestic Renewable Heat Incentive payments made to an

individual are outside the scope of income tax and VAT.

Solar farms

There’s been a lot of interest in solar farms in recent years, notwithstanding that the UK government withdrew large-scale support for solar in 2015. The cost of solar photovoltaic (PV) panels has dropped and reliability and longevity has improved. The key issue for a farmer is whether to lease land to a power generati on business or self-invest and build and sell the electricity.

It’s a long-term project either way. Farmers may conclude that renting land to a solar generator is a better option, as this does not require capital outlay or specialist technical skills. Developers typically seek a lease term of at least 35 years, paying an annual (index-linked) rent and in some cases a percentage revenue share, with the land restored to its previous condition at the end of the term. The rents offered to landowners vary significantly depending on the site; flat sunny sites with good grid access will be of interest.

Some developers may also look to install battery storage systems into their solar farm designs, which should attract an additional rent.

Other benefits of a solar farm include maintenance and grazing rights, with most developers allowing sheep grazing around the solar PV panels – they may even pay for this.

From a tax perspective, this is income from land and not farming. As we discussed in the last article, the trick with any diversification project is to balance risk-free income now and in the future, against a possible loss of long-term inheritance tax reliefs later (on retirement or death). For agricultural property relief, for example, the farmer needs to be in occupation of the land for the purposes of agriculture. Certainly having sheep graze fields under solar panels will help that argument.

The farmer will also have to consider the VAT aspects. Will the land be opted or will the supply of land be an exempt supply, with possible partial exemption issues?

If a farmer chose to run the project in-house, then the tax aspects include:

- capital allowances on the panels and frames (normal capital allowances, trumped by the annual investment allowance, but no stand-alone fi rst year allowances);

- possible 3% structures and buildings allowances on roads and hard standings (such as pavements); and
- non-farming (trading) income from the export of the electricity.

The VAT on exported electricity will be at 20%, unless the customer qualifi es for the 5% domestic rate. Again, the long-term inheritance tax angles will need to be considered.

Selling renewable electricity

As far as income from a solar installation is concerned, the Smart Export Guarantee is the new mechanism to pay people for excess electricity that they export to the national grid. This is a government initiative that offers a route to market for small scale renewable plants up to a capacity of 5MW or up to 50KW for micro Combined Heat and Power Stati ons. It is designed for solar PV panels, wind, micro Combined Heat and Power, hydro and anaerobic digestion.

Anyone with solar PV panels whose system is linked to the grid will export the energy they don’t use. Until March 2019, people installing solar PV panels were eligible for the Feed in Tariff , which paid a subsidy for each kilowatt hour of electricity generated and a fairly generous export tariff for electricity fed into the grid.

The Feed in Tariff has now gone and the Smart Export Guarantee has replaced it. From an investment point of view, there is no guaranteed income as there was from the Feed in Tariff. Instead, the Smart Export Guarantee does guarantee a route to market for producers. Income is likely to be lower, but energy companies are obliged to source some green electricity, so farmers should shop around.

Wind turbines

The same issues that apply to solar panels above, also apply to wind turbines.

Anaerobic digestors

There has been quite a lot of interest in anaerobic digestors, especially from dairy farmers with a big slurry problem. Many of the issues above will apply, although self-constructi on may be more popular.

Material suitable for the anaerobic digesti on process includes:

- animal manure and slurry;
- energy crops such as maize, ryegrass, silage and fodder beet;
- food processing by-products;
- food waste from retailers; and
- biodegradable household waste.

Anaerobic digestors have potenti ally two outputs: green gas; and, where the gas is used to drive gas turbines, electricity. The government is introducing a new Green Gas Support Scheme in the autumn of 2021 for four years
for incorporating new green gas (bio-methane) into the grid. The gas may be of interest to green transport providers for, say, buses. The Green Gas Support Scheme will provide quarterly payments for 15 years. The electricity generated may be eligible for the Smart Export Guarantee (see above).

The equipment purchased should attract capital allowances, but not first year allowances. Roads and hard standings may be eligible for the 3% structures and buildings allowance. The income will clearly not be farming income, although it will be income from a trade.

Any diversification project will require significant input of time and investment. Many farmers underestimate this.

As ever, it’s not just the tax that needs to be considered: new skills will be needed, which may have to be brought on from off the farm. Also, anaerobic digestor operators will need to ensure the security of feedstock and dealing with the digestate at the end of the process.

Using self-generated renewables Some farmers may enquire about using renewables on the farm only (i.e. without the export element), so some of the above discussion will apply (say, for capital allowances). In-house energy generation will cut external energy bills.

Conclusion

Any diversification project will require significant input of time and, where appropriate, investment. The hard facts are that many farmers underestimate this point. These projects require new skills and all of this may well detract from the core business of farming. Farmers will need to get their ducks in a row and tax is but one aspect of this.