Farm business structures: why grant scheme rules matter

Inheritance tax and trusts Property Tax

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Agricultural grants and an understanding of how IACS26 operates can have significant implications for farm restructuring.

Key Points

What is the issue?
Agricultural grant rules can affect the success of farm restructuring and succession plans. A business structure accepted for tax purposes may not be treated as a separate business for grant purposes.

What does it mean to me?
When advising farming clients, grant considerations should be assessed alongside inheritance tax and succession planning. IACS26 and the Rural Payments Agency’s approach to separate business status may have significant implications.

What can I take away?
Ensure that any restructuring has a genuine commercial purpose, is financially viable and is supported by consistent documentation. Tax, grant and business objectives should be considered together.

To the dedicated farm tax adviser, working alongside a land agent has long been a necessity rather than a luxury. A specialist land agent, particularly one with detailed local knowledge, can provide valuable insight not only into farm values and potential development opportunities, but also into the practical operation of the farming business and the future potential of the land.

This wider perspective is particularly important in succession planning. Decisions about ownership, management and the involvement of the next generation must be made with a clear understanding of both current and future farm values. The timing of gifts, business restructuring and other succession planning measures can be critical, particularly where inheritance tax considerations are involved.

Land agent expertise can also be extremely valuable in relation to agricultural support schemes. Understanding grant opportunities, eligibility requirements and the practical implications of environmental schemes has become an increasingly important aspect of farm business planning. As farming businesses adapt to changing inheritance tax rules and environmental support schemes, grant considerations may influence the success or failure of a proposed restructuring.

The message is straightforward: succession planning, tax planning and grant planning can no longer be considered separately.

Understanding IACS and business structures

The Integrated Administration and Control System (IACS) is the administrative framework used by agricultural authorities to manage and monitor farm support schemes. Originally developed under the EU Common Agricultural Policy, elements of the system continue to be used across the UK to administer agricultural payments and verify eligibility for support schemes. In England, these functions are undertaken by the Rural Payments Agency, an executive agency of the Department for Environment, Food and Rural Affairs (Defra).

IACS is designed to link information across various grant schemes and therefore requires detailed information about how a farming business is structured and operated.

One important point for advisers is that the treatment of a business for tax purposes does not necessarily determine how it will be treated under IACS rules. A farming operation that appears to comprise separate businesses for tax purposes may not be regarded as separate for grant purposes.

For example, the Sustainable Farming Incentive (SFI) currently contains a £100,000 annual agreement cap for each business. Larger farming operations therefore have a clear interest in understanding whether different parts of their activities may be treated as separate businesses. However, the position is not simply a matter of obtaining additional business registrations or creating new structures.

Any restructuring undertaken as part of succession planning must be capable of standing up to scrutiny under the rules applied by the Rural Payments Agency, as a new or revised business structure may not satisfy the tests used by the agricultural payment authorities to determine whether it constitutes a separate business for grant purposes.

From subsidies to targeted support

The biggest change to agricultural funding in England is the move away from the Basic Payment Scheme (BPS), under which support was largely linked to the amount of land farmed. The current approach focuses instead on rewarding environmental outcomes, improving productivity and supporting investment in farm businesses.

The cornerstone of the new system is the Sustainable Farming Incentive (SFI), which pays farmers for adopting specific land management practices that support soil health, biodiversity, water quality and sustainable food production. Alongside this, capital grants provide funding for one-off investments and environmental improvements, including hedgerow restoration, tree planting, water quality projects and natural flood management measures. Defra has allocated £225 million to the 2026 programme.

Farmers can also apply for support through the Farming Equipment and Technology Fund, which helps businesses invest in equipment and technology to improve productivity, animal welfare and environmental performance. Other schemes remain available for more specialised projects, such as complex environmental management and large-scale habitat and ecosystem restoration projects.

The importance of IACS26

Most advisers are familiar with tax tests relating to trading status, partnerships and commerciality. Fewer are familiar with IACS26, the separate business questionnaire used by the Rural Payments Agency when determining whether farming businesses should be treated as separate entities for grant purposes.

This form must be completed where an existing business is split into two or more businesses, particularly following a restructuring, or where a person is involved in more than one business registered with the payment authorities.

With many farming businesses currently restructuring for genuine succession and inheritance tax planning reasons, it is important to consider carefully how any revised structure will be viewed in the context of grant applications.

The questionnaire requires detailed supporting documents relating to the legal status of the businesses, accounts, invoicing arrangements and equipment sharing arrangements, together with evidence regarding the practical operation and management of the businesses.

When assessing whether a farming business should be treated as a single business or as separate businesses under IACS rules, the Rural Payments Agency states that it considers the business structure and whether the business, or any of its members, has an interest in another farming business linked to the claim. Its published guidance notes that who is farming the land and applying for payment forms part of the assessment, whereas the location of the land or ownership of the land is not, in itself, determinative.

The Rural Payments Agency’s assessment therefore considers a range of factors relating to the structure and operation of the business. Advisers should avoid assuming that a restructuring designed for succession or inheritance tax purposes will automatically achieve the desired grant outcomes. Indeed, some advisers have observed that there is no single statutory test of ‘separateness’ for these purposes.

While IACS26 is very detailed, it is not in itself a definitive test of whether a separate business exists. Completion of the form therefore requires a forensic understanding of the underlying commercial arrangements, management structure and operation of the farming businesses to ensure that the submission accurately reflects reality.

More on IACS26 for England can be found at: bit.ly/IACS26-guidance.

Are businesses genuinely separate for grant purposes?

A farming business may appear separate on paper, but that does not automatically mean it will be treated as a separate business for grant purposes. Where linked businesses exist, the Rural Payments Agency may examine the practical reality of how they operate before determining whether they should be regarded as distinct entities.

The assessment is not based on a single factor. Instead, the RPA may consider a range of indicators, including:

- who makes the day-to-day management decisions;
- who bears the financial and commercial risks of the business;
- whether separate accounts, invoices and banking arrangements are maintained;
- how labour, machinery and equipment are owned and used;
- whether businesses can demonstrate genuine operational independence; and
- the extent to which individuals have interests in, or exercise control over, more than one farming business.

Supporting evidence may be required, including business accounts, partnership agreements, machinery-sharing arrangements and other records showing how the businesses operate in practice. The stronger the evidence that businesses operate independently and bear their own risks, the more likely they are to be regarded as separate for grant administration purposes.

The role of the ultimate business owner

Another area attracting increasing attention is the concept of the ultimate business owner. The identification of the ultimate business owner may form part of the wider assessment of who controls, benefits from and bears the risks of a farming business when authorities consider whether businesses are genuinely separate.

Many professional advisers are already familiar with requirements to identify the individuals who ultimately benefit from and control a business. In practice, this means looking beyond legal ownership to establish who receives the economic benefit or ‘beneficial interest’, who exercises control and who bears the commercial risk.

This highlights why farm succession planning requires input from a range of advisers, including tax advisers, accountants, lawyers and land agents. Decisions should not be driven solely by tax considerations but should also reflect the business’s ‘real economic purpose’, its future direction and the commercial realities of how it operates in practice.

Understanding who ultimately controls the business can be an important part of assessing whether a proposed succession structure is likely to achieve its long-term objectives.

Succession planning and business restructuring

Recent changes to the inheritance tax treatment of agricultural property relief (APR) and business property relief (BPR) have prompted many farming businesses to review their ownership and business structures. The increase in the 100% relief threshold to £2.5 million per individual, potentially providing up to £5 million of relief for a farming couple, has provided greater certainty for some smaller farming businesses. However, larger businesses continue to explore a range of succession planning options, often combining inheritance tax, ownership and grant-planning considerations.

The importance of commercial reality is also reflected in the operation of agricultural support schemes. For example, the Sustainable Farming Incentive 2026 (SFI26) offer includes 71 environmental actions covering areas such as soils, moorland, grassland, hedgerows and farmland wildlife. However, the scheme is subject to business-level restrictions, including a maximum agreement value of £100,000 per agreement year and a limit of one SFI26 agreement per farm business.

This is particularly relevant where restructuring may result in the creation of additional business entities or a new Single Business Identifier (SBI), the unique reference number used by the Rural Payments Agency to identify a farming business. Where separate businesses are recognised for grant purposes, there may be opportunities for each business to access support in its own right. It is unsurprising that advisers are considering the grant implications of business restructuring alongside the succession and tax consequences.

However, the creation of a new business structure or a separate SBI does not automatically guarantee separate treatment by the Rural Payments Agency. Any new business arrangement should therefore be tested against the principles discussed in IACS26. Factors such as the trading activities undertaken, who is involved in the business and in what capacity, and the practical operation of the business may all be relevant to the assessment.

Where the Rural Payments Agency reviews a newly established business structure, it may require the completion of IACS26 questionnaires and supporting evidence demonstrating that the businesses are genuinely separate. The potential advantages of restructuring must therefore be considered alongside the need to demonstrate genuine commercial separation.

The wider lesson is that restructuring should rarely be undertaken for a single purpose. A business reorganisation designed to support succession planning may also affect inheritance tax outcomes, grant entitlement, management succession and future commercial opportunities. Advisers should therefore evaluate the interaction between these objectives rather than considering each in isolation.

The same principle applies to operational changes such as the adoption of contract farming agreements (CFAs). Such arrangements may support succession planning and, in some circumstances, inheritance tax objectives. However, they must reflect genuine commercial arrangements and operate as such in practice, with the farmer continuing to bear the appropriate commercial risks. As with any restructuring, the documentation, management arrangements and day-to-day operation of the business should support the position being adopted.

Commercial risk and cross-referenced information

The importance of commercial reality extends beyond business structures and grant applications. Increasingly, advisers need to consider how information provided to different organisations and government bodies fits together.

Commercial arrangements should not simply exist on paper. Business structures, succession arrangements, grant applications and contractual relationships must all reflect the underlying reality of how the farming operation is conducted. The existence of a particular structure or agreement is unlikely to be sufficient if the day-to-day operation of the business points in a different direction.

This is particularly important in an environment where information submitted to different organisations may be compared and reviewed. HMRC, the Rural Payments Agency, banks, professional advisers and other bodies may all hold information relating to the same farming business. Inconsistencies between business structures, grant applications, accounts and operational arrangements may raise questions about whether the arrangements accurately reflect reality.

For that reason, succession planning should involve a careful review of all business records and applications. Information provided for tax purposes should be consistent with information submitted in support of grant applications and other regulatory requirements. The structure of the farming business, ownership arrangements and management responsibilities should all support the position being adopted.

To quote from the government's SFI26 announcement: 'Fairness and access will improve. By reducing some payment rates, introducing an area cap for the enhanced overwinter stubble action, and applying a new annual agreement cap of £100,000, we can ensure that more farms are able to participate and benefit.'

As support schemes evolve, farming businesses and their advisers must consider not only the tax and succession implications of restructuring, but also how those arrangements will be viewed in the context of grant administration and commercial reality.

Commercial viability: keep it real

This gives us an opportunity to distinguish between genuine commercial arrangements and those that exist primarily on paper. Commercial activities should be focused on the production of profit and supported by a clear economic rationale.

Throughout this article, the recurring themes have been real economic purpose and financial viability. Whether considering succession planning, inheritance tax planning, business restructuring, grant applications or contract farming agreements, the underlying arrangements must be capable of standing up to scrutiny.

This is particularly important where businesses are seeking to establish separate status for grant purposes. The question is not simply whether a particular structure delivers a desired tax or grant outcome, but reflects the genuine operation of the farming business.

The key message remains straightforward: keep it real. Restructuring should be driven by genuine commercial and family objectives, supported by evidence of financial viability and capable of withstanding scrutiny from both tax and grant authorities.