ALA
E-BULLETIN

RURAL PROFESSIONALS

JUNE 2026

CONTENTS

CHAIR'S WELCOME

Welcome to our new-look E-Bulletin. Our newly revised website platform includes the ability to send regular e-bulletins, which will become a regular feature in your inbox. We will aim to include relevant information about changes in law and policy, as well as additional scholarly articles that may be of interest to you in practice. We would welcome contributions from anyone who would like to include an article/news piece which they think may be of value to the wider ALA membership. We have a busy events calendar given the increased activity across all ALA regions. I hope including those in the e-bulletin will help you attend events that may be out of your usual region but are still convenient for you to attend and take part in.

We are eager to hear your feedback as it plays a crucial role in enhancing this new e-bulletin. Your insights and suggestions will help us understand what works and what needs improvement, so the e-bulletin becomes a valuable daily resource for you.

AT A GLANCE

Last month, the UK government published its newly **announced legislative programme**. This initiative encompasses bills concerning water reform, energy independence, and the United Kingdom's partnership with the European Union. The legislative agenda also features the Regulating for Growth Bill, which commits to enhancing the growth duty so that regulators such as Natural England and the Environment Agency possess a *"clear, statutory mandate to prioritise growth without compromising their essential core functions."* This legislation warrants close attention as further details become available.

The **Wildlife Trusts** have issued a list of eight bills aimed at accelerating nature recovery, enhancing national security, and improving public health, and have called on the UK government to elevate its efforts.

The Office for Environmental Protection released a **review of Environment Agency inspections pertaining to waste operations and installations across England**. The report identified notable deficiencies in the inspection regime's effectiveness, consistency, and oversight.

The government has announced a **£30 million investment** to support its target of protecting 30% of England's land for nature by 2030.

MPs have launched a new **inquiry** exploring the Treasury's role in shaping environment and climate policy.

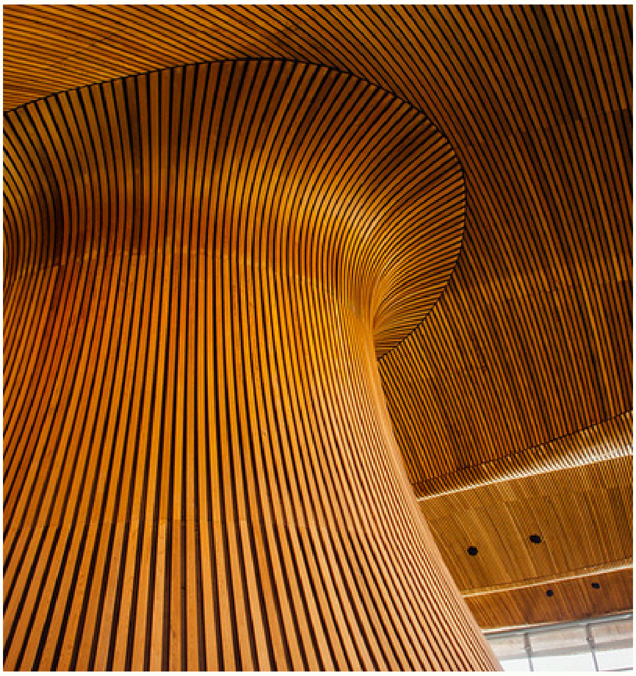
The government has published a **technical note** outlining proposed changes to Inheritance Tax as it applies to pensions.

A **Post-Implementation Review (PIR)** has been released, assessing the effectiveness and outcomes of recent legislation.

POLITICAL UPDATE

SENEDD AND SCOTTISH PARLIAMENT ELECTIONS

A significant political change in Wales saw Plaid Cymru win control of the Senedd, thereby concluding a period of Labour-led governance lasting more than a century. Rhun ap Iorwerth was appointed First Minister of Wales on 12 May 2026 and has subsequently appointed his **Cabinet**. Llŷr Gruffudd has been appointed Wales Minister for **Rural Resilience and Sustainability**, having previously pledged plans to **reduce regulatory burdens** within the agricultural sector. The party's **manifesto** outlines initiatives to reform the Sustainable Farming Scheme (SFS), protect productive land, and implement a science-based approach to farm pollution.



(PHOTO PROVIDED BY **SENEDD**)

In Scotland, the Scottish National Party (SNP), led by the First Minister John Swinney, secured a fifth consecutive term in the Scottish Parliament. Gillian Martin was appointed as Cabinet Secretary for Climate Action and Rural Affairs and is supported by Jim Fairlie, a former sheep farmer in Perthshire, who retained his seat and was reappointed as Minister for Agriculture, Marine and the Islands. The SNP's **manifesto** encompasses proposals for post-Brexit agricultural support mechanisms, enhancements to rural connectivity, agricultural support frameworks, and policies for environmental land management.

Across Wales and Scotland, the elections have taken place against a backdrop of increasing focus on climate change, biodiversity targets, and natural capital, alongside ongoing considerations of food security and the economic sustainability of farming businesses.

Attention now turns to the development of detailed policies, funding decisions, and regulatory requirements across agriculture, the environment, and rural development.

SPOTLIGHT: UK GOVERNMENT POLICY PAPER ON ECOSYSTEM SERVICES

HMRC has published a technical note on the taxation of ecosystem service payments. The technical note seeks to clarify how income derived from biodiversity enhancement, such as Biodiversity Net Gain (BNG), Nutrient Neutrality, Woodland Carbon Code and the Peatland Code, should be treated under the existing tax framework.

This column examines the technical note in detail, focusing on legal and practical implications. It considers the challenges of income classification, interactions with agricultural reliefs, and broader structural issues. HMRC guidance does not answer every question and we strongly encourage anyone seeking to understand the tax position for ecosystem services to refer to the **full HMRC guidance** for details and then seek appropriate advice on how it applies to specific circumstances.

Ecosystem Services

Ecosystem service payments are made when land is utilised to provide environmental benefits, either in addition to or instead of agriculture. Instead of solely producing food or goods, land is now often used as a platform for delivering environmental services. These can include carbon sequestration, biodiversity enhancement, flood reduction and improved water quality. HMRC's technical note outlines various schemes through which such payments are made.

BNG, introduced through the Environment Act 2021, became mandatory for major sites in February 2024 and for small sites the following April, under secondary legislation. It requires developments under the Town and Country Planning Act 1990 ("TCPA 1990") to deliver a minimum net biodiversity gain of 10% as a condition of planning permission, measured using the biodiversity metric.

This may be achieved on-site, off-site through a biodiversity unit created on other land, or, as a last resort, by purchasing statutory biodiversity credits from Government.

Nutrient Neutrality aims to ensure that new development does not increase nutrient pollution in sensitive catchment areas. Landowners may generate nutrient credits by implementing measures to reduce nutrient runoff, such as land-use changes or wetland creation and may sell these credits to developers.

In both scenarios, payments typically relate to long-term environmental outcomes, and arrangements may impose substantial land-use restrictions for extended periods. In some cases, nutrient mitigation arrangements extend for 75 years or more.

Consequently, the legal and commercial frameworks of these agreements are key to defining their tax implications, especially when obligations are secured over several decades.

SPOTLIGHT: UK GOVERNMENT POLICY PAPER ON ECOSYSTEM SERVICES

Government-backed Voluntary Schemes

The guidance also refers to established voluntary schemes, notably the Woodland Carbon Code and the Peatland Code, which provide recognised frameworks for generating and verifying carbon units.

The Woodland Carbon Code supports the creation of new woodland projects that sequester carbon over time.

The Peatland Code operates on a similar basis, focusing on restoring degraded peatlands to reduce carbon emissions and enhance carbon storage.

Although participation in these schemes is voluntary, they are underpinned by government support, which lends credibility to the units generated and facilitates the development of private markets. Payments received under these schemes may arise at different stages, including upfront funding and milestone payments, or the sale of verified units, each of which may carry distinct tax implications.

All schemes tie payments to the achievement and maintenance of environmental outcomes. This prompts key questions about how these activities are classified for tax purposes. Their diversity in terms of legal structure and duration underscores the importance of considering the specific characteristics of each arrangement when assessing tax treatment.

Overview of HMRC's Approach

The HMRC confirms that land may deliver more than one ecosystem service; this is referred to as 'stacking'. While permitted in principle, each revenue stream must be assessed separately for tax purposes.

At the core of the analysis is the classification of receipts, which may fall within several existing tax frameworks. In broad terms, these include:
-Trading income, where the income from the activity forms part of a trade, such as farming;
-Property income, where income arises from the use of land; and
-Capital receipts, in more limited circumstances, typically where disposal of a long-term right is involved.

The classification of receipts is key, as it determines the applicable tax treatment, the availability of reliefs and the deductibility of associated costs.

In practical terms, it is necessary to identify the purpose of the payment. This includes consideration of whether the payment is:
-For active land management;
-For maintaining environmental features over time; or
-For restricting or changing land use.

Secondly, consideration must be given to whether the activity forms part of an existing trading operation or constitutes the separate use of land for environmental purposes.

Thirdly, it must be determined whether the resulting receipt is properly characterised as income or capital based on the legal and commercial substance of the arrangement.

SPOTLIGHT: UK GOVERNMENT POLICY PAPER ON ECOSYSTEM SERVICES

<u>Income classification and trading principles</u>

HMRC's guidance indicates that, in most cases, receipts from ecosystem services will be treated as income rather than capital.

Where activities are undertaken as part of an existing farming or land-based business, receipts will generally form part of that trade. Where no existing trade is present, HMRC indicates that income may still be treated as trading income under established principles relating to the commercial occupation of land.

The distinction between trading income and property income remains relevant, particularly where arrangements involve leasing structures or payments linked to land rights. However, the technical note suggests that most ecosystem service receipts will fall within trading provisions rather than property income.

Accountancy advice will be required on the timing and method of income recognition, given that the accruals basis of accounting is most commonly applied.

<u>Capital Treatment: A limited category</u>

HMRC identifies the key consideration as the nature of the payment, rather than the duration of the obligation. Although many schemes involve commitments lasting several decades (for example, 30 years for BNG or longer for nutrient mitigation), this alone does not determine whether a receipt is capital.

Capital treatment may arise where a payment is properly characterised as compensation for the permanent loss or sterilisation of land, such that the land can no longer be used for its previous purposes. However, such cases are likely to depend heavily on the factual context, excluding the extent of any continuing land use and the degree to which the land remains capable of generating income. This creates a degree of uncertainty in which long-term environmental obligations substantially restrict land use without fully extinguishing it, yet are nonetheless treated as revenue in nature.

EXPENDITURE AND DEDUCTIBILITY

The treatment of expenditure follows the classification of the underlying activity. Where ecosystem service income forms part of a trade, associated costs may be deductible under general trading principles, subject to the usual requirement that they be incurred wholly and exclusively for the purposes of the trade.
Such expenditure may include, for example,
-Costs of habitat creation or restoration;
-Professional and legal fees,
-Infrastructure works associated with nutrient mitigation or carbon projects.
Where expenditure is capital in nature, relief may instead arise through capital gains calculations or, in some cases, capital allowances where qualifying plant or machinery is installed.

For property developers, the guidance confirms that payments made to meet BNG or nutrient neutrality obligations are generally deductible when incurred in the course of a development trade. Where the land is not held as trading stock, such expenditure may instead be capital in nature and capable of being considered in computing a gain on disposal.

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Carbon credit and purchaser treatment

The technical note also considers the position of purchasers of ecosystem service units, particularly carbon credits. Where carbon credits are acquired for trade, for example, to offset emissions, the cost will generally be deductible. Where credits are acquired for onward sale, they may be treated as trading stock with receipts taxed as trading income. By contrast, where credits are held as a long-term investment, they may constitute capital assets and any disposal may give rise to a chargeable gain. This distinction highlights the differing tax treatment depending on the holder's commercial intention.

Woodland and land-use distinctions

A notable feature of the guidance is its treatment of commercial woodlands. Income from the commercial occupation of woodlands is generally excluded from income tax, and this treatment may extend to ecosystem service income generated on such land. By contrast, no equivalent exemption applies to peatland, so income from peatland carbon units will generally be taxable.
This distinction stems from existing statutory provisions rather than from the design of the ecosystem service markets themselves, but may have practical implications for land-use decisions.

For income and corporation tax purposes, the technical note emphasises that generally accepted accounting practice ("GAAP") should be applied. GAAP is codified in the UK through the Financial Reporting Standards published by the Financial Reporting Council (e.g. **FRS 102**). These standards dictate, for example, whether payments received now should be reported as income in the current year or treated as deferred income, or whether an advance payment for services should be apportioned over the term of any agreement. These questions depend on the specific facts of each case and the advice of the accountant applying GAAP to those facts. Early engagement with the person preparing the relevant set of accounts is therefore essential.

Although not addressed directly in the technical note, ecosystem service arrangements may also have indirect implications for Agricultural Property Relief (APR) and Business Property Relief (BPR). These reliefs depend respectively on the agricultural use of land and the existence of a qualifying trading activity. Where land is diverted for long-term environmental use, or where income is characterised as non-trading, questions may arise regarding the availability of relief.

Legislative changes introduced from April 2025 seek to ensure that land subject to certain environmental management agreements may still qualify for relief, subject to conditions and not universally applicable.

In the case of APR, the provisions of **s.124C of the Inheritance Tax Act 1984 (IHTA 1984)** require that the land was agricultural property according to the normal definition in **s.115(2) IHTA 1984** for the two years prior to the commencement of the environmental management agreement and that the agreement itself is with a "public authority".

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Reliance on **s.124C IHTA 1984** also depends on the agreement requiring, in practice, that the land be managed in a way that would (apart from s.124C) prevent it from being agricultural property.
It will be important to establish the precise basis on which IHT relief is expected, so that appropriate evidence can be compiled either to support a conventional claim to APR on the grounds that the land remains agricultural property occupied for those purposes, or a claim that the land meets the criteria in s.124C. For those relying on BPR, the principles established in the line of cases from **IRC v George (2003) EWCA 1763** to **Balfour [2010] UKUT 300 (TCC)** will need to be applied to establish whether, in each case, the entity in receipt of environmental land management payments is a trading business such as to qualify for BPR.

In light of this complexity, a fact-specific approach will be essential. The contractual terms governing participation in schemes, the duration and nature of land-use change, and the degree of commercial activity will all be relevant to determining tax outcomes.

Other taxation to consider:

VAT: Sales of BNG units by taxable persons are generally subject to VAT, whereas statutory biodiversity credits sold by the government are outside the scope. Most voluntary carbon credits are subject to VAT.

SDLT: Payments by developers for ecosystem services generally do not attract SDLT, though acquiring land to deliver those services may do.

Conclusion

HMRC's technical note provides a structured framework for analysing the taxation of ecosystem service payments under the existing tax system. Its central principle is that such arrangements should be accommodated within established taxation principles rather than by creating new tax regimes. This means that those in receipt of such payments need to engage proactively with their accountant to agree the basis upon which such revenue is being reported.

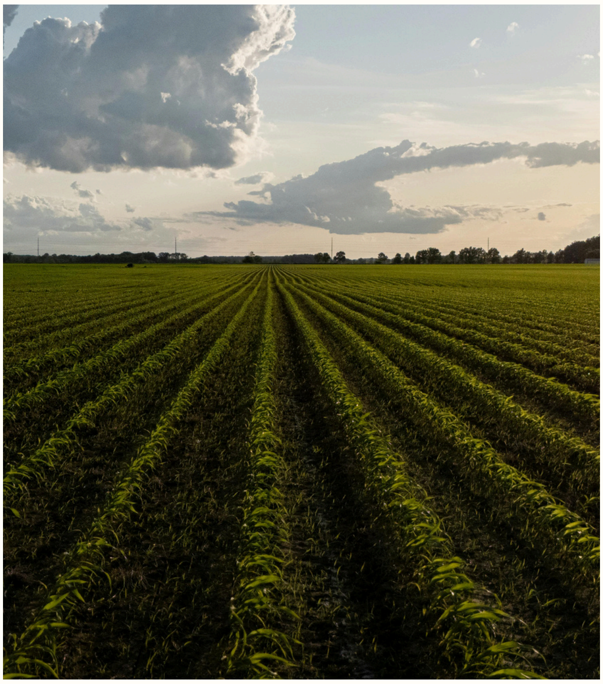
In most cases, receipts will be treated as income, typically under the trading provisions, whether through an existing business or by virtue of the commercial occupation of land. Capital treatment is expected to arise only in limited, fact-specific circumstances.

At the same time, the guidance highlights the growing complexity of land use within environmental policy. Long-term obligations, hybrid land uses, and the emergence of tradable environmental units pose challenges to the application of traditional tax concepts.

While the technical note provides helpful clarification, the treatment of ecosystem services remains highly dependent on the facts of each arrangement. Further development may be required in areas such as accounting treatment, VAT application, and interactions with reliefs, as these markets continue to evolve.

SCOTLAND FOCUS: LAND REFORM (SCOTLAND)2025

The Land Reform (Scotland) Act 2025, which received Royal Assent on 16 December 2025, signifies a notable milestone in the Scottish Government's ongoing initiatives of land reform. Many specifics of the Act remain pending secondary legislation.



Our member **Darren Thomson** of Burges Salmon has analysed the latest Act in a series of articles. The series covers the introduction of large land holdings (LLHs) and related community engagement duties (**Part 1**), the community buy-out and lotting regimes that may influence or postpone transfers (**Part 2**), the framework for land management plans (LMPs) (**Part 3**), and concludes with an examination of these regimes through a Scots law conveyancing perspective (**Part 4**), the potential consequences for renewable energy projects (**Part 5**) and concludes with a summary of changes to agricultural leasing (**Part 6**).

SUSTAINABLE FARMING INCENTIVE 2026: SCHEME INFORMATION

DEFRA has provided additional details regarding the **Sustainable Farming Incentive** 2026 (SFI26). The final version is scheduled for publication around mid-June, prior to the commencement of application submissions on 30 June. Furthermore, DEFRA announced that a select group of eligible Window 1 farmers is invited to participate in a controlled trial to refine the application process before the nationwide rollout at the end of the month.

The announced information includes near-final drafts of:
• the terms and conditions applicable to all SFI26 agreements;
• the scheme rules, which explain the mandatory requirements specified in the SFI26 terms and conditions;
• the requirements for each SFI26 action, available via the 'Find funding for land or farms' tool on **GOV.UK**. This allows a review of available options and consideration of which may work for your farm business.
• guidance to help you apply for and manage your SFI26 agreement.

SPOTLIGHT: SDLT AND THE RENTERS' RIGHTS ACT 2026

Background

As of 1 May 2026, the **Renters' Rights Act 2025** ("the RRA 2025") will replace fixed-term assured shorthold tenancies (ASTs) with continuing periodic assured tenancies. This legislative update impacts the interaction between residential tenancies and Stamp Duty Land Tax (SDLT).

Where SDLT applies to rent, it is charged on the net present value of the rent (the "NPV"), calculated using a statutory formula that attempts to capitalise the value of the rent across the whole term of the lease, discounting anticipated future receipts appropriately. SDLT applies if the NPV exceeds £125,000.

Where SDLT applies to rent, it is charged at 1% on the portion of the NPV exceeding £125,000, so any liability is often relatively modest, even when the threshold is crossed.

Change introduced by the RRA 2025

The transition to periodic tenancies had an unanticipated consequence. Under current SDLT legislation (**FA03 Sch.17A**), a tenancy that continues beyond its initial term by operation of law is treated as being granted for a term that increases over time for tax purposes. HMRC call this a "growing lease". Rather than being reset at each renewal, the tenancy is regarded as a continuous lease. This would elevate the NPV of rent and, in certain cases, may cause it to surpass the SDLT threshold, particularly in higher-value or long-term occupations.

The primary concern pertains to compliance risk. Tenants could potentially face SDLT filing obligations, calculations, and penalties despite incurring minimal or negligible tax liabilities. Such outcomes are unlikely to be anticipated or fully understood within the ordinary residential market.

GOVERNMENT RESPONSE AND CURRENT POSITION

The Government addressed this issue in a Written Ministerial Statement on 22 April 2026, acknowledging that the interaction between the RRA 2025 and the SDLT rules could unintentionally bring tenancies within the scope of SDLT. It therefore announced its intention to legislate so that assured tenancies under the **Housing Act 1988** will not give rise to SDLT on the rent element.

The proposed change is intended to apply retrospectively from 1 May 2026 and HMRC has confirmed that it will not seek to collect SDLT on rent in the interim.

As a result, the expected position is that ordinary residential tenancies under the RRA 2025 will not be subject to SDLT in the same way as other growing leases (such as some FBTs). However, the exemption has not yet been enacted and is expected to be introduced in the Finance Bill 2026–27. Until then, it reflects stated Government policy rather than statute and the wider SDLT regime for leases continues to apply.

MEMBER ACTIVITIES

RECENT REGIONAL EVENTS

ALA North East – NU Farms Event on 21 May 2026

ALA Yorkshire – Visit to Castle Howard on 18 May 2026

ALA Oxon and Bucks 'Fields to Houses – The Strategic Land Journey' Seminar on 19 May 2026

ALA South Central Spring Workshop on 27 April 2026

ALA West From Succession to boundaries – A practical update for 2026 on 20 April 2026

STARTER FOR TEN 2026

We successfully concluded our recent Starter for Ten courses in England and Wales, bringing together two excellent groups of members for an engaging and intensive programme.

We are grateful to all attendees for their enthusiasm and to our tutors, Denise Wilkinson, Lisa Millington and Robert Mullen in England, and Nerys Llewelyn Jones, Lowri Rees, Mari Sibley and Charles de Winton in Wales, for their expert inputs.

Across both courses, it has been hugely rewarding to see our members explore a wide range of rural professional matters and foster valuable connections within the ALA community.

ON THE GROUND WITH ALA HQ

UKREiif - Leeds
Mike Holland

UKREiiF 2026 was my fourth attendance at this major property and infrastructure conference in the UK, with 16,000+ attendees descending on Leeds for three days.

Themes tend to follow the politics as much as they speak to what is hot in the world of property and infrastructure projects, and there was no shortage of conversation amongst delegates following the local elections, as you might imagine, with all parts of the UK well represented.

Outside of the politics, there was a strong emphasis on sustainable development – think New Town strategies and large-scale developments with community at the heart of the masterplan – together with a significant focus on the opportunities offered by strategic corridors, such as Oxford to Cambridge.

What is clearly a frustration is the scale of investment that could be delivered if policy allowed the platform for this to progress at pace.

Power and water remain constant and significant issues that nationally need to be addressed at a faster pace – the question all end users ask of new development proposals is power capacity and when it will be available. National Grid connections in 5-7 years' time are not cutting it. I also offer that end users may need to look at the opportunities for microgrid solutions on-site or on adjacent land rather than rely solely on a grid connection.

One area of discussion that grabbed my attention in public and private forums was the need to be better at communicating the benefits of a development scheme; both of the scheme itself and the wider community. Objections and reasons not to do something are always heard loudest. The economic growth opportunities in the wider area, naturally feeding off the back of specific development scheme, can be less understood or widely appreciated; particularly at planning committee stage. Think also how we can improve the link between UK housing and industrial strategies

So, what was my overall take from UKREiiF this year – optimism, opportunity, significant investment knocking at the door (both UK and International), better communication, POWER, POWER, POWER.

I will return to Leeds next May for the 2027 conference – will the messages have been heard or not?

FORTHCOMING EVENTS

10 JUNE

ALA East – From Succession to Boundaries- A Practical Update for 2026

ALA East are delighted to invite you to their seminar at Birketts, Cambridge.

22 JUNE

ALA Annual General Meeting & Annual Dinner 2026 and Council Elections

The Annual General Meeting will take place at 6.00 p.m. at the Army & Navy Club, 36-39 Pall Mall, London, SW1Y 5JN, followed by the Annual Dinner.

23 JUNE

ALA South East - Visit to Little Mill Farm

A visit to Little Mill Farm with Peter Hall, who will provide an interesting insight into the farm and its long history of environmental stewardship.

24 JUNE

ALA London - Visit to Richmond Park

Join us at 5 pm – 8 pm, at Pembroke Lodge, Richmond Park. Following a drinks reception, we will have an evening stroll around Richmond Park with a Royal Parks Warden.

3 JULY

ALA Cheshire - Visit to Vines of Cheshire

Join us at 3 pm for a visit to the Vines of Cheshire, which includes a vineyard tour, wine tasting, and talks on diversification – change in use of land from agricultural grazing land to a vineyard.

6 JULY

ALA South Central - Tour Talk and Barbecue at Meon Springs

Join us for a brief coaching session on 'Outcome Thinking' with Jamie Butler, followed by a tour of Meon Springs Fly Fishery and a networking barbecue.

13 JULY

ALA Somerset & Dorset - ALA Camel Hill Farm Visit and Seminar

Join us from 4 pm – 9 pm at Camel Hill Farm and The Sparkford Inn, Yeovil, for a farm tour followed by an evening seminar and dinner.

For more information about these events, check our **Eventbrite page**.
Follow us to stay informed about new events as they are added.
We want you to be in the loop!

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