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Whitepaper · 2026 Edition

2026 EDITION

The UK Farmer's Guide to Asset Finance

AIA, SFI and harvest cash flow — a plain-English 2026 handbook for arable and livestock businesses.

buckinghamleasing.co.uk · enquiries@buckinghamleasing.co.uk · 07515 662628

Buckingham Leasing Ltd · FCA 671552 · Company registration O4637226

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CHAPTER 01

The 2026 landscape for UK farm finance

UK agriculture is in the middle of the most significant transition in a generation. The end of BPS, the rollout of SFI 2024, volatile input costs and the changing tax landscape after the 2024 Autumn Budget have all reshaped how farm businesses plan capital investment. This guide sets out the finance options available to UK farms in 2026, the tax treatment of each, and worked examples for the machinery decisions we see most often.

We work with owner-operators, tenanted farms, family partnerships and larger arable and livestock operations across England, Scotland and Wales. The principles in this guide apply across the board — the right structure depends on your accounts, your VAT position and how you want the asset to sit on the balance sheet.

> Read this first
>
> This is a plain-English guide, not a rate sheet. Every quote we produce is bespoke and based on your business, the asset and current market pricing. Rates in worked examples are illustrative.

CHAPTER 02

Hire Purchase, Finance Lease and Contract Hire — what actually differs

There are three finance structures used for the vast majority of UK farm equipment. The mechanics are simple; the tax treatment is where the real decision sits.

Hire Purchase (HP)

You own the asset from day one for tax and accounting purposes. Payments are typically fixed over 3–7 years with a small option-to-purchase fee at the end. HP is the default route when you want the asset on your balance sheet and want to claim the Annual Investment Allowance (AIA) in year one.

Finance Lease

The finance company owns the asset; you rent it over an agreed primary term and can usually extend into a peppercorn secondary period. Payments are a fully deductible business expense. This route protects cash flow and keeps the asset off the balance sheet under FRS 102 Section 1A for smaller entities.

Contract Hire / Operating Lease

Fixed monthly rentals over a defined term, typically with the asset returned at the end. Common for pickups, telehandlers and vehicles where hours and condition can be predicted. No residual value risk to the farm.

Structure	Ownership	Tax treatment	Best for
Hire Purchase	You (day one)	AIA / capital allowances	Tractors, combines, long-life plant
Finance Lease	Lessor	Rentals fully deductible	Cash flow protection, VAT-registered farms
Contract Hire	Lessor	Rentals fully deductible	Vehicles, telehandlers, predictable use

CHAPTER 03

AIA, full expensing and what actually applies to farms

The Annual Investment Allowance (AIA) remains at £1,000,000 per year and is the single most useful allowance for farm capital investment. Almost all plant and machinery purchased outright or on HP qualifies in the year the asset is brought into use.

Full expensing (100% first-year allowance) applies to companies buying new and unused qualifying plant and machinery, and is unlimited. Partnerships and sole traders continue to rely on AIA. Because most UK farms operate as partnerships or sole traders, AIA is usually the relevant lever.

Worked example

A £180,000 tractor bought on 5-year HP by a partnership: full £180,000 claimed against profits in the year of purchase under AIA. At a 40% marginal rate, that's £72,000 of tax deferred while you spread the cash payment over 60 months.

Finance leases work differently — you claim the rental as an expense over the term rather than the capital cost up front. That can be a better fit if your profits are lumpy or if you're already at the AIA cap for the year.

CHAPTER 04

Harvest cash flow and seasonal payment structures

Farm income is seasonal; finance payments do not have to be flat. We routinely structure agreements around your cash flow rather than the calendar.

- Annual payments aligned with harvest or milk cheque timing.
- Stepped payments — lower in year one to bed in a new asset.
- Balloon payments to reduce monthly cost where a residual is realistic.
- Deferred first payment (up to 6 months) on new machinery.
- VAT loans to spread the 20% cash impact on outright purchases.

> *“We financed a £220,000 self-propelled sprayer on annual payments over 5 years. It matched harvest income and freed working capital for seed and fertiliser.”*

CHAPTER 05

SFI, capital grants and how finance fits alongside them

The Sustainable Farming Incentive (SFI) 2024 offer and Countryside Stewardship capital grants can materially change the economics of specific investments — direct drills, low-emission slurry spreaders, precision-application kit and cover-crop equipment in particular.

Finance and grants are not mutually exclusive. A common structure is: use HP or a finance lease for the machine, apply the grant against the invoice price, and either reduce the amount financed or shorten the term. We work with your agronomist or grant advisor to line up the timing.

- SFI actions with capital items typically pay a fixed contribution per unit.
- Grants usually require the asset to be purchased outright or on HP (not operating lease).
- Retain all invoices and evidence of use for the required period.

CHAPTER 06

When to buy, when to lease, when to refinance

There is no universal answer — the right route depends on how you value ownership, your VAT position and where you sit against the AIA cap. A practical decision framework:

Situation	Usually best route	Why
Profitable year, want to reduce tax	HP with AIA	100% deduction in year one
Cash flow is tight, profits modest	Finance lease	Rental fully deductible; no balance sheet impact
Predictable use, want low headache	Contract hire	Fixed cost, no residual risk
Own kit, need working capital	Refinance	Release equity, spread over 3–5 years
VAT-registered, buying outright	VAT loan	Spread the 20% until the next return

“We refinanced £340,000 of owned kit over four years to fund a new grain store without touching the overdraft.”

NEXT STEPS

Let's talk numbers.

Every situation is different. Send us a note with the asset, the ballpark cost and your preferred term — we'll come back with structured options, indicative payments and the tax treatment for each route.

Talk to us
07515 662628
enquiries@buckinghamleasing.co.uk
buckinghamleasing.co.uk

Office
Waterfield House
Wellmore, Maids Moreton
MK18 1QQ

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