Lentells
Chartered Certified Accountants

RURAL BULLETIN Spring 2020

CORONAVIRUS UPDATE

Our offices are now temporarily closed. Members of staff are working remotely from home and can be contacted by email or phone. Please liaise with your usual contact regarding end of year accounts preparation and records. We want to assure you that Lentells is fully committed to the health and safety of our employees and communities while ensuring minimal disruption to our work and client service during this critical time.

For updates on business finance support please go to
https://www.lentells.co.uk/coronavirus-business-financial-support

For the latest guidance with regard to COVID -19 and your Payroll service please go to
https://www.lentells.co.uk/services/business/payroll-and-pensions

For the latest guidance for employees, employers and businesses go to
https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses
or call HMRC's helpline on 0800 024 1222

RED DIESEL

Chancellor Rishi Sunak revealed at the Budget that he would be abolishing the lower 11p/litre duty rate for diesel on all sectors except agriculture, fishing, rail and domestic heating.

Agriculture accounts for about 7% of the total rebated fuel use in the UK, with significant taxation benefits for the farming industry.

For industries where they will see a fuel cost rise, such as construction, the full 57.7p/litre rate will not come into effect until 2022, in order to allow time to prepare.

Freeze on fuel duty rates

The chancellor also chose to retain the freeze on fuel duty rates at the pumps for another 12 months.

The rules for the use of red diesel are very black and white and the Memorandum of Agreement in HMRC's Notice 75 on the Gov.uk website makes it very difficult to claim otherwise.

A key rule of thumb is that any use of red diesel on the road must be an integral part of an agricultural, horticultural or forestry operation but cannot just be haulage.

Records

Up-to-date record keeping is vital, as this is the best way to prove that you have been involved in an agricultural operation. This means a trail of contracts, job sheets, invoices and receipts. This is particularly important for contractors, to demonstrate that all work carried out using red diesel is valid.

HMRC Powers

HMRC have the powers to assess for additional duty going back four years. It could get very expensive if you are found to have been using tractors on red for non-agricultural jobs.

NATIONAL INSURANCE THRESHOLDS RISE TO £9,500

The Treasury is to raise the National Insurance thresholds for 2020/21, saving the average employee around £104.

According to legislation approved in parliament on 30 January 2020, the £8,632 threshold at which employees start paying class 1 national insurance contributions (NICs) will increase to £9,500.

The same £9,500 threshold will apply to the self-employed who pay class 2 or class 4 NICs in 2020/21, reducing their annual bills by £78.

Ministers confirmed the upper NICs threshold is to remain at £50,000, while the main NICs rates will also be unchanged from 6 April.

The Government plans to raise the national insurance threshold to £12,500 in the coming years, a move it claims will put almost £500 a year into people's pockets.

UNDERSTANDING THE STRUCTURES AND BUILDING ALLOWANCE

The Structures and Buildings Allowance (SBA) was introduced in 2018. It is a flat 2% per annum allowance available for expenditure on new and renovated non-residential structures and buildings, effectively writing off the cost over 50 years for tax purposes.

The Structures and Buildings Allowance (SBA)

SBAs are available where construction contacts are dated and started on or after 29 October 2018. Qualifying expenditure needs to be established at the outset, and estimation is not permitted.

SBAs are generally based on the original capital cost of the construction or renovation.

SBAs can be claimed on expenditure relating to farm buildings, bridges, tunnels and other qualifying non-residential uses. The structure or building must be used in a qualifying taxable activity in the UK.

Under the regular Plant and Machinery Allowances (PMA) fencing only qualifies where it is necessary for personal security purposes. However, installation of new fencing or upgrading old fencing can qualify for SBAs.

Qualifying construction and renovation costs will include design fees, site preparation and fit-out costs.

SBA claimants must have an interest in the land on which the structure or building is situated.

SBAs do not apply to:

- **Residential property**
- **Expenditure where the Annual Investment Allowance (AIA) is being claimed**
- **Expenditure qualifying for Plant and Machinery Allowances (PMAs)**
- **Land or its purchase fees**
- **Furnished Holiday Lets (FHLs), whether a new construction or conversion of existing buildings**

Where a building or qualifying asset is demolished, then SBAs cease. Where a building is sold, subject to an allowance statement between the two parties, the new owner can continue to claim the annual allowance for the remainder of the 50-year period. There are no balancing allowances or charges.

SBAs are claimed in the taxpayer's tax return and the first claimant in respect of a particular structure must provide a written allowance statement. They can only be claimed once the building or structure comes into use. Care will need to be taken where there are elements qualifying for SBAs and elements qualifying for PMAs and the AIA to ensure that the correct allowance is claimed and that the tax relief is maximised.

HELP ORGANISE YOUR RECORDS WITH THE **LENTELLS APP**

The Lentells app is designed to help clients keep their expenses up to date. As well as helping maintain records of expenses, the app also includes a number of useful financial tools:

- AutoEntry automates data entry by accurately capturing all of your invoices, receipts and expenses and transferring them directly into your chosen accounting software.
- Mileage Tracker (with GPS) allows an accurate record to be maintained of business miles travelled
- Company car benefit calculator
- Tax tables with all the latest rates
- Direct link to Cloud Accounting software anywhere, anytime
- Inheritance and Capital Gains Tax calculators

The app is free to download from the App Store and Google Play.

Is VAT recoverable on farmhouse expenditure?

Where a farming business incurs expenditure on repairs relating specifically to the farmhouse rather than generally on the farm, there is often some confusion as to whether any of the VAT incurred on these costs can be reclaimed.

As the farmhouse generally doubles up as the home of the farmer and their family, but it is also the place where the business is run with business meetings held there and day-to-day decision making taking place within it. All of these can be considered a business purpose.

When expenditure is incurred on repairs to the farmhouse, there will clearly be both a private element of these costs and also a business element. This gives rise to the option of reclaiming some of the VAT through the farm's VAT registration.

Mistakes are often made when deciding how much to reclaim. Some will claim 100%, which is incorrect as it does not make any allowance for the private use of the farmhouse.

However, others will not reclaim any part, which is also incorrect as it does not allow for any business use of the property.

Given that it is very difficult to ascertain the accurate split between business and private use, the NFU has previously agreed standard apportionments with HMRC which are still used.

For a full-time working farm, HMRC will accept a claim of somewhere between 40% and 70% of the input VAT, depending on the size and scale of the farmhouse in relation to the size of the farm.

Every case will depend on the individual circumstances. However, someone with a large country house on a relatively small acreage could expect to be able to claim closer to the 40% level.

A claim for a traditional farmhouse located close to or with the farm buildings and on a larger, more appropriate acreage would probably be closer to the 70% allowance.

For a part-time farmer, however, the reclaim is limited to a maximum of 40% of input VAT.

MACHINERY COSTS . £ .

Advice on managing machinery costs before BPS phase-out.

Arable businesses are being urged to scrutinise machinery costs and purchasing policy ahead of the potential industry changes arising from the government's new Agriculture bill.

AHDB benchmarking data shows machinery represents 25-30% of the cost of producing a tonne of wheat. This has mostly been driven by increasing retail values, with a recent report from the National Office of Statistics revealing an 80% surge in machinery prices between 2009 and 2019.

Factors

Factors such as new regulations for emissions are partly to blame, as they have led to increased development and manufacturing costs that are passed on to the buyer.

Rising costs are likely to continue and with the Basic Payment Scheme (BPS) being phased out by 2028, cash to spend on machinery could be restricted.

The new Agriculture Bill focuses on environmental gains, so the new bill will also influence what machinery is required in the future. This may mean investment in cultivation kit that moves less soil and tractors with less horsepower. Understanding what the Agriculture Bill will mean for your farm and machinery is important.

Farms below 200ha

Smaller farms below 200ha, have an easier time controlling machinery costs, as they need minimal capacity and make good use of contractors. They also sell grain straight off the farm if necessary. Smaller farms will tend to go for an ownership model, where machinery is bought and kept for much longer which usually ends up cheaper. However, there are big potential risks with potential breakdowns and repair costs.

Farms above 400ha

Larger farms of 400ha or more, may tend to go for hire purchase options on large items of kit, with all servicing and repairs taken care of by the dealer. This enables high work rates and minimal downtime. However, it can also increase machinery costs and the overall cost of production.

One of the most difficult decisions is whether to hire or buy. The decision will come down to the individual business' attitude to risk and how much flexibility they need in terms of capacity for operations. It will also be affected by the funding options available and tax reliefs given.

A machine that works hard may be better under hire purchase, so it can be looked after by a dealer. Ownership can help to keep costs lower is the business is willing to accept the associated risk with owning a machine and running it for longer. Joint ventures are a great way to save costs and reduce the risk, by working alongside other farm businesses to own machinery between you, e.g. on a 50/50 basis.

CHANGES TO PLANT AND MACHINERY ALLOWANCES.

The Annual Investment Allowance (AIA)

The relief allows farming businesses to invest and grow, effectively benefitting from £1 tax relief for every £1 spent. The Annual Investment Allowance (AIA) can be used to offset machinery and plant purchases against tax liabilities. The AIA was first introduced in 2008 and is a 100% allowance that businesses can claim up to a specified annual amount.

For expenditure incurred since 1 January 2019, the maximum AIA relief is £1m. However, AIA is set to revert back to £200,000 for expenditure incurred on or after 1 January 2021. Where the business has a year-end that straddles 1 January 2021, there will be transitional rules to determine the maximum AIA available for that year. This is calculated on a time apportionment basis by splitting the year into the period before 1 January and the period after 1 January. For a farming company with a 31 March 2021 year-end, the maximum AIA available for the year would be:

1 April 2020 – 31 December 2021 275/365 x £1,000,000 = £753,425

1 January 2021 – 31 March 2021 90/365 x £200,000 = £49,315

Total = £802,740

Transitional rules do apply, for example if the business had spent £802,740 in the first 9 months, relief would be due in full.

However, if the business has not incurred any expenditure in the first 9 months, only £49,315 would be available for expenditure incurred between 1 January 2021 and 31 March 2021. Rules for partnerships and sole traders start from 6 April each year and therefore the calculations for a 31 March 2021 year end are slightly different at £739,726 and £52,055 with the January 2021 to March 2021 expenditure restricted to a maximum relief of £52,055.

Earlier Planning

Due to this change in AIA, planning is therefore going to have to be much earlier this year to be able to maximise the relief available, should you be planning to spend such sums.

Most businesses can claim the AIA against qualifying assets like plant and machinery or commercial vehicles placed on hire purchase agreements, so you can preserve your working capital and still benefit from the relief. Businesses are also encouraged to check the lead times on orders of new plant and machinery, because the relief is only available based on the date the purchase was made.

Farmers are paying over the odds on IHT say experts

Farmers are at risk of paying more inheritance tax (IHT) than they need to by failing to put their affairs in order.

Data from HMRC shows that IHT receipts earned the Treasury £5.4bn in 2018/19, an increase of £166m on 2017/18.

Almost three-quarters of this came from estates worth more than £1m, with liable estates paying £179,000 on average.

Farming families who might be affected should seek expert advice in advance to help mitigate future IHT bills.

IHT receipts have been growing steadily since 2009, mainly as a result of a freeze on the nil-rate band at £325,000.

In the past few years, the Government has introduced the residence nil-rate band to deal with growing house prices.

This means from April 2020, a married or civil partnered couple can effectively pass on up to £1m of their estate tax-free as long as their main property is transferred to direct descendants, such as their children.

Landowners may also be eligible for agricultural property relief and business property relief.

More information on the residence nil-rate band is available on the **HMRC website.**

LANDLORDS ADVISED TO IMPLEMENT NEW ELECTRICAL SAFETY CHECKS

Regulations introducing new electrical safety standards in the private rented sector are expected to come into force later this year in a bid to improve safety for tenants.

The new rules, which are likely to become a legal requirement from this summer, mean that landlords may need to plan and budget for mandatory five-yearly electrical safety checks.

Failure to carry out the checks and any remedial work needed as a result could leave landlords exposed to hefty fines.

Under the regulations, landlords will have to ensure that every fixed electrical installation is inspected and tested at least every five years by a qualified person.

A fixed electrical installation is defined as fixed electrical cables or equipment located on the consumer's side of the supply meter, but excludes Portable Appliance Testing (PAT).

The period between inspections may be shorter than five years if it is noted during an inspection that an installation is compliant at that point in time, but that the equipment is becoming 'aged'.

The landlord will also be required to supply a copy of the inspection report to the tenant within 28 days of the inspection and retain a copy until the next inspection is due.

If requested, the report must be provided to the local housing authority within seven days.

Any remedial work will need to be carried out within twenty-eight days of the inspection or sooner if specified in the report.

These regulations are expected to come into law in the next few months and apply to new tenancies commencing after 1 July 2020 and existing tenancies from 1 April 2021.

It looks likely that the rules will capture Rent Act tenancies and tenancies that form part of an employee's contract of employment, such as a farm worker living in a farm cottage.

Local housing authorities will be required to enforce the regulations and have the power to arrange remedial action.

Proven breaches of the regulations could result in fines of up to £30,000.

The impact of these new regulations will be limited for landlords who are already following current NICEIC/ELECSA guidance to get an Electrical Installation Condition Report (EICR) at least every five years, or at change of occupancy, and ensure any necessary remedial works are completed.

Business rates suspended for small businesses in retail, leisure and hospitality.

Business rates are essentially a property tax imposed on non-agricultural diversifications, such as holiday lets and farm shops. Strictly agricultural ventures are exempt from paying rates, but it is important to be aware of what is classified as an agricultural use.

Farmers need to be careful about what is classed as an agricultural use and what isn't and what could be subject to business rates. For example, a grain storage facility is classed as agriculture when it is used by the farmer to store his own grain, but if the farmer lets the grain store out to another farmer, it ceases to be an agricultural use and is liable for business rates.

Businesses in the retail, leisure or hospitality sectors with a rateable value of £51,000 or less will pay no business rates whatsoever in 2020/21. This could impact farmers with diversifications into these sectors.

That amounts to nearly half of all business properties in England being exempt from business rates from April. There is also a £5,000 discount on business rates for pubs with a rateable value up to £100,000.

For businesses in other sectors, the Small Business Rate Relief (SBRR) continues to be available for businesses with a rateable value up to £15,000. The relief is 100% for businesses with a rateable value up to £12,000 and then tapers, falling to 0% for a rateable value of £15,000.

For 2020/21, businesses that qualify for SBRR are also eligible for a cash grant of £3,000.

Other business rates reliefs – for example, rural rate relief for some rural businesses – also continue to be available.

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