Lentells
Chartered Certified Accountants

RURAL BULLETIN Winter 2018

£1M ANNUAL INVESTMENT ALLOWANCE (AIA)

Farming businesses could benefit from the announcement in this year's Budget that the AIA, which currently stands at £200,000 will be increased to £1m as of 1 January for a two year period.

This relief allows expenditure on plant, machinery, integral features of a building and some fixtures and fittings up to the AIA limit to be set against business income in the year the expenditure occurs.

Care is needed, however, as there are transitional rules. Maximum claims are as follows based on a 31 March year end:

9/12 x £200,000	= £150,000
3/12 x £1m	= £250,000
	£400,000

You cannot claim more than £200,000 for purchases between 1/4/2018 and 31/12/2018. Therefore, timing of expenditure is key and it will be even more crucial when it reverts at 31/12/20.

In addition, the introduction of the Structure and Buildings Allowance (SBA) gives a 2% capital allowance every year on any new non-residential structures and buildings. This measure is introduced with immediate effect.

The Chancellor resisted calls to abolish Entrepreneurs Relief but extended the qualifying period for which the assets must be owned. This relief can reduce the rate of Capital Gains Tax on assets sold from 28% to 10%. Entrepreneurs' Relief stays in place but assets must be owned for two years instead of the current 12 months.

Farming businesses that have diversified into farm shops may also benefit from the announcement of a rates reduction. As a result, small retail businesses in England with rateable values below £51,000 will see business rates reduced by a third from 6 April 2019.

90 YEARS OLD...

We were delighted to celebrate our 90th birthday this August; the firm having being originally founded in Seaton on August 1st 1928.

This was a great excuse to order cake which was much appreciated by the numerous visitors to our stands at the agricultural shows we attended over the summer, as well as by everyone at our three offices!

We would like to thank all our wonderfully loyal clients and staff for helping us achieve this impressive milestone.

and still counting!

Inheritance Tax Review could force succession plan changes

Now is a good time for farmers to review their succession plans, including putting in place partnership agreements, as the government evaluates the existing inheritance and capital gains regime, with a view to making changes in the future.

The Office of Tax Simplification has issued a call for evidence and launched a survey on IHT, having been asked by Chancellor to examine the current regime and how it may be simplified. While there is no indication as to the likely outcome, it is worth bearing in mind that any changes regarding the tax treatment for APR and BPR could potentially be detrimental for farming businesses.

Many farming businesses do not see the need for a written partnership agreement. However, having a clear agreement provides clarity and certainty between partners, protects investment in the business and generally ensures that the business is run in the most tax efficient way. Drawing up a partnership agreement need not be a complicated or expensive exercise and brings with it peace of mind and future security.

The recent well publicised case of Wild v Wild, a dispute between two brothers as to whether or not farmland was partnership property, highlights the need for farming businesses to accurately record their succession wishes. This is especially relevant in regard to specifying the ownership of farm assets in professionally drafted Wills and farm partnerships.

A partnership agreement takes precedence over a Will, so if the latter is not written with the former in mind then there is every chance that an asset you wished to gift is not actually yours – it belongs to the partnership. A common error is to gift the farm, or individual parcels of land, under the terms of a Will only to discover that, according to the partnership agreement and accounts, they are actually partnership assets which means that those assets cannot be gifted through a Will. Drafting your Will with the partnership agreement to hand means that you will know exactly which assets are personal and which belong to the partnership.

Assuming that a business can just rely on an informal understanding in regards to how assets are to pass between the generations is far from ideal and can often have complex and expensive repercussions.

Estate planning is all too easy to put off to another day – however the earlier plans are put into place the better as it will increase the chance of taking full advantage of the tax opportunities available, thereby maximising the amount that goes to beneficiaries.

At Lentells our agricultural team provide a comprehensive service helping clients to draw up partnership agreements and reviewing all aspects of estate planning.

Defra announces £30m package to boost farming productivity

Further rounds of funding for the popular small grants scheme for farmers has been confirmed.

The Countryside Productivity Small Grants Scheme was started to help farmers invest in equipment specifically to improve productivity. According to DEFRA, the scheme is scheduled to reopen for a second round of funding in 2019. Farmers (including livestock, dairy, arable and horticultural sectors) can apply for the grant.

The first round saw £15m claimed, with grants from £3,000 to £12,000 to cover up to 40% of the purchase price of new kit. Projects which fall under the CPSG scheme include new state of the art equipment such as the Shallow Injections System which can inject slurry directly into the soil surface thereby reducing ammonia emissions, increasing the uptake of nitrogen in plants and enhancing silage quality.

Following industry feedback, additional items have been added to the list of equipment eligible for funding in the second round, including fruit ripeness spectrometers and nitrogen-measuring devices for calculating fertiliser application for crops.

Further details will be published in early 2019 when the next round of funding opens for applications.

The National Minimum Wage and National Living Wage

The National Minimum Wage (NMW) and the National Living Wage (NLW) are determined on age and whether an employee is an apprentice. Those over 25 qualify for the NLW.

Both the NMW and the NLW will increase as of 1 April 2019.

Age	Current hourly rate	Rate as from 1 April 2019
25 and over	£7.83	£8.21
21 to 24	£7.38	£7.70
18 to 20	£5.90	£6.15
Under 18	£4.20	£4.35
Apprentice*	£3.70	£3.90

**If under 19 or in first year of apprenticeship (otherwise refer to age bands).*
The apprenticeship rate does not apply to Higher Level Apprenticeships.

NMW Accommodation Offset

Accommodation provided by an employer can be taken into account when calculating the NMW or NLW. This is called the accommodation offset. No other kind of company benefit (such as food, a car, childcare vouchers) counts towards the minimum wage.

The accommodation rates are set in April each year.

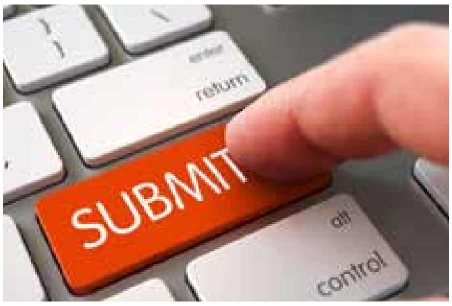
Using the offset rate to work out the minimum wage

If an employer charges more than the offset rate, the difference is taken off the worker's pay which counts for the National Minimum Wage or National Living Wage. This means the higher the accommodation charge, the lower a worker's pay when calculating the minimum wage.

If the accommodation charge is at or below the offset rate, it does not have an effect on the worker's pay. If the accommodation is free, the offset rate is added to the worker's pay.

Year	Daily Accommodation offset rate	Weekly Accommodation offset rate
April 2018	£7	£49
April 2019	£7.55	£52.85

MAKING TAX DIGITAL – THE COUNTDOWN IS ON



From 1 April 2019, all businesses with a turnover of more than £85,000 will have to keep an electronic record of all business transactions on HMRC approved software in order to be able to make their VAT returns.

The initial implementation date of April 2019 covers the reporting of VAT only, and will start with the first VAT period commencing on or after 1 April 2019. Reporting of business profits is likely to follow in subsequent years.

Only one submission will be allowed for each individual VAT registration number. As a result businesses that keep more than one set of accounts for different businesses, for example a farm and a diversification enterprise, will need to combine them into one figure for the purpose of their VAT return.

Business with a turnover of less than £85,000 will not have to comply with the new system at present. However, they are being encouraged to do so by HMRC as a matter of good practice and also because at some point in the future they will be required to submit their returns electronically.

This new regime is compulsory (with minimum exceptions). Penalties will apply to businesses who do not comply.

Farming businesses could potentially find the new rules especially challenging as it is a sector where the take up of accounting software has generally been relatively slow.

If you would like to discuss the implications of MTD for your business please contact a member of our agricultural team.

Subcontractors – employed or self-employed?

HMRC have recently been sending letters asking businesses to self-review the employment status of subcontractors, to confirm whether they should be treated as employed or self-employed.

HMRC seems to be targeting specific sectors and it is believed that agriculture is next on the list.

The letter is not a formal enquiry, but is an informal request for the business to self-review the employment status of subcontractors by a certain deadline. If nothing is done before the deadline, HMRC may take a more aggressive approach and issue a formal enquiry to the business

HMRC have developed an on-line service called 'Check Employment Status for Tax' (CEST).

If you have not received a letter, but use subcontractors on a self-employed basis, then you should take the opportunity to consider the tax status of those individuals, before HMRC ask you to do so.

The impact of a subcontractor being incorrectly treated as self-employed is that HMRC would seek PAYE and NI contributions for previous periods. This would be the employer's liability.

Buying a farm – how to save tax

If you are contemplating a farm purchase it is worth knowing that tax can be claimed on specific parts of the purchase.

In certain circumstances, relief is available on the value of plant, machinery and integral features included in the sale. These need to be identified separately and a valuation agreed. The purchaser is then in a position to claim capital allowance of these qualifying parts.

Eligible items include fixed grain drying equipment, slurry storage, silage pits, feed bins, milking parlours, feed systems, electrical systems, ventilation and lighting.

As of January 2019 the Annual Investment Allowance (AIA) will provide up to £1m per year of tax relief against business income for expenditure on plant, machinery and equipment. The £1m allowance comes into effect in January for a two year period only. Losses resulting from a large AIA claim can be carried forward against future profits. If the AIA has been used up, then a writing down allowance is likely to be available at 6% from 1/4/19 for fixtures and fittings and 18% for plant and machinery.

The buyer needs to put a capital allowance election in place prior to exchanging contracts in which both parties agree on the valuations. It is important that this is done prior to exchange as it then becomes far more complicated and time consuming to claim tax relief at a later stage.

FARM VEHICLE USE

ARE YOU INSURED?

Farmers face having vehicle insurance claims declined in the event of an accident if full details are not disclosed to the insurer.

Many farmers will have a fleet vehicle insurance policy covering cars, commercial and agricultural vehicles, but it is vital to read the small print and ensure you fully understand the terms of cover.

Most insurance covers business use, plus social, domestic and pleasure. It is worth clarifying exactly what is covered by business use, it may be necessary to disclose diversification work such as groundwork, landscaping etc.

It is also worth clarifying exactly where the vehicle will be used. A tractor insured for one business but being borrowed by a neighbour in connection with another, will not be covered. The borrower will need to add the tractor to their own policy for the day.

The insurance cost implications of disclosing the correct usages of farm vehicles is often not that much, but the costs associated with a claim being rejected for non-disclosure could potentially be considerable.

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