Lentells
Chartered Certified Accountants

RURAL BULLETIN Spring 2018

Making Tax Digital – working with you

Farm businesses have just over a year to prepare for the new VAT rules which require them to keep digital records and submit VAT returns electronically.

Last year the government delayed its Making Tax Digital (MTD) initiative for income tax until April 2020 to give businesses more time to prepare for the changes.

However, HMRC are pressing ahead with plans for Making VAT Digital (MVD), introducing changes to the existing VAT regime from 1 April 2019 for any business operating above the VAT threshold of £85,000. This does not apply to businesses that are voluntarily VAT registered and below the limit.

This means that farm businesses need to ensure they have access to financial software that is compatible with HMRC's systems. At present only one in ten businesses file online VAT returns via specialist software, the rest choosing to manually enter VAT return figures onto the HMRC portal before filing digitally.

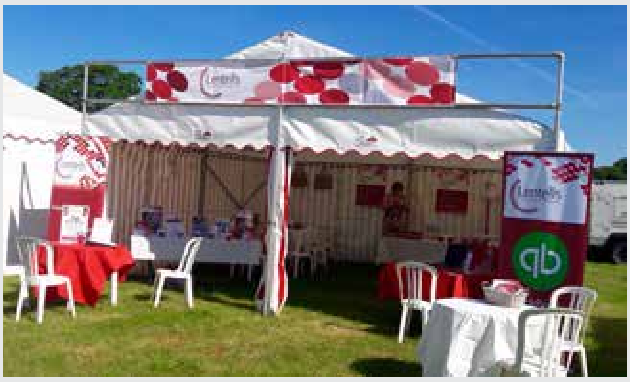
MTD timetable

Business Type	Quarterly Tax Reporting	Quarterly Filing
VAT registered businesses	VAT	From April 2019
Self employed, partnerships and landlords with a turnover above the VAT threshold	Income Tax & National Insurance	From April 2020 at the earliest
Self employed, partnerships and landlords with a turnover below the VAT threshold	Income Tax & National Insurance	Voluntarily from April 2020
Companies	Corporation Tax	From April 2020

Working with you

We will be discussing the implications individually with all our clients in order to be well prepared for these changes. This will include advising on MTD compliant software.

We are already working with an increasing number of our clients to put in place digital record-keeping systems through moving to a Cloud based system in preparation for MTD. As QuickBooks Platinum ProAdvisors we can offer relevant advice, ensure a smooth transition and provide ongoing training and support.



SUMMER SHOWS

We will be at the following shows this summer and look forward to seeing as many of you as possible. We will be offering refreshments throughout the day and the chance for a welcome sit down and chat. Our agricultural team will be on hand and look forward to welcoming you.

Axe Vale Festival
Sat 23rd – Sun 24th June

Honiton Show
Thurs 2nd August
As in previous years, we will be in the Blackdown Hills Business Association's marquee which is always a hive of activity, showcasing a fantastic variety of local businesses.

Dunster Show
Fri 17th August

Why it pays to think ahead

Passing on a farm to the next generation can be difficult, both financially and emotionally.

According to recent research less than 40% of farming families have an effective succession plan in place. Many make the assumption that the family will just carry on.

If this is the case it is important to be clear about exactly who in the family is going to carry on and what the repercussions might be for other family members. There are obvious implications for succession planning if younger family members are not intending to follow on in the business.

Where to start?

A good starting point can be to establish a clear business plan looking at where the business is now and where it may go in the future. In addition to being clear on roles, responsibilities and objectives, this is an opportunity to ensure that ownership of the farm is held in the most tax efficient structure. Quite often farms grow in an ad-hoc way over the years and, as a result, it can be unclear exactly where ownership lies, let alone whether it is efficient from a tax point of view.

Farmers need to plan ahead for their exit strategy and start to put plans in place well before they are ready to retire. Careful planning and advice can ensure you are able to maximise tax reliefs and pass the business on to the next generation in the most tax efficient manner possible.

At Lentells we provide a comprehensive service for retirement and succession planning, allowing you to retire and leave a viable business for your family. In addition, we can advise you on all aspects of estate planning, including:

- Help in drawing up and reviewing Wills
- Transferring agricultural or business property
- Transferring assets into a Trust
- Making full use of exemptions and lower tax rates on lifetime transfers
- Optimising lifetime transfers between spouses
- Utilising tax efficient investments
- Dealing with Estate Administration and Probate

Please call a member of our agricultural team for an informal discussion on any aspects of estate planning.

Farm borrowing up for working capital and restructuring

Farm borrowing rose by £481m in 2017 despite higher value BPS payments and better milk prices. The 2.7% rise took the total to £18.292bn by the end of December 2017.

The majority of the increase in borrowing was for additional working capital, although some businesses were investing in longer term investment, such as land and buildings.

While agriculture is still a sector favoured above many others by the banks, a good business track record is needed and many long term loans now have review clauses, usually every five years, when the bank can withdraw the facility if it wishes.

Borrowing tips

- Get the borrowing limit set up in good time – this requires up-to-date financial information.
- If past performance has not been good, produce budgets to show the business is improving.
- Make sure that the facility agreed is adequate so that you can work within your borrowing limits.
- Lenders are increasingly adding covenants (conditions relating to the financial performance of the business) to borrowing facilities, and periodic reviews during the term of a loan including re-valuations of security.
- Ensure you are clear about all the terms and conditions, including set up and annual fees and early repayment conditions.

WHY IS MY INCOME TAX HIGHER YET MY PROFITS ARE DOWN?

This is a question we are often asked by our clients.

The main reason is that, on the face of the accounts, the profit figure includes a deduction for depreciation. When we calculate your taxable profits we have to add this back. We can then adjust your profits for any qualifying capital expenditure.

To put this into figures – say your 2017 profit per the accounts was £40,000 and we then add back the depreciation of £40,000 and you spent £55,000 on the part exchange of a new tractor, this would make the taxable profit £25,000. This may have resulted in a tax bill of £2,740.

In 2018 say your profit is lower at £30,000 and we then add back the £35,000 of depreciation in the accounts, but no qualifying capital expenditure was made, this then gives a taxable profit of £65,000. This then means that your tax bill is more likely to be £10,700.

You then need to factor in that you would have to pay half of this higher figure in advance in January 2019. (This is unless we can argue that your taxable profits are likely to be less in the following year. However, it should be noted that if you over reduce your payments on account, interest is chargeable on the amount underpaid.)

Part of the reason there are less capital allowances for many is, that over past years, your tax pool has been used up and therefore any sales of equipment eat into the capital allowances. (Unless you have sold the item for more than you bought it for. The excess over the purchase price is then classed as a capital gain, which could be tax free if you have not had any other gains to take you over your Capital Gains Tax allowance.)

The 100% first year allowance for capital allowances has ensured that taxable profits have been less than accounting profits for many years. However, as farming has had lower profits and tighter cash flows over the last few years, this has had the 'knock on' effect that capital expenditure has been lower as businesses have tightened their belts. At present the allowance is £200,000. Any capital expenditure not claimed in the year can be carried forward to claim at 18% in the following year for the standard pool.

We can now average farm profits over five years or two years as appropriate which will help smooth the taxable profits movement and hopefully help to avoid higher rates of tax.

With the changes required to some businesses record keeping to make them compliant with Making Tax Digital, it could be very useful to have an accounting package in place to give you an idea of what your profits are likely to be at any time so that steps can be taken to alleviate them. This could be bringing forward some planned expenditure so that it is included in an earlier year. It does not make sense however to spend on items that the farm does not really need, just to reduce tax.

If you would like to discuss this more in depth, please do not hesitate to contact us.

Planning rules relaxed for farm buildings and housing conversions

Farmers will be allowed to increase the size of buildings and convert more buildings to housing, following changes to Permitted Development Rights (PDRs) under new regulations which became law in April.

PDRs allow certain building works and changes to be completed without making a full planning application.

This amendment will allow for up to three larger homes within a maximum of 465sq m; or up to five smaller homes, each no larger than 100sq m; or a mix of both, within a total of no more than five homes, of which no more than three may be larger homes.

The government is also giving applicants an extra year to benefit from the temporary PDR for the change of use of buildings used for storage and distribution into new homes. This right will be extended until 10 June 2019.

Tax implications – be aware

It is vital that farmers are aware of the possible tax implications of any development; the main tax issues for landowners are the repercussions for both Capital Gains Tax (CGT) and Inheritance Tax (IHT).

In the case of IHT, the normal agricultural reliefs do not cover the potential development value of land in the build up to planning.

These are the main areas you need to check before proceeding with any proposed development:

All relevant paperwork is up-to-date
This includes annual accounts, partnership Agreements and Wills.

Ownership
It is essential to establish right from the start who actually owns the land; for example is it held as Tenants in Common or Joint Tenants, does anyone else have an interest in the land, such as a limited partnership, family partnership or a previous owner?

For more advice please contact a member of our agricultural team.

New secure Client Portal

We are pleased to announce the launch of our new Client Portal which will change the way we communicate with clients in regards to the exchange of confidential information.

The security of all clients' information has always been a top priority, especially with the introduction of GDPR (General Data Protection Regulation) which becomes law in May this year.

We have therefore developed a new Client Portal with docSafe, a secure website portal where we upload your information such as Accounts, Tax Returns, VAT Returns etc. for you to access at anytime. There is no cost to use the Client Portal.

We will be contacting all our clients over the next month with details of how to set up their docSafe account.

Main features

- Easy to use
- Electronic signatures
- Secure and GDPR compliant
- Safe way to share documents/information with 24/7 access
- Historical information (from the date you start using docSAFE) will also be stored and accessible on the Client Portal
- Access via your PC, laptop, iPad, smart phone, Lentells website and App.

Reminders for Landlords

Under the new Minimum Energy Efficiency Standards rules introduced on 1st April it will be illegal to let a property with an Energy Performance Certificate (EPC) rating lower than E to a new tenant and to an existing tenant from 1st April 2020. Although there are a few exemptions, a penalty of up to £4,000 will be imposed for breaches.

There has been concern that the new legislation will affect rural landlords who rent out older properties which tend to have lower EPC ratings than properties built to modern building regulations.

Renting to employees

It is also important to remember that if you charge employees rent you need to ensure that they are still being paid the National Living Wage (NLW) as rent is taken into consideration when calculating the NLW.

New soil management and fertiliser rules introduced

New rules were introduced in England on 2nd April to tackle the problem of diffuse pollution and improve water quality.

There are eight new 'Farming Rules for Water' to comply with – although farmers in a nitrate vulnerable zone or claiming under the Basic Payment Scheme will find they meet many of them already.

Five of the new eight rules relate to the management of fertilisers and manures,

while three focus on managing soils.

According to the Farming Advice Service, the rules require farmers to keep soil on the land, match nutrients to crop and soil needs, and keep livestock fertilisers and manures out of water.

Further information can be found on the Government website: www.gov.uk/guidance/rules-for-farmers-and-land-managers-to-prevent-water-pollution

LENTELLS AGRICULTURAL DIRECTORS

Debbie Thatcher
debbie.thatcher@lentells.co.uk
01823 286274 (Taunton)
01460 64441 (Chard)

Mike Griffiths
michael.griffiths@lentells.co.uk
01297 20584 (Seaton)

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