



# Agriculture

## Specialist Agriculture Accountants

## Newsletter

Summer 2015



[www.hawsons.co.uk](http://www.hawsons.co.uk)

### Introduction

Welcome to our Summer 2015 agriculture newsletter.

In this edition we look at some of the central management issues facing many of our clients in the sector: diversification and Agricultural Property Relief. We also consider the importance of the recent onset of Auto Enrolment and comment on the extension of farmers' averaging, which should give farmers greater flexibility and stability.

### In this issue we look at:

- Is diversification right for your farm?
- What is eligible for Agricultural Property Relief?
- Free Auto Enrolment workshops
- Extension of averaging to give farmers greater flexibility

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.



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### Hawsons are specialist agriculture accountants

At Hawsons our dedicated team of specialist accountants and tax advisors offer a wealth of experience in the agriculture sector. We know that farming isn't just a business; it's a way of life. We act for a significant number of arable farms and assist families in many matters specific to the sector including tax and will and succession planning. We have been able to assist farming clients in adding value to their business including advising on the financial and taxation consequences of property development, green technologies and capital allowance planning. In particular, we can assist in the area of capital taxes planning, which is a significant issue for most farmers following the increase in land values and the availability of development opportunities.

For more information on our agricultural expertise, including the services we offer and our experience, please visit: [www.hawsons.co.uk/agriculture](http://www.hawsons.co.uk/agriculture)



# Is diversification right for your farm?



In recent years, in conjunction with volatile milk prices and other cost pressures, many rural and agricultural businesses have looked to diversify their offering. As well as their core business operations, farmers are also hosting fishing and clay pigeon shooting events, adding value through selling ice creams, snacks and accommodation and expanding into alternative agricultural products such as livestock and crop.

Many farmers see this adaptation as fundamental to the profitability and viability of the farm. However, farm diversification is not guaranteed to boost your farming business and can be a complex process. As farming often brings unique tax reliefs and rules, there are potential tax consequences that need to be considered when using land for alternative activities. If you are contemplating diversifying your farm it is advised that you seek sound and proactive tax planning advice.

## Is diversification right for your farm?

There are many benefits that diversification can bring to your farm, and it is no surprise that nearly half of all UK farms use some form of diversification in their farming business. The biggest driver of diversified activity is the potential increases to revenue that this may bring; some farms earn significant additional revenue through extending their offering.

There are many opportunities for farmers who are thinking of diversifying, both agricultural and non-agricultural.

Some examples include:

- Opening retail outlets e.g. selling ice cream or opening a farm shop
- Hosting events e.g. fishing tournaments or clay pigeon shooting
- Rural tourism e.g. providing accommodation and breakfast
- Alternative livestock products e.g. goat dairying
- Alternative crop products e.g. selling specialty flowers

Although diversification is an attractive opportunity, there are a number of potential tax consequences that need to be considered. **Please visit [www.hawsons.co.uk/agriculture](http://www.hawsons.co.uk/agriculture) for more details.**

## Before you diversify

Before making any plans to diversify, it is important to speak to an advisor to seek appropriate accounting and taxation advice. In order to determine the viability of any ideas you will have to assess the current financial situation of the farm and consider any potential tax consequences that diversification may bring, such as Capital Gains Tax (GCT) and VAT planning opportunities. After this, you will need to prepare a business plan, financial projections and a growth strategy for the farm following diversification.

**Please speak to your local office specialist for more information and advice.**

# What is eligible for Agricultural Property Relief?

Inheritance tax is becoming increasingly complex for farmers, agricultural business and land owners, and careful planning is essential in making a successful APR claim. Inheritance Tax (IHT) is normally payable on an estate when somebody dies, but APR could provide an invaluable relief. Under current rules, IHT is payable at 40% on the value of an estate which exceeds the tax-free allowance of £325,000 (£650,000 between husband and wife). Under APR, certain agricultural assets may be eligible for 100% relief from IHT, which can create considerable IHT planning opportunities.

## What is Agricultural Property Relief (APR)?

APR essentially provides farmers with a relief from IHT for the agricultural value of land and property, either during their lifetime or as part of their will. One significant note to make here is that APR only covers the agricultural value of land and property, which could vary considerably from the market value.

Richard Marsh, partner at Hawsons, said: “APR applies to some agricultural land or property and is an extremely generous tax relief, but is subject to meeting certain detailed qualifying conditions. For example, the property must have been owned and occupied for agricultural purposes immediately before its transfer, either for 7 years before death if you have let the property out, or owned and lived in yourself for 2 years before death.”

The claiming process is also becoming progressively more stringent, as Richard explains: “As there are numerous attractive tax reliefs available to the agricultural sector HMRC pays particular attention to any APR claims, which has been highlighted through a number of appeals and tribunals in recent years. Each of these hearings has emphasised the importance of seeking specialist business and tax advice when reviewing your current ownership and occupation structure for IHT and APR reasons. The details are crucial, particularly for those properties that have been let or for farms that have diversified and evolved over time.”

## Agricultural purposes – what is eligible for APR?

In order to ensure eligibility for APR, it is fundamental that farmers and agricultural business and land owners understand what qualifies for agricultural purposes.

Richard adds: “A cottage or farmhouse that is occupied by someone not employed in farming will not qualify unless the occupier is a retired farm employee, the spouse or civil partner of a deceased farm employee living there under a lease granted as part of their former employment contract, or a protected tenant with statutory rights. Farm equipment and machinery such as tractors, derelict buildings, harvested crops and livestock don't qualify for APR.”

## What should farmers do now?

Planning is essential, and so is making a will which is tax efficient. Richard concludes: “The first step in planning for IHT and APR is to make a will, and make a will that considers the potential tax implications on agricultural assets when you die. Previously, it was often assumed that husband and wife farmers would leave the farm and all of its assets outright to each other upon death. However, farming is much more complex today - with increased diversification and legislation - and a will that does not consider potential tax implications could bear significant consequences. For example, if the surviving husband or wife is not actively involved in the farming operation then a much more tax-efficient will may be to explore the opportunities of a trust, which could bring considerable tax savings. This will depend on the farm-owners' particular situation, so it is crucial to seek advice in this area.”

“We advise farmers and agricultural business and land owners to regularly review their activities to ensure their business is structured to take full advantage of APR and maximise their potential tax opportunities. If you are considering raising further capital or diversifying, especially into non-agriculture related activities, which many farms are, then it is crucial you consider the impact on IHT and APR before doing so. Remember: APR is an all or nothing relief – if you don't meet all of the detailed conditions, then you will not qualify.”

**For more information please contact your local office specialist.**

# Extension of averaging to give greater flexibility



One of the important announcements in the March Budget was the extension of farmers' averaging, where farmers who meet specific conditions can average their profits for income tax purposes, from two years to five years. The unique tax rule, introduced to limit fluctuations in farmers' tax bills, will be welcomed by farmers across the UK. This is a noteworthy change from the current two year averaging period and should grant farmers greater flexibility and help to ensure they do not pay excessive tax rates in good years. Prior to the new rules coming into effect from April 2016, the Government also announced that they will hold a consultation later in 2015 to clarify details on the extension.

## Greater flexibility and stability to farming accounts

Richard Marsh, partner at Hawsons commented on the greater flexibility the extension may give farmers: "The Chancellor's announcement that farmers' tax bills will now be applied over five consecutive years, rather than two, is likely to give farmers greater flexibility, particularly during periods of fluctuating profits. The change to this valuable relief is going to assist farmers in dealing with ongoing fluctuations, such as a poor harvest due to bad weather, and will make it much easier for farmers to budget and plan ahead."

Richard added: "The new rules are a real positive for the farming community and will help reduce excessive tax bills that may arise from fluctuations, especially as a good year can often be followed by a poor one. This is a particularly important announcement given the current volatility in farmers' earnings and should help offset the impact of farmers' variations in earnings, and give better stability to farming accounts."

**For more information on how the changes to farmers' averaging may impact you please contact your local office specialist.**

## Free Auto Enrolment Workshops

- You may already have been notified of your date by which time you are required to have in place a pension scheme for all your employees. This is your staging date.
- You may already have received a reminder to appoint someone in your company to be responsible for the implementation.
- You may already have an existing pension scheme that you feel "will do the job".
- You may think "it doesn't affect me".

### Free workshops in Sheffield, Doncaster and Northampton (every month)

There are hundreds of thousands of smaller companies approaching their staging date and the ability of pension providers to provide solutions is becoming a real issue of capacity. It is not usually about just having a pension scheme, but having the process and systems in place to collate the data required to present and report to the Pensions Regulator.

If you don't satisfy the rules, have a pension scheme in place, have a system to record the relevant information, or miss your staging date, the fines can soon build up. We would recommend you start talking to your pension adviser as soon as possible, preferably with more than nine months to your staging date (ideally twelve), to build a timescale and agenda to make sure it all falls in to place. We would be happy to help and would like to invite you to attend one of our free Auto Enrolment workshops with our specialist from Hawsons Wealth Management. **There are limited spaces available for each workshop, so please book early.**

**For more information and to register, please visit [www.hawsons.co.uk/workshops](http://www.hawsons.co.uk/workshops)**



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Find out more about our specialist agriculture services.

Please call your local office or visit:

[www.hawsons.co.uk/agriculture](http://www.hawsons.co.uk/agriculture)



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