# Agriculture

## Specialist Agriculture Accountants

**Newsletter**
**Spring 2017**

www.hawsons.co.uk

### Introduction

Welcome to our Spring 2017 agriculture newsletter.

The 29th March 2017 marked the day that Article 50 was triggered. Britain's agriculture sector will be anxiously waiting during the negotiation process to see what trade deals the UK can make with Europe. In this issue, we take a look at what options are available during Brexit; an overall agriculture update; what the Spring Budget meant for the sector and many more topics.

**In this issue, we look at:**

- Brexit and Agriculture: The potential choices
- Agriculture update
- Making Tax Digital: Post-Budget update
- Spring Budget 2017
- Apprenticeship Levy launches
- Renewable energy
- Hawsons Wealth Management seminar: Pensions Continue to Evolve

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**

HLB International

# Brexit and Agriculture: The potential choices

The Prime Minister has made the initial announcement about the path to Brexit. What form will Brexit take? In this article, we look at agriculture's Brexit choices.

## Hard Brexit: The World Trade Organisation (WTO)

This scenario involves walking away from the EU, taking control of immigration and trade policies, stop paying into the EU budget, repealing any EU laws and regulations we didn't like. We would trade with the EU under WTO rules similar to any other country outside Europe. This would involve tariffs and non-tariff barriers.

The advantage is a complete split from Europe and the instant cessation of the UK contribution to the EU budget. Theoretically, it would be possible to negotiate a free trade deal with Europe without the two-year deadline of the Article 50 process. Disadvantages are potentially higher trade costs and trade barriers. Companies may relocate headquarters to Europe.

## Soft Brexit: The European Economic Area (EEA)

This is an agreement between the EU and Iceland, Norway, and Liechtenstein. These countries plus Switzerland are members of EFTA which is the European Free Trade Association. Whilst not members of the EU, they have near full access to the single market which are tariff and non-tariff free. EEA membership excludes agriculture and fishing industries so trade deals would be required in these areas.

EU contributions would continue but at a much lower level. Trade deals would be agreed with other countries and it is thought that EEA membership could be easily agreed within the two-year Article 50 deadline. Pessimistic forecasters believe that EEA would reduce much of the perceived economic downside of Brexit. The UK would still have to follow EU laws relating to the single market but not political legislation.

However, the biggest issue is that EEA membership requires members to adopt freedom of movement, except in exceptional circumstance. Liechtenstein has negotiated its own tailored immigration policy but is only a small country. The EEA offers an existing template and so hopefully would minimise disruption. The UK could abandon the Common Agricultural Policy and be free to pursue free trade deals with third parties. Disadvantages will include abiding by many EU policies, including freedom of movement and little scope for de-regulation.

## Bespoke Brexit: The Swiss Option

This would combine free trade while at the same time end freedom of movement. However, the EU has said repeatedly that free movement is vital to any deal. Switzerland has a bespoke deal, signed in 1972, Its relationship with the EU is based on a number of treaties and it makes limited contributions to the EU budget. It is also able to negotiate free trade deals with third parties.

Again, the difficulty is free movement.

In 2014 Switzerland voted to cap EU immigration and Brussels warned it would lose some access to the EU market if it did this. This could be seen as the "having your cake and eat it" option; doing business with the EU, having trade deals elsewhere and controlling immigration. However, with the EU emphasis on freedom of movement, the negotiation of treaties is likely to be difficult.

## Other agriculture news

### The Political Landscape

Elections will be held in 2017 in the Netherlands (15th March) France (Presidential election on 23rd April and 7th May) and Germany (federal election 22nd October). Far right parties are likely to raise immigration as a major factor in their campaigns and this may result in more flexible immigration policies being put forward to stem the popularity of these far-right parties.

### Provisions and Land Sales

An overage provision enables the original landowner to impose a claw back provision on disposals of land, where planning permission increases the value of the land subsequent to a disposal. An overage provision could be triggered if planning permission is granted for the development of agricultural land.

A time period would be specified (perhaps up to even 80 years). The share of the increase in value would be specified typically between 25% to 50% but obviously subject to negotiation so as not to discourage the current land sale. Overage provisions can be quite detailed and complicated because future events have to be forecast. A covenant is usually required because contracts are not usually enforceable against future owners.

# Agriculture update

## Brexit

The government White Paper (WP) on Brexit was issued on 2nd February 2017. The Governments priority is stated as securing the most open trade possible in goods and services between the UK and the EU. The WP quotes that UK exports to the EU of agriculture, fisheries and food products were £11bn in 2015. Imports were £28bn and 70% of our annual agri food imports come from the EU. The report says that this underlines the mutual interest of the EU and the UK to ensure continuing market access.

Currently, tariff-free trade with the EU is only possible by being a member of the EU Customs Union, meaning a common tariff on imports from anywhere else in the world. The WP wants a new customs arrangement with the EU rather than a Customs Union so that the UK is not bound by the EU's common external tariff. The precise form of this new agreement will be the subject of negotiation. The UK will want tariff-free trade with the EU but also possibly with other countries such as the USA, Australia and New Zealand. The figure below shoes possible trade options post Brexit:

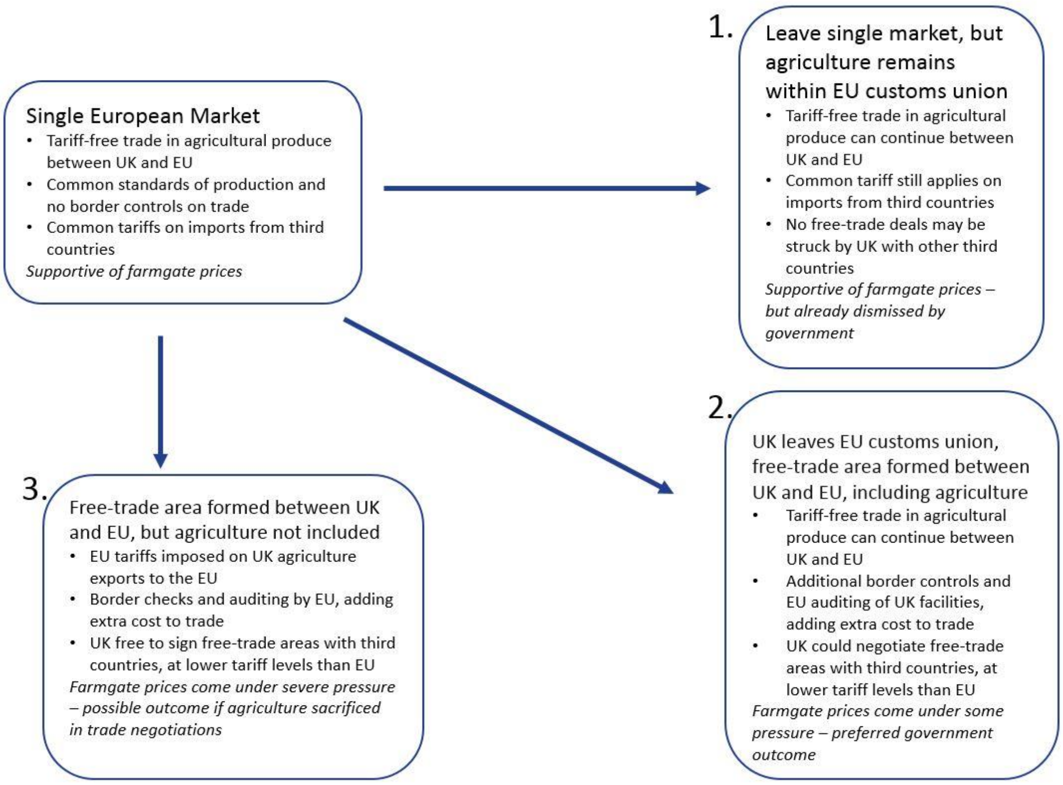


*Figure 1: Trade options post Brexit - Source: Farmers Weekly

## Land prices

Strutt & Parker have reported their expectation that land prices will increase by 3% for the next three years and then by 10% per annum. Independent Consultants Volterra have suggested land values will fall by 7% each year until 2020 after which they will remain static for two years. Savill's have said they expect average land values to increase by 5.5% over the next five years. Strutt & Parker's report also showed that 25% of land marketed in 2016 was unsold or withdrawn. This is the highest proportion since records began in 1996, indicating a lack of demand.

## Agriculture update

The RPA has met its initial BPS target by paying 91% of 2016 claims by 31st December. Its target was 90%. Andrea Leadsom (DEFRA secretary) has outlined plans for two consultation documents on the future for food and farming and the second on the environment.

She also stated that a large amount of European “red tape” would be abolished when the UK leaves Europe. DEFRA estimates put the cost of this bureaucracy at £5m per annum and 300,000 hours. The Environmental Audit Committee, made up of a group of MP’s, have said that any new farming subsidy regime should have close links with the provision of environmental public goods.

A Farmers Weekly survey has revealed that 28% of respondents felt they would be better off post-Brexit compared with 43% who felt they would be worse off. 54% of the sample had voted to leave the EU. In an interview with Farmers Weekly, DEFRA Minister George Eustice has said agricultural policy will take shape in the latter part of 2017. The Government will take on experience of other countries around the world. Mr Eustice has said the UK must move away from direct subsidies and he also said the Government is investigating the possibility of a crop insurance scheme.

# Making Tax Digital: Post-Budget update

## What is Making Tax Digital?

MTD is the biggest shake-up of the personal tax system in 20 years and will fundamentally change the way taxpayers report to HM Revenue & Customs (HMRC) and keep their business records. Taxpayers will be required to keep records digitally and update HMRC more frequently than is currently the case. The roll out of MTD will commence in April 2018.

The general principles of MTD

The government has decided how the general principles of MTD will operate. Draft legislation has been issued on some aspects and more will be published in Finance Bill 2017.

**Under MTD, businesses, self-employed people and landlords will be required to:**

- maintain their records digitally, through software or apps
- report summary information to HMRC on a quarterly basis through their ‘digital tax accounts’ (“DTAs”)
- make an ‘End of Year’ declaration through their DTAs.

DTAs are online areas where a business can see its tax details and interact with HMRC digitally.

## Exemptions

Businesses, self-employed people and landlords with turnovers under £10,000 are exempt from these requirements. There will also be a very limited exemption for businesses or people who “cannot engage digitally”.

## Changes announced in the Budget

The Chancellor announced a one year deferral (to April 2019) from the mandating of MTD for unincorporated businesses and landlords with turnovers below the VAT threshold (currently £85,000). For the self-employed and landlords that have turnovers in excess of the VAT threshold, the commencement date will continue to be from the start of accounting periods which begin after 5 April 2018.

## Lords call for delay

The House of Lords Select Committee on Economic Affairs, Finance Bill Sub-Committee (FBSC), have been looking at the potential impact of the MTD proposals. The FBSC have now published a critical report (“The Draft Finance Bill 2017: Making Tax Digital for Business”) calling for a far more cautious approach by the government to the roll out of MTD. The committee has recommended delaying the introduction of the scheme to 2020 to allow for a full pilot.

The report concludes that the roll-out of the scheme is being rushed, imposing unnecessary burdens on small businesses and landlords, and will yield little benefit to the government. The Lords’ committee recognised the unprecedented technological and logistical challenges that would be faced by the small businesses that do not currently maintain digital records or interact with HMRC on a frequent basis. The committee are also concerned that the government’s estimate of the ‘tax gap’ saving is fragile and not based on adequate evidence.

## New penalty regime

HMRC are set to introduce a new regime for late submission penalties and late payment sanctions under MTD. HMRC have now opened a consultation on how the new penalty regime should operate. The consultation paper sets out three possible models for late submission penalties and provides an update on late payment penalty interest. The proposals have been developed with the new MTD obligations in mind but the consultation also explores the suitability of the sanctions for other regular submission obligations. The consultation also provides an update on late payment penalty interest as a sanction for late payment of income tax, corporation tax and VAT.

The consultation closes on 11 June 2017.

## How do I prepare for Making Tax Digital?

Over the coming weeks and months, we will provide further guidance on what MTD will mean for your business and explain the practical steps you should take to ensure a smooth transition to MTD.

If your business does not already keep digital records, you should consider doing so now so you can start to familiarise yourself with the software.

If you wish to discuss the implications of MTD for you and your business, please get in touch with your usual Hawsons contact.

# Spring Budget 2017

The Chancellor Philip Hammond presented the last Spring Budget on Wednesday 8 March 2017. In his speech, the Chancellor was keen to point out that he wanted the tax system to be fair, particularly in relation to the distinction between employed and self-employed individuals. In this article, we look at how the Chancellor's Spring Budget impacts the agricultural sector.

## Main Budget tax proposals:

**Our summary concentrates on the tax measures which include:**

- increases to the Class 4 National Insurance rates – Update 15/03/17 – Chancellor withdraws plans to increase NI.
- a reduction in the Dividend Allowance
- changes to the timing of Making Tax Digital for smaller businesses.

**Previously announced measures include:**

- increases to the personal allowance and basic rate band (a decreased band for Scottish residents)
- the introduction of the Apprenticeship Levy
- changes to corporation tax loss relief
- the introduction of an additional inheritance tax residence nil rate band
- changes for non-UK domiciled individuals.

## Main Budget announcements (Agriculture specific)

- Business rates – £300 million fund for councils to provide discretionary relief.
- £16 million to be made available for a new 5G technology hub
- £200 million to get full-fibre broadband to more homes and businesses
- Making Tax Digital delayed for a further year (2019) if your business is below the VAT threshold
- Introduction of T-levels

## Agriculture 2017 Budget Impact

**It's not all bad for agriculture – but issues still need addressing**

Overall, it was an indifferent budget as far as agricultural businesses are concerned. There were calls for the Chancellor to give assurances over post-Brexit plans, but the Chancellor did not oblige. However, the good news is that the Chancellor announced a new T-level system. This is intended to put technical education courses on an equal footing with academic courses. This new system will increase the number of hours' students train by 50% and replace the current 13,000 qualifications with 15. In order to pay for the new system, the Chancellor announced an extra £500m a year and the changes are expected to come into effect from 2019.

**Making Tax Digital delay**

The Chancellor announced that the Making Tax Digital project will be delayed for a further year (2019) for unincorporated businesses below the VAT threshold. However, those who are above the threshold will still have to comply in full with the project, so this could place an extra burden on farmers, contractors and rural service providers who have self-employed status.

**Business Rates**

Business rates have been devolved to Scotland, Northern Ireland and Wales. The business rates revaluation takes effect in England from April 2017 and will result in significant changes to the amount of rates that businesses will pay. The government announced £3.6 billion of transitional relief in November 2016. The Chancellor has now announced £435 million of further support for businesses. This includes:

- support for small businesses losing Small Business Rate Relief to limit increases in their bills to the greater of £600 or the real terms transitional relief cap for small businesses each year
- providing English local authorities with funding to support £300 million of discretionary relief, to allow them to provide support to individual cases in their local area.

The government will also introduce a £1,000 business rate discount for public houses with a rateable value of up to £100,000, for one year from 1 April 2017. This is subject to state aid limits for businesses with multiple properties.

**Digital Infrastructure**

Some welcome news was delivered in the form of £16m for a new 5G technology hub, and £200 million to get full-fibre broadband to more homes and businesses. However, it has been warned that there is no guarantee rural areas would feel the benefit.

Richard Marsh, Partner and Agriculture Specialist at Hawsons, had this to say: "As the vast majority of farmers are trading as self-employed or within partnerships, the Chancellors U-turn on national insurance will be welcome. However, the Budget remains of little importance compared to the uncertainty facing British agriculture post-Brexit."

# Apprenticeship Levy launches

The new Apprenticeship Levy will be launched in April 2017. We look at what this is and who will be affected by the government's new levy.

## What is the Apprenticeship Levy?

First of all, only employers with a wage bill of over £3m will be affected by the Apprenticeship Levy. The levy will be set at a rate 0.5% of an employer's pay bill, but each employer will receive an allowance of £15,000 to offset against the levy.
Any employer with a wage bill of £3m or higher must adhere to the new rules, whether apprentices are employed or not.
The good news is that it is expected that only 2% of UK businesses will be affected by this new scheme.

## All sectors

The new apprenticeship levy will apply to all sectors – including the charity sector who will not be exempt from adhering to this new scheme.

## How is this levy paid?

The levy will be paid through the PAYE system alongside tax and National Insurance Contributions.

## Apprenticeship funding

Any employer that is too small to fund the levy – roughly around 98% of those in England – will be eligible to receive 90% of training costs funded by the UK government. Along with this, employers and training providers that take on young apprentices aged 16 to 18 can claim extra support worth £2,000 per trainee.

Employers with fewer than 50 employees on their books can claim 100% of their training costs to be funded by the government if they take on apprentices or young care leavers. As well as this, there are to be 15 funding bands – with the caps ranging from £1,500 to £27,000 and, as previously stated, the plans will be launched in April 2017. The funding system will not be launched until a month later.

## Employers that pay the levy

The new 'digital apprenticeship service account' will be the platform for employers to access government funding for apprenticeships to pay for the training. This service will also assist employers in finding training providers in order to deliver a successful apprenticeship programme.

This only applies to businesses in England; as separate arrangements will be made in regards to Scotland, Wales and Northern Ireland. Employers that do not pay the levy. From May 2017, when the new funding system is launched, employers can use the registers on the digital apprenticeship service to choose the type of training they wish the apprentice to receive, the training provider and an assessment organisation.

Employers that do not pay the levy will not need to use the digital apprenticeship service in order to pay for apprenticeship training and assessment until at least 2018.

## Full steam ahead

The British Retail Consortium had called for a delay to the introduction of the Apprenticeship Levy until at least 2018 which, according to its Chief Executive, Helen Dickinson, would "allow more time to design a truly viable system that delivers high quality training."

The manufacturers' organisation EEF had acknowledged that an increase in funding for topics such as maths, science and engineering would be a welcome change, but also warned that there should be a delay in the levy's introduction.
Despite the calls to delay the introduction of the levy, it will go ahead as planned from April 2017

## How can we help?

The Payroll team at Hawsons can guide you as you consider the impact that the new Apprenticeship Levy may have on your business. Our experienced employment tax specialists and in-house payroll team can assist your business with preparing for the new levy, including preparing your payroll system, dealing with associated payroll administration, financial modelling and advising you on ways of potentially mitigating the impact of the new costs.

# Renewable energy

## Anaerobic Digestion (AD): Biogas

Renewables have grown rapidly in the last 10 years, mainly because of public financial support. However, the cost to the Exchequer has seen support levels cut over the past few years. Actual renewable energy was 8.3% in 2015 compared to a target of 15% in 2020.

AD is the natural process of digestion of organic material in an oxygen free environment by micro-organism. The process is usually based on waste products but any non-woody organic matter can be used. It is similar to composting but is normally in sealed containers to exclude air on which the biogas is dependent. Animal slurry is the focus but a low biogas yield is produced and poultry litter gives 2-4 X biogas output of pig slurry. In Europe, crops are often used and maize silage has a high-energy yield – 10 X that of slurry. Others include food waste and supermarket waste.

**Consistency and reliability in quality and quantity is vital to the process. AD produces biogas which is:**

- 40% carbon dioxide
- 60% methane
- and a digestate (soil improver)

Biogas is used in a combined heat and power generator and electricity is exported. Heat aids the process but can be sold if there is a local market. Biogas can be cleaned – remove CO2 to produce bio methane (natural gas).

**Value of AD:**

- Electricity – generation tariff FIT

  – export tariff under FIT or the market value of electricity

- Heat – need local market to take advantage of this
- Gate fees – for waste coming in
- Digestate – fertiliser value

The sector is still in its infancy so data available on returns is low while potential system costs are £3,000 to £3,500 per KW power output.

- Typical 400-500 KW plant capital cost can be £1.5 – £2m
- Depreciation normally over 15 years
- Bank typically give 10 year loans

There are specialist companies who build and provide access to finance e.g. Qila Energy. A 450 KW plant may need 2 acres of land and planning approval requires it to be a suitable distance from residential dwellings. A high capacity electricity connection should ideally be close as a distance of over 700m can impact on economics of a scheme.

- A heat consumer needs to be 500-600 metres away;
- There are significant planning issues and;
- Good economies of scale potentially exist

**Contacts in the sector are:**

- Renewable Energy Association: 020 7925 3570 or www.r-e-a.net
- Anaerobic Digestion & Biogas Association: 0845 292 0874 or www.abdiogas.co.uk
- Qila Energy: QilaEnergy.com

## Changes to renewable energy

On 14th December 2016, the Government published its renewable heat incentive consultation response, with changes coming into force in Spring 2017. Tariff for biomethane and biogas will be increased by 38% and 33%. New sustainability criteria will be introduced, requiring that 50% of all biogas must be generated by waste or residue sources. Hence the use of maize or grass silage will be limited.

Tariff bandings for biomass installations will be removed – all capacities will receive the same rate. Offgen say there is a 12-month queue of projects waiting for full or pre-accreditation. The secretary of State retains the power to close schemes under the Budget cap mechanism at short notice. The risk of digression remains (automatic cuts to tariffs when uptake exceeds certain limits).

Feed in tariff support mechanism scheduled to end in 2019.

# Hawsons Wealth Management Presents
# Pensions Continue to Evolve

Hawsons would be delighted if you could join us for a seminar where Nigel Smith, Director of Hawsons Wealth Management Limited, will talk you through the ongoing changes in the pensions world.

As a qualified pensions specialist, he will provide details of the favourable tax benefits currently available with pensions, looking at:

- **Funding options**
- **Income requirements**
- **Flexible retirement options**
- **Death benefits**
- **Inheritance tax consequences**

During this seminar, Nigel will explore all these areas and inform you how our Wealth Management team can help.

Following Nigel, Erica Dietsch, Independent Financial Advisor at Hawsons Wealth Management Limited, will look at investment opportunities that may be suitable to provide income in a tax efficient manner. She will consider the following:

- **Investment bonds**
- **Offshore solutions and how they are taxed**
- **ISAs, Unit trusts & Investment trusts**

## Sheffield

- **Tuesday 16th May 2017**
- **Tapton Hall, Shore Lane, Sheffield, S10 3BU**

## Doncaster

- **Friday 19th May 2017**
- **The Portland Suite, Doncaster Racecourse, Leger Way, Doncaster, DN2 6BB**

## Northampton

- **Thursday 25th May 2017**
- **Sunley Conference Centre, The University of Northampton, Park Campus, Boughton Green Road, Northampton, NN2 7AL**

## Programme (for all venues)

- **Registration and refreshments: From 7:45am**
- **Presentation: 8:15am**
- **Finish: 9:30am**

**To register for this event, click here.**

## Spring 2017

Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

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