



# Agriculture

## Specialist Agriculture Accountants

## Newsletter

Summer 2017

### Introduction

Welcome to our Summer 2017 agriculture newsletter.

Theresa May's snap General Election ended with a hung parliament, with the PM joining forces with Arlene Foster's Democratic Unionist Party (DUP). With Brexit talks also set to begin this month (June) and last for two years (or more), Britain's economy is certainly uncertain. In this newsletter, we take a look at Farmers' averaging, we also have an agriculture update and take a look at what the Election result meant for tax.

### In this issue, we look at:

- Farmers' Averaging: It pays to spread
- Rates system and appeals from April 2017
- Agriculture update
- R&D tax incentives – Don't miss out!
- The Election result: What are the tax implications
- CEO Fraud
- Tony Nickson joins Hawsons as VAT Consultant

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)

# Farmers' Averaging: It pays to spread

The tax relief known as farmers' averaging is designed to provide tax relief for farmers who can be affected by fluctuating profits. Averaging rules were first introduced to the UK tax system in 1997.

Two consecutive years can be added together and half assessed in each of the two years. Rules only apply to unincorporated businesses where profits are liable to income tax.

Agricultural contractors and farms where farming activity is part of a larger trade that includes significant non-farming activities are excluded.

The Finance Act 2016 brought about some changes, however, farmers are now allowed (2016/17) to average over five years and this does not reduce overall taxable profits but simply allocates them equally between the years.

## Profits can be averaged if:

- The profits of one year are less than 75% of the other years
- One year is profitable and the other is loss making

The profit to be averaged is an individual's taxable profits after deducting capital allowances. Each party has to elect separately and different partners can make different decisions.

- A low making year is treated as a zero profit
- Averaging cannot be claimed in opening or closing years
- Averaging can be used to:
  - Use up personal allowances
  - Reduce marginal rates of tax
  - Reduce the impact of reaching certain income levels
- I.e. £50,000 High income Child Benefit Commences
- I.e. £100,000 Withdrawal of personal allowances commences.

# Rates system and appeals from April 2017

The Valuation office Agency has completed the revaluation of rateable values on all properties to reflect the changes in the property market since 2008.

Local Councils will use this value to calculate business rates bills from 1 April 2017. If your rateable value is below £12,000 you may be eligible for small business rate relief of 100%. In addition, there is a new appeals system. The Government is trying to reduce the number of appeals whilst streamlining the system.

There is a new three stage appeal system: Check, Challenge, Appeal.

## Check:

- Factual information is confirmed by the rate payer e.g. floor area.
- The VO (Valuation Office) has three months to respond to the provision of information
- The rate payer then has four months to move to the challenge stage and the VO has 18 months to respond

## Challenge

- The rate payer submits their opinion of rateable value based on the rental value of the property at 1 April 2015
- This is a crucial stage as evidence cannot be submitted after this

If these two stages do not result in agreement, the rate payer can make a formal appeal to the Valuation Tribunal. It is worth considering the use of professional help to avoid losing out because of technical issues including the timing of the presentation of evidence.

Challenges can be made on the grounds of physical change to properties or disturbances as well as rental values. In England, there will be transitional arrangements to phase in large increases in liability. Many professional surveyors do this work on the basis of a percentage of the saving achieved.

# Agriculture update



With Britain's agriculture sector watching Brexit closely following the triggering of Article 50, the UK also announced a snap General Election due to take place on the 8 June. The sector will be closely monitoring each parties manifesto to determine which is best for agriculture moving forward. In this article, we'll be looking at what May has meant for agriculture.

The Co-op supermarket has now fully switched to 100% British produce for all its fresh meat. This excludes New Zealand lamb and Danish bacon from sale. The NFU has also released its manifesto for farming: "Back British Farming - Brexit and Beyond". It contains five key policy challenges:

- Brexit
- Investment for Growth
- Fairer supply chain
- Respect for Sound Science
- Caring for the Countryside

Average monthly rainfall in April was 7.6mm compared to 66.8mm in April 2016 - making it the driest period since 1995. Farmers are being forced to irrigate to maintain yields. On a more positive note, Defra figures show that Total Income From Farming (TIFF) rose 1.5% or £59 million in real terms to £3.9 billion in 2016. However, the total output fell by 3% to £23.5 billion mainly because of falls in volume and prices for cereals and milk. TIFF rose mainly because of lower input costs.

Farmers Weekly has reported that land prices are continuing to fall. They quote Knight Frank's Farmland Index first quarter 2017 average value of bare farmland fell 0.5% to £7,435 per acre. This is the smallest quarterly drop and is less dramatic than the 8.5% fall recorded by the agent's index last year.

The same article quotes the supply of farmland across Britain in Q1 was 38% down on the long-term average and 42% down on the same quarter last year, with only 11,000 acres marketed. However, it should be noted that the market is generally weak in the first quarter and commentators do expect it to pick up later in the year.

Factors which will influence future land sales will include:

- Changes in agricultural subsidies may lead to retirements
- Future increases in commodity prices
- Future increases in borrowing costs
- Outcome of Brexit negotiations

Moving on, rain in the last few weeks has eased fears of a UK drought this summer and the CLA (Country Land and Business Association) has launched a campaign for the next Government to deliver a Brexit that works for farmers.

Farm borrowing rose in the first quarter of 2017 by £384m despite the 18% boost to BPS payments as a result of the decline of sterling. Many inputs are costing more because of sterling's weaknesses. Finally, tractor sales in the first four months of 2017 are 20% higher than in 2016.

# R&D tax incentives – Don't miss out!

Research and Development (R&D) tax incentives can provide additional tax deductions and enhanced cash flow for companies that develop new products, processes or services. Although widely available, many companies wrongly believe they are not eligible for R&D tax relief and therefore fail to make a claim. Any business can qualify even loss-making ones.

## Generous tax relief

The tax saving generated from a claim can be significant. For example, a company incurring £100k of costs on qualifying R&D activity could save up to £46k in corporation tax (an additional 26% relief on top of the normal deduction). Alternatively, if the company is loss making, it may be possible to surrender the loss for a cash repayment, of up to £33.3k for every £100k of expenditure. This could significantly improve cash flow for new companies and provide much needed investment for the business.

## Removing the barriers

The Government has made it clear that it wants to increase the level of private investment in science, research and innovation. It views R&D as a key to economic success and is committed to encouraging more companies to claim R&D tax relief.

The Chancellor made two welcome announcements in the Spring Budget to further support investment in R&D:

### 1. Making claims easier

The Government will make administrative changes to the R&D expenditure credit in order to increase the certainty and simplicity around claims.

### 2. Improving awareness

The Chancellor vowed to take action to improve awareness of R&D tax credits among small and medium-sized enterprises.

## The perfect time to claim

The Budget announcements are the latest of a string of measures designed to encourage investment in R&D. Last year the Government introduced Advance Assurance which enables first time claimant small companies to seek HMRC's prior opinion on whether the R&D they are carrying out, or are planning to carry out, will qualify for R&D tax relief. Successful applicants receive assurance from HMRC that their first three years of R&D tax relief claims will be accepted.

With the recent announcements by the Chancellor and the high rates of tax relief available, there has never been a better time to make a claim.

## Am I eligible?

Many companies carry out eligible R&D activities without realising that this work qualifies for relief.

R&D tax incentives are not just for niche sectors – eligible companies can be in any sector, any size, and even be loss-making. Another common misconception is that R&D incentives are only for those who undertake scientific research in a laboratory, but this is certainly not the case.

If you can answer 'yes' to any of the following, a claim may be possible:

- Has the company done something to differentiate itself within the sector?
- Have you taken on something particularly challenging?
- Have you taken on risk in trying to achieve something?
- Have you invested time and effort into making efficiency gains?
- Do you operate in a market that is specialist, niche or highly regulated?
- Do you employ highly skilled or highly technical staff?

## How we can help

We have extensive experience of making successful R&D tax relief claims. If you would like to discuss whether your company may be eligible to claim R&D relief, please get in touch with us.

# The Election result: What are the tax implications

The general election has ended in a hung parliament – the Conservative party have the most seats but do not have an overall majority. Theresa May has announced that she will form a government with the support of the Democratic Unionist Party (DUP).

What does this potentially mean for tax? How will the election result affect you and your business?

Tax expert Craig Walker provides a recap of the key tax pledges made by the Conservatives and looks at how a hung parliament could hinder the Conservatives' ability to deliver on these pledges.

## Hung parliament

If, as expected, the Conservative government remain in office, their loss of seats is likely to weaken their ability to implement the tax pledges made in their manifesto.

Passing law may need support from other parties, and this could require the Conservatives to amend or moderate a number of their proposed tax changes. We could even see some manifesto pledges dropped completely.

You may recall that a significant chunk of the 2017 Finance Bill had to be dropped due to the early general election, but there was an expectation that many of these changes would be introduced in a post-election Finance Bill. The election result puts into doubt whether some of these changes will in fact be passed.

## Democratic Unionist Party (DUP)

The DUP and Conservatives appear to have similar views on tax. The DUP indicated in their manifesto that they would support Conservative proposals to increase the personal allowance. The parties also share a desire to reduce the rate of Corporation Tax – with the DUP proposing to reduce the rate to as low as 12.5%.

The DUP manifesto included a call to reduce VAT for businesses in the tourism sector. Northern Ireland has long argued that the UK tourism rate of 20% is extremely uncompetitive compared to Ireland's reduced rate of 9%. Currently Westminster controls UK-wide VAT policy but following Brexit it is thought that Northern Ireland will be free to claim a reduced tourism rate.

**Below is a recap of the key tax pledges made by the Conservatives:**

## Income tax

- To increase the personal allowance to £12,500.
- To increase the threshold for the higher rate tax band to £50,000.

## National insurance

- Remained silent on the issue of rises in national insurance but issued a statement of intent to lower tax/NIC.
- This followed the removal of the controversial proposal to raise self-employed national insurance contributions from the Spring Budget.

## Corporation tax

- To reduce the current corporate tax rate of 19% to 17% by 2020.

## Inheritance tax

- The current Conservative policy allows up to £850,000 in family property to be inherited by children without inheritance tax.

## VAT

- Do not intend to raise the level of VAT.
- To introduce further measures to reduce online fraud in VAT.

# The Election result: What are the tax implications



## Other taxes

- No plans to reduce the rates of Stamp Duty Land Tax (SDLT).
- No assurances that Capital Gains Tax reliefs for entrepreneurs will remain in place.
- To introduce further incentives under the Enterprise Investment Scheme and Seed Enterprise Investment Scheme to help start-up businesses.
- To build upon existing tax arrangements for creative industries, including a creative industries tax credits scheme.

## Making Tax Digital

- There is no evidence to indicate the Conservative party intend to abandon their plans for the controversial “Making Tax Digital” project.

## Business rates

- A promise to review and reform the business rates system, such as by increasing the frequency of revaluations, exploring the possibility of self-assessment valuations and updating the system to appropriately deal with online shopping businesses.

## Tax compliance

- To introduce tougher regulation of tax advisory firms.
- To take a more proactive approach to transparency and misuse of trusts.

## In summary

It will be interesting to see to what extent the Conservative’s tax proposals are implemented and how the UK tax system evolves. The economic consequences of Brexit are also likely to give the Chancellor much to think about and significantly influence UK tax policy.

In addition, we should remember that politicians do not always follow manifesto pledges (and have even been known to borrow ideas from the opposition!).

We will keep you updated.

# CEO Fraud

CEO Fraud is on the increase and it can hit both businesses and careers. More than 22,000 organisations across the world have been victims of CEO Fraud with losses estimated at more than £3 billion. In this article, we look at what CEO Fraud is and the techniques that can be used to help prevent it from happening to you.

## What is CEO fraud?

CEO Fraud involves convincing somebody in your business to make what they think are legitimate payments but which are actually paid to fraudsters. The scam is often carried out by compromising business email accounts through the use of techniques such as social engineering or computer intrusion.

It's not just email accounts that can be compromised, the criminals are also known to tap into phone numbers. This process involves the criminals obtaining the phone number of a CEO, and sending a text message to the CFO (Chief Financial Officer) which appears to come from the CEO. The message asks the CFO to make a bank transfer. To make it more realistic, these cyber-criminals often wait until the CEO is away on business and the unlucky recipient of the text message is oblivious to the fact it's not a legitimate request. In addition, the criminals will often ask the recipient not to contact them as they "are in an important meeting" and "it needs paying promptly".

While you may think it's just the larger businesses which are targeted, smaller businesses are just as likely to be hit – the criminals don't discriminate, everyone is a target.

While it is probably impossible to predict which business will be attacked and when, it is useful and interesting to understand some of the methods they often use.

## The methods

- **Phishing:** These are emails sent in large numbers to numerous accounts simultaneously in order to "phish" sensitive information by posing as legitimate sources. These emails are getting much more sophisticated – gone are the days of poorly worded emails that were obviously fake. These emails often have logos, are well-written and look like they could be from a bank, credit card provider, law enforcement or government agencies, delivery companies etc. While many people won't use the bank or service provider the email is claiming to be from, due to the sheer numbers that they send them out to, it has a certain percentage of hit rate. The criminals are smart and may change the spelling of words which can easily catch you out. For example, an email from [webfiling@companieshousewebfilling.co.uk](mailto:webfiling@companieshousewebfilling.co.uk) seems legitimate, doesn't it? Unfortunately, this is NOT from Companies House. Notice the spelling of webfiling at the start of the address and webfilling at the end.
- **Spear Phishing:** These attacks are emails which usually only go to one person or a small group of people at the most. They are much more focused and the cyber-criminals have often done their homework on the target by gathering data from social media sites in order to fool the unfortunate target. Usually some form of personalisation is included such as the person's name or client's name.
- **Executive "Whaling":** This one can be very sophisticated. The criminals have detailed knowledge of who they are targeting and the business they are attacking. They target the top executives and administrators to draw money from accounts or to steal confidential information.
- **Social Engineering:** This is the psychological manipulation to trick people into giving away sensitive information or providing access to funds. All of the previous methods are aspects of social engineering. The act of social engineering might include mining social media sites such as Facebook and LinkedIn. These sites provide a wealth of information about a company and individuals, such as names of staff, contact numbers and emails addresses.

Unfortunately, these scams have a fairly high success rate. The Verizon 2016 Data Breach Investigations Report revealed that 30% of recipients open these phishing emails and thus provide an open gateway for malware to infect their systems and the possibility of CEO Fraud.

# CEO Fraud continued...



## Prevention

The majority of the following steps must link together to form part of an effective prevention plan forming 'layers of defence'.

- **Training:** While all the steps below will help, if a member of staff isn't properly trained a breach could be inevitable. Make sure all staff are aware of the things to look out for when opening emails and provide general security awareness training. Is the email sender legitimate? Always be sceptical and hover over links to see if they're going where they say they are going. Beware slight changes in company names (r and n together to imitate an m). Another tell-tale sign is emails requiring urgent action.
- **Technical controls:** Email filtering is an example of this. If you don't have a filter you need one. If you do have one you need to make sure you understand its features to get the most out of them and also accept that mail filtering won't always prevent phishing emails coming through. Two factor authentication is a good way of making it harder for the criminals to steal sensitive information, such as sending a code to your mobile phone.
- **Simulated Phishing:** This should be accompanied with the training. It is the process wherein staff are sent emails purposefully to see which staff are at risk and who needs more training.
- **Identifying high-risk job roles:** High-risk roles include accounting, payroll / HR and IT staff. It is recommended to impose more safeguards in these areas such as having layers of authorisation before, for example, a payment to an account can be completed. It is important to assess all high-risk staff to see how exposed they are.
- **Security policy:** While every company should have a security policy, it does sometimes slip under the radar when there are more important things to deal with. But in this day and age when cyber-attacks are frequent, it should be on your to-do list. It should be reviewed regularly for gaps and should be published somewhere that all staff can find. It should include things such as staff not opening attachments or clicking on links from unknown sources, password management policy (not reusing work passwords on other sites or machines), don't use USB sticks on office computers as well as much more security diligence.
- **Procedures:** IT should have security measures in place to block sites known for their spread of ransomware. All software security patches and virus signature files should be kept up-to-date, conduct penetration tests on Wi-Fi to determine how easy it is to gain entry, ensuring backups are actually working as well as much more.
- **Cyber-risk planning:** This is no longer just a technical problem or just an IT problem. This should be managed from the very top (the CEO) so they are aware of the company's cyber risks and how they can manage those risks. CEO Fraud should certainly be included in the risk management assessment.

CEO Fraud and cyber-attacks in general are more frequent now than they ever were. It is wise to review your procedures and put the appropriate controls in place to stop it from happening to you. It could save you a lot of money.

# Tony Nickson joins Hawsons as VAT Consultant



Hawsons are pleased to announce that Tony Nickson has joined the firm as a VAT Consultant.

Tony was formerly a VAT Officer in Customs and Excise and then Higher Officer in HMRC.

After 20 years of working in the VAT office, Tony has gained a wealth of knowledge of VAT processes, including VAT visits to customers, client education, VAT repayments and error corrections.

Tony can provide practical VAT advice to a wide range of clients in numerous business sectors and can advise on matters relating to sole proprietors, partnerships and corporate bodies on all VAT issues including exporting, importing or providing goods/services within the UK. European Union dispatches and acquisitions can also be advised upon. He also has a good knowledge of HMRC's penalty system.

Tony said: "I'm really excited to have joined Hawsons and I'm looking forward to advising clients on many aspects of VAT."

Stephen Charles, Tax Partner at Hawsons added: "I'm delighted to be able to welcome Tony to the firm. Tony has a wealth of experience in the VAT sector and will no doubt prove to be a valuable member of our team."



## Summer 2017

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