Agriculture

Specialist Agriculture Accountants

Newsletter
Winter 2017

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Introduction

Welcome to our Winter 2017 agriculture newsletter.

These are uncertain times in Agriculture following the Brexit vote and farming leaders are urging the Government to consult on matters which will impact on the industry.

Despite encouraging noises from Defra all farmers will be looking for firm policy statements as soon as possible.

In this issue, we look at:

- Brexit: possible implications for UK farming
- Cloud accounting
- Making Tax Digital
- Autumn Statement
- Rising wage costs for employers

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: possible implications for UK farming

Now Brexit is confirmed, many farmers may be thinking about how the UK's exit from the European Union may impact them. In the lead up to the EU referendum a Farmers Weekly survey found that 58% of farmers backed an EU exit – but what will happen now?

As for many UK businesses, with so many questions remaining unanswered, it is difficult to predict what may happen over the coming months and years. Sector funding, regulation, labour and access to the single market are likely to be the key affected areas. As well as looking at the potential challenges that Brexit could bring for UK farmers, we also look at how an exit from the European Union could bring about some positive changes for the farming community. It is important to stress, however, that many implications discussed in this short article will depend on the terms that the government is able to negotiate post-exit.

Funding

A large number of UK farmers have benefited from CAP support in recent years. Recent statistics show that, in 2015, UK farmers received almost £2.4bn in direct payments. In the short-term, there is and will continue to be an air of uncertainty about what – if anything – will replace CAP subsidies which many UK farmers receive. Many farmers will be rightly concerned about losing CAP support and the impact that will have on already declining farming incomes. In the long term, much will depend on the terms the UK is able to negotiate post-exit. In theory, as the UK is not tied down to any subsidies the EU budget, there should be scope for the UK government to at least match current CAP support. Whether this comes to pass remains to be seen – the government is of course facing many other demands (from nearly all UK sectors) on how its budget should be spent.

Regulation and red tape

Farming is one of many UK sectors that is affected by a range of EU legislation and, following an exit from the EU, many UK farmers will be hoping for a lot less red tape. A reduction or change in current EU agriculture policy could be of benefit to the sector, giving farmers more time and resources to do what they do best and increase the profitability of their farm. It is however unclear at this stage how regulation and red tape will be affected by the UK's decision to leave the EU; it may be that regulation continues in much the same way as before if the UK is able to obtain access to the single market; it may be that there is significant reform – only time will tell.

The EU has certainly had a significant influence on the UK tax system – but will it result in a complete overhaul of UK tax as we know it? Find out more in our Brexit tax implications article at www.hawsons.co.uk/brexit-tax-implications

Other potential implications

Leaving the EU should give the government the opportunity to shape much of the UK's agricultural policy and continue to raise the profile of British agriculture. UK farmers produce some of the highest quality food in the world, but are often undercut by competitors from the EU (and around the world) who can beat them on price. Once post-exit negotiations and any EU trading tariffs have been agreed, many UK farmers will be hoping for an upsurge in consumers looking for locally sourced, British produce – at a more competitive price. On the flip side, as the UK government looks further afield to strike trade deals, imports i.e. food and produce could actually become cheaper for UK consumers. But what would this mean for UK agriculture and farming? For example, the UK government could allow cheap imports of South American beef which would likely have a devastating impact on UK beef farmers.

Brexit will have far-reaching implications for individuals and business owners across the full spectrum of UK sectors. For agriculture in particular, the challenges and opportunities that are brought about by a vote to leave could be even more significant. Brexit will likely bring about changes for the UK farming sector, and these are likely to emerge over time. The real, practical implications will vary from business to business. Now is the time for calm reflection to assess the implications and the prospects ahead.

Cloud accounting

Cloud accounting is the use of accounting software where your data and software is stored on the cloud rather than your hard drive. It can be accessed remotely from any device that has internet access, much like your internet banking. As your business grows, one of the key questions you will ask yourself is: "how can I prioritise my time?" and rightly so, with not having enough hours in the day is one of the key challenges many small business owners face. This is where Cloud accounting can help your business. Here are just a few ways where our online client accounting software can help your business:

Prioritise your time – online accounting brings new working practices. Bank fees that automate the postings into the software from entries on your electronic bank statement, the emailing of pictures of receipts on to your system and the scanning of supplier invoices all reduce the time in data inputting.

IT Services – The Cloud service providers deal with much of the IT maintenance such as the backing up of your data, installing software updates and this in turn reduces the need for on premise servers.

Flexibility – In today's environment, people are mobile working outside of their office hours and away from their office locations, usually on mobiles or tablets or other devices. It is also essential that you can securely access business software and data as and when needed, wherever in the world that may be.

Moving to the Cloud couldn't be simpler, working on the Cloud will give you the opportunity to reduce the amount of time you spend on tedious and time consuming administrative tasks, allowing you to concentrate on what you do best which is running and growing your business. After all, you started a business to run a business, not to be an accountant or a book-keeper. With Cloud accounting, you can do just that.

Our Cloud Accounting services

We will work with you to find out which Cloud accounting software best suits your needs. We work with a range of the leading traditional and Cloud accounting software providers:

- Xero
- Sage One
- QuickBooks

We will help you move to your new software and make the data transfer as automated as possible. Next, we will provide you with training on your cloud accounting software so you know how to use it efficiently and get the benefits as quickly as possible.

Ongoing Cloud accounting services

Once you are up and running we are available to help at any time answering any questions you may have. With your permission, we can log into the software at the same time as you and even take control of your screen to help you with any questions you may have.

How secure is the Cloud?

Charles Kavazy, Director of IT Services at Hawsons says: "It depends. Of course, that's not a very helpful answer, but much depends on many factors including your attitude to risk, the nature of your data and the strength of the security including the processes carried out by the company hosting your data. Some people argue that storing your data on the Cloud can be more secure than storing it on your desktop or an on-site server. The level of physical and electronic security that Cloud service providers offer may be higher, depending on the risk involved, and the duplicated continuous backup processes of Cloud providers are probably going to be better than most businesses would implement."

Wherever you store your data, there are always security issues, as Charles adds: "Most Cloud computing providers take great measures to ensure your data is safe, including backup power supplies, firewalls, data encryption software and regular, third-party security audits. They can also protect your data against floods and fires by having multiple servers in different locations."

Charles summarises: "The Cloud service providers take great care to protect your data, but ultimately each business needs to consider its attitude to risk, the data being stored and the implications of a security breach. If you decide the benefits of the Cloud outweigh the risks and you are happy to accept the risk, then you need to ensure you choose your Cloud provider carefully and implement robust procedures to mitigate the risk of problems. For example, controlling access rights, regular password changes and training your staff on security risks."

Making Tax Digital

HMRC have recently published six consultation documents on the 'Making Tax Digital' strategy – the biggest shake-up of the personal tax system in 20 years. These documents set out HMRC's plans to move to a fully digital tax system by 2020, with the aim of making the tax system more efficient. The government first announced the project in the 2015 Budget but has now provided additional details of the proposals for consultation.

The consultation documents

The six consultation documents cover:

- Bringing business tax into the digital age
- Simplifying tax for unincorporated businesses
- The simplified cash basis for unincorporated property businesses
- Voluntary tax payments in advance of liabilities being due
- Tax administration
- Transforming the tax system through better use of information

In summary

HMRC plan to make fundamental changes to the way tax reporting is carried out. Business owners and landlords will be required to keep records digitally and update HMRC more frequently than is currently the case. These reforms will be introduced from April 2018.

By 2020 most businesses and landlords will have to use software or apps to keep their records and report to HMRC on a quarterly basis. Tax returns will be replaced by an End of Year declaration which will need to be filed within 9 months of the end of the period of account.

HMRC also intend to make changes to some of the underlying tax rules for businesses and amend HMRC's compliance and enquiry powers. This will include the introduction of a new regime for late submission penalties, late payment sanctions and proposals to align interest across taxes.

Those taxpayers who are likely to be exempt from the changes include:

- All unincorporated businesses and landlords with an annual income of less than £10,000;
- Charities and Community Amateur Sports Clubs (CASCs) and;
- Those who cannot engage digitally

Reaction

Craig Walker, Senior Tax Manager at Hawsons commented: "The proposals are radical and wide ranging, and clearly significant consultation is required. There are deep concerns within the profession and the business community that HMRC's plans are overambitious and unrealistic, the proposals will place additional burdens and costs on businesses, and the current timetable for implementation is unworkable."

"Although the concessions for businesses with income below £10,000 are welcome, much more still needs to be done by HMRC to address the legitimate concerns of businesses."

More on Making Tax Digital

Over the coming weeks and months, we will provide further details on the new initiative, commenting on the new consultation documents and what they mean to taxpayers and the personal tax system.

Autumn Statement

Philip Hammond delivered his Autumn Statement on Wednesday 23rd November 2016. His speech set out both tax and economic measures the government will implement. In this article, we summarise the key points arising from the Autumn Statement and focus on what the changes may mean for the agriculture sector.

In Summary (general):

- the government reaffirming the objectives to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament
- reduction of the Money Purchase Annual Allowance
- review of ways to build on research and development tax relief
- tax and National Insurance advantages of salary sacrifice schemes to be removed
- anti-avoidance measures for the VAT Flat Rate Scheme
- autumn Budgets commencing in autumn 2017.

In addition, the Chancellor announced the following pay and welfare measures:

- National Living Wage to rise from £7.20 an hour to £7.50 from April 2017
- Universal Credit taper rate to be cut from 65% to 63% from April 2017.

In the March Budget the government announced various proposals, many of which have been subject to consultation with interested parties. Some of these proposals are summarised here. Draft legislation relating to many of these areas will be published on 5 December and some of the details may change as a result.

In summary (agriculture specific)

- Autumn Statement set to be abolished and future budgets set to be in Autumn
- Insurance Premium Tax set to increase
- £1bn to improve broadband connectivity
- Rural Rate Relief set to increase to 100%
- Rural Rate Relief increase set to give small business in rural areas a tax break of up to £2,900 per year
- Making Tax Digital could have significant impact on rural businesses

Autumn Statement Agriculture Impact

Investment in broadband

Richard Marsh, Partner at Hawsons, commented: "There has been a mixed reaction to the Autumn Statement from Farming Groups. The Countryside Alliance said it should create real benefits for rural communities but the NFU said policy announcements fell short of helping to maximise the potential of farm businesses."

"An important announcement was the proposed investment in broadband as it is estimated that only 42% of premises in rural areas have access to the proposed Universal Service Obligation speed of 10Mbs per second. The increase in the National Living Wage will also place an additional cost burden on farm businesses at a time when they may potentially face labour shortages under Brexit. Whilst the NFU has supported the living wage for all workers, it has expressed concern over the speed of implementation and lack of consultation."

Rising wage costs for employers

National Minimum Wage

The government announced increases to the National Minimum Wage which came into effect on 1 October 2016, after accepting recommendations for the new rates from the Low Pay Commission (LPC).

The main National Minimum Wage rate (for 21- 24 year olds) has risen by 3.7% from £6.70 to £6.95 per hour, as the table below shows.

	Current rate	Rate from 1 October
21-24 year olds	£6.70	£6.95
18-20 year olds	£5.30	£5.55
16-17 year olds	£3.87	£4.00
Apprentice rate*	£3.30	£3.40

*This apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

The table below shows the historic wage increases for the National Minimum Wage:

Year	21 and over	18-20	Under 18	Apprentice
2015	£6.70	£5.30	£3.87	£3.30
2014	£6.50	£5.13	£3.79	£2.73
2013	£6.31	£5.03	£3.72	£2.68

The National Living Wage

From 1 April 2016, following the introduction of the new National Living Wage, all workers aged 25 and over are legally entitled to at least £7.20 per hour. This was, however, until the Chancellor delivered his Autumn Statement, where he announced that the National Living will increase by a further 30p from April 2017 to £7.50 per hour. The National Living Wage rates are set to increase gradually alongside rises in the National Minimum Wage, and is projected to rise to more than £9 per hour in 2020.

<u>A four-step checklist for employers following the announcements is:</u>

1. **Know the correct rate of pay (including the National Living Wage)**
2. **Find out which staff are eligible which rates**
3. **Update the company payroll and keep an eye out for future announcements**
4. **Communicate the changes to staff as soon as possible**

Moving forward – more compliance for employers

National Minimum Wage and National Living Wage rates will now change every April, as opposed to every October and April respectively.

This is a positive change, but does mean that the above rates will only be effective up until 31 March 2017.

Following the introduction of the new National Living Wage in April 2016, and the imminent increase of the NLW, this will see be the fifth round of wage increases (in some form) in just two years. It is therefore unsurprising to see that many small (and indeed large) business owners are finding running their payroll an increasingly complex and time-consuming task. The compliance obligation on employers has never been greater and there has never been a better time to consider outsourcing your payroll.

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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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