Agriculture

Specialist Agriculture Accountants

Newsletter
Autumn 2015

www.hawsons.co.uk

Introduction

Welcome to our Autumn 2015 agriculture newsletter.

It has certainly been an eventful past few months with regulatory changes bringing both challenges and opportunities to farmers across the UK. Now, with the drama if the General Election (and subsequently the Summer Budget) behind us, we can hopefully focus on the future of the sector.

Is the future heading towards diversification and technology? In this newsletter, we consider both big farming opportunities.

In this issue we look at:

- Agricultural diversification – beware tax pitfalls
- Welcome news of Annual Investment Allowance certainty
- Mitigating the impact of suffering milk margins
- Auto enrolment seminars – be fine, not fined!
- High value residential property – big changes
- Technology in UK farming – a new era?

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 busienss 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

INVESTORS IN PEOPLE

Agricultural diversification – beware tax pitfalls

In our last newsletter we looked at the opportunities diversification can bring to farmers, particularly through additional revenues. We highlighted several diversification options and concluded that, when carefully planned for, diversification can be a very profitable course of action for farmers. However, we also noted the various tax consequences diversification may have and the importance of landowners and farmers being aware of the possible tax implications that may arise. As farming often brings unique tax reliefs and rules the tax system within the sector is complex and constantly changing, and diversification makes that no easier.

A question we are often asked is: how will diversification impact my tax? In this article we therefore revisit diversification, but this time, from a solely tax perspective.

Unique tax reliefs and rules

Whether you are considering the conversion of former buildings into a bed & breakfast, opening a farm shop, hosting a fishing event or even developments into solar or wind power, you should always keep a keen eye on your invaluable tax reliefs. In order to maintain the very tight margins farmers usually work within (particularly important for dairy farmers given the current milk crisis) it is absolutely essential when diversifying that all of the main unique tax reliefs and rules available to businesses within the sector continue to be maximised.

An exciting proposition…but a taxing experience?

There is no blueprint to maximising tax reliefs during diversification. Each situation needs to be considered in its own right, and it largely depends on four things:

- The type of diversification activity planned
- The scale of diversification activity planned
- The current type of farming activity
- The current scale of farming activity

Listed below are some of the potential tax pitfalls of farming diversification:

- Inheritance tax reliefs are put at risk
- Impacts on VAT
- Capital gains tax reliefs are put at risk
- Loss relief claims are not secured
- Potential loss of farmers' averaging

As you can see, there are a number of different tax reliefs that could be affected through diversification. Diversification can cause uncertainty and complicate existing business structures if professional advice is not taken. Of course, the potential tax impact is dependent, in part, on the type and scale of diversification you are thinking about. For example, if the land around the farmhouse is used for non-agricultural activities (e.g. wind turbines) this may put inheritance tax reliefs at risk. Looking at another example: if surplus property is rented this could have an adverse impact on VAT recovery. It is therefore essential you prudently look at the pros/cons of each diversification opportunity.

Fantastic opportunities, but a final word of caution…

It is fair to say that diversification can be an enormously important means of boosting income and provides fantastic opportunities for many in the agricultural sector. However, as with most things, a warning must be given to those looking to diversify. It is absolutely vital to take professional advice as the tax implications can differ significantly to those that which many farmers will be used to.

For more information please contact your local office specialist.

Welcome news of Annual Investment Allowance certainty

The Chancellor announced in the Summer 2015 Budget that the Annual Investment Allowance (AIA) will be set permanently at £200,000 from 1 January 2016. He had previously said that this would be included in the Autumn Statement, but this earlier announcement provides welcome certainty for farmers across the UK.

What is Annual Investment Allowance?

The AIA provides a 100% deduction for the cost of most plant and machinery (including tractors, combine harvesters and other agricultural machinery) purchased by a business, up to an annual limit and is available to most businesses. This is certainly an attractive prospect for all agricultural businesses.

The AIA was increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015. However, it was due to reduce to £25,000 after this date. Instead, the announcement was that the level of the maximum AIA will now be set permanently at £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016.

Where a business has a chargeable period which spans 1 January 2016 there are transitional rules for calculating the maximum AIA for that period which operate as on previous occasions when the AIA has dropped. There will be two important elements to the calculations:

1. A calculation which sets the maximum AIA available to a business in an accounting period which straddles 1 January 2016
2. A further calculation which limits the maximum AIA relief that will be available for expenditure incurred from 1 January 2016 to the end of that accounting period.

It is the second figure that can catch a business out, as demonstrated by the following example. If a company has a 31 March year end then the maximum AIA in the accounting periods to 31 March 2016 will be:

- 9 months to December 2015 (three quarters of £500,000) £375,000
- 3 months from January 2016 (one quarter of £200,000) £50,000
- Total annual AIA using first calculation £425,000

This is still a generous figure. However, if expenditure is incurred between 1 January and 31 March 2016 the maximum amount of relief for will only be £50,000. This is because of the restrictive nature of the second calculation. Alternatively, the business could defer its expenditure until after 31 March 2016. In the accounting period to 31 March 2017, AIA will be £200,000. However, tax relief will have been deferred for a full year. Given the considerable cost of farm equipment, this could be an invaluable relief for farmers.

Are you thinking of investing in new machinery for your farm? For more information please contact your local office specialist.

Mitigating the impact of suffering milk margins

Milk – the most basic of commodities – has been central to controversy in recent years, but never more so than during the summer of 2015. As the rate of milk consumptions continues to grow, British dairy farmers have seen their margins on milk fall and fall, almost simultaneously. Research has shown that dairy farmers now receive an average of 23.66p per litre of milk produced. This figure is 25% (around 7p per litre) less than they received last year.

Farmers' averaging – good news for dairy farmers?

The sharp and dramatic fall in milk prices has put a number of UK dairy farmers under intense financial pressure. The recent extension of farmers' averaging, from two years to five years, may now be particularly important for the dairy farming community. This extension may well help deal with, and mitigate, the impact of the ongoing fluctuations in margins and profits, and could provide farmers with invaluable tax and cash flow savings.

Cash flow is a real concern

Cash flow is undoubtedly a real concern. There are a number of opportunities available to farmers, whether it's maximising tax reliefs, minimising tax liabilities, or even diversifying into alternative activities (which we have covered in detail) to cut their costs or bring additional revenues into the farm. However, each decision must be carefully considered. For example, by maximising one particular tax relief, you may jeopardise the long-term benefits of another. It is therefore crucial to seek sound and proactive professional advice.

For more information please contact your local office specialist.

Auto enrolment seminars – be fine, not fined!

The law on workplace pensions has changed, but there are still many cloudy areas surrounding the regulation, particularly eligible employees and employer duties. We would therefore like to invite you to one of our seminars on preparing for auto enrolment, by Erica Dietsch, Independent Financial Adviser at Hawsons Wealth Management Limited.

Does my existing scheme meet minimum criteria?

Are there enough schemes left for me?

If you have any questions regarding auto enrolment, including those mentioned above, then please come to one of our free seminars in September and October – Sheffield (29th September) – Doncaster (1st October) – Northampton (8th October).

The seminars will provide an overview of auto enrolment and employer duties, covering who the new law applies to and what you need to do as an employer. You will also have the opportunity to ask our Hawsons Wealth Management Limited experts any additional questions. For more information and free registration, please visit:

www.hawsons.co.uk/auto-enrolment-seminar

High value residential property – big changes

Annual Tax on Enveloped Dwellings (ATED)

ATED is payable by companies that own UK residential property (a dwelling) valued above a certain amount, as the below table shows. This tax is payable each year and is paid through a self-assessment system.

At first, ATED only really caught London properties, but with properties valued between £1m - £2m now included from April 2015 (and with properties valued between £500,000 - £1m to be included from April 2016), the tax has been given a much wider scope and will affect many more companies north of the capital. As well as its scope, the annual chargeable amounts for ATED have also increased significantly from April 2015, by 50% above the usual yearly increase in line with the Customer Prices Index (CPI).

Property value	2014/15	2015/16
£500,000 - £1m	n/a	n/a
£1m - £2m	n/a	£7,000
£2m - £5m	£15,400	£23,350
£5m - £10m	£35,900	£54,450
£10m - £20m	£71,850	£109,050
£20m +	£143,750	£218,200

The good news

The good news for farmers is that there are a number of reliefs available from the annual charge, subject to certain conditions. Here are some examples of where the relief might be available for farming businesses:

- Farmhouses (when occupied by working farmers or that meet other conditions)
- Properties used for employee accommodation (who have no more than 10% interest in the company)
- Properties rented to unconnected third-parties

The bad news

The bad news, however, is that even when there is a relief from ATED it has to be claimed and an annual return must be submitted. When submitting your forms, it is a good idea to include as much evidence as possible to prove you qualify for one of the reliefs available. It is more bad news for those that are subject to ATED as they are likely to face significant increases in annual charges following the new rules.

For more information please contact your local office.

Technology in UK farming – a new era?

Farmers to make better use of technology?

Whether you run a small farm with a few chickens or have a herd of a thousand livestock, it is time to start considering the implications that technology may have on your business, before you fall behind.

Unpredictable markets, erratic weather patterns, fluctuating income streams and increasingly intense profit margins have seen farmers, understandably, tentatively avoid investing in technology. However, the benefits of doing so - financially and strategically - can be enormous and should not be overlooked. Whether you think farmers should make better use of technology or not, it is worth exploring the options.

Cloud accounting - financially

Cloud accounting is essentially the use of online accounting software where your data and software is stored in the cloud. It can be accessed at any time in any place from any device that has internet access, much like internet banking.

One of the biggest benefits of cloud accounting is having real-time data of your finances (and livestock tracking) so you can spend more time doing what you do best: being out on the farm and making money.

For more information please visit www.hawsons.co.uk/cloud

Precision farming - strategically

Precision farming revolutionises the farming landscape, bringing new techniques, such as smartphone-controlled tractors, to produce stock more efficiently than ever before.

Precision farming is certainly not new, but with the technology becoming more affordable and applicable in UK agriculture, it could be the key element in determining whether or not UK farming flourishes or fails in the future. The technology is evolving and continuously improving, and it is essential farmers, small and large, closely monitor and consider the potential future implications to their business. Are you ready?

For more information please contact your local office.

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