Agriculture

Specialist Agriculture Accountants

Newsletter
Winter 2015

www.hawsons.co.uk

Introduction

Welcome to our Winter 2015 agriculture newsletter.

Have you ever thought about what agriculture sector might be like in 2040? The British farming sector is facing a number of economic, environment and global pressures, which is why DEFRA has looked to consult over a 25-year plan for the British agricultural sector. In this newsletter we look at what that plan might mean, as well as covering the key details from the recent Autumn Statement and other ongoing agriculture developments.

In this issue we look at:

- Autumn Statement agriculture review
- AIA – reduce tax bills or keep cash reserves?
- A look at DEFRAs 25-year plan for agriculture
- Monthly agriculture update for UK farmers
- Are you aware of forthcoming PAYE changes?

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**

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Autumn Statement agriculture review

Last week, on 25 November, the Chancellor delivered his latest Autumn Statement. In a year which has already seen the two Budgets and a General Election, agricultural businesses were perhaps uncertain about what this year's Autumn Statement might bring. In this article we summarise the key points arising from the Autumn Statement and focus specifically on what the changes may mean for the agriculture sector.

In summary (general):

- Tax credit cuts scrapped all together
- Small business rate relief to be extended for one more year
- Basic state pension will rise by £3.35 to £119.30 a week
- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Doubling of housing budget to £2bn a year
- Capital funding of transport projects to rise by 50%
- Transport (37%), environment (15%) and energy (22%) departments all face funding cuts

In summary (agriculture specific):

- DEFRA to face 15% cut in funding; much less than the anticipated 30%
- Government to continue to prioritise funding for flood defences
- DEFRA to reduce administrative budgets by 26% by 2019-20

Autumn Statement agriculture impact

Richard Marsh, Partner at Hawsons, commented: "In the lead up to this year's Autumn Statement and comprehensive spending review there was a lot of speculation over the future of DEFRA (the Department for Environment, Food and Rural Affairs)…with suggestions that DEFRA had even already agreed a major 30% spending cut. That hasn't been the case, but DEFRA will still face big funding cuts. This is the announcement that will impact the agricultural sector the most."

"The Chancellor confirmed in Wednesday's Autumn Statement that DEFRA will face cuts of 15%, as well as highlighting a continued commitment of investment in flood defences. Although, on the face of it, that funding cut is much less than many thought, it still leaves the agriculture sector in a state of limbo. DEFRA has now lost nearly half of its funding since 2009; one of the most significant budget cutbacks of all government departments in the last few years. Additionally, with the extra focus and funding given to research and flooding, this cut of 15% might still be more like the anticipated 30% for DEFRA overall. It will be interesting to see how this develops and what the future holds for DEFRA."

Environment Secretary, Elizabeth Truss said: "With today's settlement we can now plan for the future. This strong funding settlement means we can press ahead with our vital work to protect the country from floods and animal and plant disease, put in place stronger protections for our natural landscape and deliver on our commitments for a cleaner, healthier environment which benefits people and the economy."

Other issues

"From a tax perspective there was very little of note, which is actually quite refreshing. Although not part of the Autumn Statement it is worthwhile reiterating the extension of farmers' averaging from two years to five years as of April 2016. That announcement was made in the March Budget and will bring greater flexibility and stability to farming accounts."

AIA – reduce tax bills or keep cash reserves?

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 – welcome news for the farming sector, as we covered in our Autumn 2015 agricultural newsletter.

Although farmers are likely to be one of the hardest hit communities when this generous tax reliefs falls from £500,000 to £200,000 with effect from 1 January 2016, the announcement was not as severe as first feared. Initial suggestions were that AIA could be reduced to as little as £25,000, as it was in 2013, which would have had a significant impact on the very capital intensive farming industry.

An effective way to reduce tax bills…but is it the right option?

The AIA can provide farmers with a very effective way of reducing their tax bills, but given the concerns over the future of the sector, is it the right option? Concerns have been expressed about the future of many UK farm businesses due to low commodity prices, erratic weather conditions and potential delays in support payments – the Prince of Wales attended a crisis meeting in October to discuss such subjects – so now might not be the time to be purchasing new machinery.

Indeed, one of the biggest benefits of George Osborne's summer announcement is that it gives farmers time to consider their circumstances and not rush into decisions to try and reduce their tax bills. Now that AIA will be set permanently at £200,000 farmers can better plan their capital expenditure.

Longer-term plans for business development

Brian Gooch, Tax Manager at Hawsons, noted: "The substantial cost of buying agricultural machinery and equipment means that maximising all available tax reliefs is essential for farmers. The AIA is widely available, and a very generous tax relief. Over the past two years, with the AIA set at a very generous (but temporary) £500,000, farmers have undoubtedly accelerated capital expenditure plans to take advantage of the potential tax benefits, but that no longer needs to be the case. The freezing of AIA at £200,000 will now help farmers make longer-term plans for business development."

"Whether or not now is the right time for farmers to use AIA to reduce their tax bills depends on specific circumstances. Given the uncertainty in the sector and the ongoing fluctuations of profits – both heavily influenced by supermarket price wars amongst other things – now might be the time to keep cash reserves rather than spend. When cash flow is tight and you have no spare funds to purchase machinery, spending to theoretically reduce your tax bills through AIA may not be the right option."

"There are a lot of complex and detailed rules that need to be considered when thinking about AIA, including qualifying conditions and the year in which the expenditure is made. We would always advise farmers to take proper tax advice so that they are fully aware of AIA, the potential tax advantages and, of course, the potential pitfalls that it could bring."

For more information please contact your local office specialist.

A look at DEFRAs 25-year plan for agriculture

Have you ever thought about what agriculture sector might be like in 2040? DEFRA is developing a 25-year industry-led farming plan with the aim to deliver a more competitive and profitable agriculture sector. The goal is to grow more, buy more and sell more British food in the long-term.

25-year Great British Food and Farming Plan is expected to be published next year

Earlier in the year over 80 leading representatives from the agricultural sector attended the DEFRA launch of the development process for a 25-year Great British Food and Farming Plan. The representatives met to "discuss ways to ensure a bright future for food and farming, including developing a British brand, boosting food and drink exports, encouraging entrepreneurship, attracting investment and ensuring the industry has the right skills."

Six months on from that initial development launch and DEFRA is now consulting regional agricultural businesses and stakeholders about their ideas for the 25 year plan going forward. The full 25-year plan is expected to be published next year, following ongoing consultations.

What is the 25-year plan consulting on?

There are 7 key themes that DEFRA and industry leaders are looking at, including:

- Strengthening the British brand
- Increasing British exports
- Breaking down barriers to trade
- Increase use of British food in schools and hospitals
- Increase inward investment into British farming
- Boost skills and apprenticeships
- Increase productivity through innovation

Commenting on the 25-year Great British Food and Farming Plan Richard Marsh, Partner at Hawsons, said: "It is good to see DEFRA and leading industry representatives consult on the key challenges facing the agricultural sector both now and over the next 25 years. Creating a strong vision for the future for British food and farming businesses, making the UK agricultural sector more sustainable amidst growing economic, environmental and global pressures, is extremely important. Although many farmers are facing an uncertain present, the future of farming must enable a sustainable food supply to meet the demands of a growing population."

"I would also, however, echo the recent comments from Kerry McCarthy (Shadow DEFRA Secretary) that the 25-year plan must go beyond purely economic-related factors. The development and consultation of the 25-year Great British Food and Farming Plan gives the sector an opportunity to create an ongoing strategy to address low pay, reduce carbon emissions, become more energy efficient and reverse the worrying decline in biodiversity and wildlife. Harnessing technology – such as precision farming - is undoubtedly going to be a key focus in meeting all of these key farming challenges. What will the smart farm of the future look like? That is a question that will be answered in the years to come…but, what is for sure is that technology is going to revolutionise farming as we see it today."

"It will certainly be interesting to see the full 25-year plan when DEFRA publishes next year."

Monthly update for UK farmers

New monthly edition to the Hawsons website

Our agriculture update for UK farmers, a new edition on the Hawsons website, is published at the end of every month. The article is then emailed out to everyone who has subscribed to receive our agriculture emails and shared across our social media platforms. Please do register for our agriculture news if you would like to receive the agriculture update each month, along with our quarterly agriculture newsletter and topical sector developments – www.hawsons.co.uk/newsletter

Our monthly update for UK farmers provides updates for the ongoing developments across a range of farming industries (including diary, arable and livestock) and discusses a range of different topics (from grants to tax-saving opportunities and wheat prices).

Are you aware of forthcoming PAYE changes?

The introduction of the National Living Wage

The government has announced the introduction of a new National Living Wage (NLW) for working people aged 25 years and above from April 2016. Initially the NLW is set at £7.20, which is 50p above the current National Minimum Wage (NMW). The NLW is set to rise to over £9 an hour by 2020.

Changes in Employment Allowance

The government has also announced that Employment Allowance will rise from £2,000 to £3,000 from April 2016. The Employment Allowance gives businesses a reduction in the employer National Insurance they pay, so this is a welcome announcement. As this increase in Employment Allowance is focussed on businesses and charities that support employment, companies where the director is the sole employee will no longer be able to claim the Employment Allowance. This change in claiming Employment Allowance also comes into force from April 2016.

Forthcoming Scottish rate of income tax

From April 2016 the Scottish Parliament will have responsibility for a Scottish rate of income tax. From this date the Scottish rate will be charged on the non-savings income of Scottish residents. As such, from April next year it is likely that Scottish taxpayers will pay a different rate of income tax to the rate paid by the rest of the UK. The rate of Scottish income tax has not yet been finalised and it is expected that the Scottish Finance Minister will announce the thresholds and rates later this year.

Regardless of where the employer is based, all payrolls must operate the Scottish rates of income tax for Scottish residents. This means that businesses across the rest of the UK could have to apply Scottish rates of income tax in their PAYE.

Abolition of Employers' NI contributions for apprentices

From April 2016 employers of apprentices who are under 25 will no longer be required to pay employer NI contributions on earnings up to the Upper Earnings Limit. This will produce savings for all employers of apprentices. If this applies to you then please let us know.

Running a payroll properly is often a time-consuming and resource-demanding job, requiring awareness of constantly changing HMRC requirements and detailed legislation, as well as meeting strict deadlines. Additionally, with the recent onset of auto enrolment and compulsory workplace pension schemes, the increasing compliance obligation on employers makes now a good time to consider outsourcing your payroll. **If you are considering outsourcing your payroll please visit www.hawsons.co.uk/payroll to find out how we can help and to request a free quote.**

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