Agriculture

Specialist Agriculture Accountants

Newsletter
Spring 2016

www.hawsons.co.uk

Introduction

Welcome to our Spring 2016 agriculture newsletter.

The UK agriculture sector often brings unique tax reliefs and rules; so the tax system within the sector is often complex and constantly changing. In the newsletter we therefore take the time to consider some of the recent key tax developments and discuss the possible big tax opportunities available to UK farmers. We also look at the recent 2016 Budget, the changes to farmers' averaging and whether or not now is a good time to consider outsourcing your payroll.

In this issue we look at:

- 2016 Budget agricultural review
- Tax opportunities for UK farmers
- Farmers' Averaging rules clarification given
- Is now a good opportunity to outsource your payroll?
- Changes to tax relief on pensions for high earners

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

Richard Marsh
Partner

E: rwm@hawsons.co.uk
T: 01302 367 262
LinkedIn: www.linkedin.com/pub/richard-marsh/82/352/339

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

INVESTORS IN PEOPLE

2016 Budget agriculture review

On 16 March, the Chancellor delivered his first Budget of 2016. In this article we summarise the key points and developments arising from the recent Budget and focus specifically on what the changes may mean for the agriculture sector.

2016 Budget agriculture impact

Richard Marsh, Partner at Hawsons, commented: "Overall, the 2016 Budget was a bit of a non-event for the agriculture sector, with there largely only being minor changes. Having said that, the changes to the small business rate relief, freezing of fuel duty and changes to income tax are all good news and will of course be welcomed by the agriculture sector. The announcements made in the 2016 Budget will likely bring the biggest benefit to smaller and incorporated farms and agricultural businesses."

Freezing of fuel duty

The fuel duty freeze will be extended for another year, taking it to 6 years at the current rate at the end of 2016/17. This is good news for the agriculture sector and will be welcomed by the farming community, particularly ahead of the 2016 harvest where using large amounts of fuel is unavoidable.

Business rate relief for small businesses

The Chancellor announced a progressive approach to business rates, with the business rate relief for small businesses more than doubling from £6,000 to £15,000. This increase to the annual limit will exempt thousands of small businesses, with 250,000 businesses paying less in business rates. The changes to business rate relief are good news for those farms that have diversified their offering.

Farmers' averaging

The government had already confirmed the changes to farmers' averaging that the current two year averaging period will not be replaced (as was speculated) but it will be added to. From 6 April 2016 farmers will now have the option to elect for either a two year or a five year averaging period.

Commercial stamp duty

Following last year's reform of residential stamp duty, the Chancellor announced that commercial stamp duty will be reduced for small businesses with a zero threshold for commercial properties with a value of up to £150,000 and 2% on the next £150,000. This new tax regime on commercial stamp duty comes into force on 17 March 2016.

Corporation tax

A reduction in corporation tax rates will likely have a knock-on effect on business confidence. Richard added: "A further reduction to corporation tax by 2020 is good news, but will not have a significant impact on the agriculture sector. The changes will only help the estimated 10% of farming businesses that currently trading under a company structure, which means around 90% of businesses (that are unincorporated) in the sector will be unaffected."

Investment for flood defences

There was good news for the sector in the shape of a £700m investment commitment for flood defences schemes, including projects in York, Leeds, Calder Valley, Carlisle and across Cumbria. The agriculture sector was one of the hardest hit by the recent devastating floods, so this will be a welcome relief.

A 0.5% increase in Insurance Premium Tax will provide the extra funding for the defences.

More information

Please get in touch with your local office specialist for more information and to book your free initial meeting.

You can find more information on the 2016 Budget at www.hawsons.co.uk/guide-2016-budget

Tax opportunities for UK farmers

Annual Investment Allowance and Agricultural Property Relief bring big tax opportunities for UK farmers. However, both have some detailed rules that you need to be aware of – particularly as UK farming brings unique tax reliefs and rules.

Annual Investment Allowance

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. The AIA provides a 100% deduction for the cost of plant and machinery (excluding cars) purchased by a business, up to an annual limit and is available to most businesses. Although the AIA has fallen from £500,000, this is still a generous figure and is one of the best tax opportunities for UK farmers. As the cost of agricultural machinery and equipment is very high, maximising the opportunities AIA could be essential for farmers.

Caution

You will need to be very careful of timings in order to maximise your AIA. You also need to decide whether or not now is the right time to use the AIA to reduce your tax bills. 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. This is an area you should take advice on – we will be happy to help.

Agricultural Property Relief

Agricultural Property Relief (APR) essentially provides farmers with a relief from inheritance tax for the agricultural value of land and property where certain conditions are met. Inheritance Tax (IHT) is becoming increasingly complex and potentially expensive for farmers and their families. APR could therefore provide an invaluable relief.

The Farmhouse

It should be noted that the agricultural value of farmhouses can qualify for APR but stringent conditions must be met. It is likely that the open market value of a farmhouse is more than the agricultural value. Therefore, even if APR is available there could be some IHT exposure on a portion of the value. The new main residence nil rate band which is being introduced from 6 April 2017 is capable of being applied to farmhouses where the farmhouse is passed to a direct descendant. This may therefore provide some further IHT relief for farmers.

The new allowance will commence for deaths on or after 6 April 2017 and will increase over four years to 2020 as follows:

Tax Year	Amount
2017/18	£100,000
2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

This extra allowance is transferable exactly as the current nil rate band is now, and for a surviving spouse/civil partner who has been widowed before 6 April 2017, there is a transferable allowance of £100,000 if the survivor dies on or after that date.

One important point to note is that the main residence nil rate band will be reduced by £1 for every £2 that the value of an estate **before** reliefs exceeds £2 million. Since the value of estates for many farmers will exceed this threshold it is vital that they engage in IHT planning with a view to reducing the value of their estates. This may then enable them to benefit from the main residence nil rate band.

Caution

APR and the new additional main residence band are extremely generous tax reliefs and, as such require you to meet certain and complex qualifying conditions. Another key thing to remember is that APR is an all or nothing relief – if you don't meet all of the detailed conditions, then you will not qualify. Planning is essential, and so is making a will which is tax efficient.

We advise farmers to regularly review their activities to ensure their business is structured to take full advantage of APR and maximise other reliefs available.

For more details on any of the topics covered please visit our website or contact your local office specialist.

Farmers' Averaging rules clarification given

Following the announcement of changes in last year's March Budget, the government has now confirmed the details behind the new farmers' averaging rules.

In summary, farmers will have the option of averaging losses for tax over a two year or a five-year period.

In an article we published after the initial announcement last year we mentioned that the government was set to hold a consultation to confirm the details of the potential changes to farmers' averaging. Following the publication of details from that ongoing consultation the government has confirmed the changes, effective April 2016.

New farmers' averaging rules

The government has now confirmed that the current two year averaging period will not be replaced (as was speculated) but it will be added to. From 6 April 2016 farmers will now have the option to elect for either a two year or a five year averaging period.

This extension to the current farmers' averaging rules (from April 2016) – rather than a replacement – will bring even greater flexibility to farmers and will help them better manage potential fluctuations in income.

Greater flexibility is good news for farmers

Richard Marsh, Partner at Hawsons, welcomed the announcement, commenting: "Farming profits are often affected by external matters outside of the business owner's control; erratic weather conditions, disease and price movements are just some of the factors that can make farmers' profitability fluctuate from year to year. The ability for farmers to average profits over consecutive years is an important provision and this confirmation of an extension to those rules is certainty welcome news for the farming community."

"The idea of a longer averaging period will hopefully give farmers that additional flexibility and security they need during those particularly volatile years. As I said when the initial proposals were announced last year, the new rules are a real positive for farmers and will help reduce excessive tax bills that may arise from fluctuations, especially as a good year can often be followed by a poor one. The decision to retain the two year averaging option as well as introduce a new five year averaging option is the right choice. It is likely that, although the majority of farmers will use the extended five year averaging option, some business will still prefer the two year averaging system."

For more information, please contact Richard on rwm@hawsons.co.uk or 01302 367 262.

Is now a good time to outsource your payroll?

As the tax year draws to a close we ask: what actions could you take to make your life easier from 5 April, taking some of the stress out of running your business and giving you more free time on evenings and weekend? Outsourcing your payroll will not only likely save you time and money, but it's actually probably easier than you think too.

An accurate and efficient payroll service

Many small business owners are finding running their payroll an increasingly complex and time-consuming task, particularly as the compliance obligation on employers has never been greater! Whatever size of business you run, now is a good time to consider outsourcing your payroll. At Hawsons we provide a friendly and personal service that is accurate and will save your company time and money. We have a dedicated team of experienced staff who will liaise with your company to ensure the payroll is completed by the deadline and is compliant with the ever increasing rules and regulations, particularly with the onset of auto enrolment. You can also rest assured that we will take care of your auto enrolment obligations and ensure your staff are paid accurately and on time.

Our team act for a large number of clients, ranging from small businesses with only 1 or 2 employees up to large business with more than 200 employees. Our aim is to replicate the benefits of an in-house payroll services, so you can be sure that:

- We are not a bureau or call centre
- You will have the rigid benefits of an in-house payroll function i.e. flexible and responsive
- You can tailor our service to meet your specific needs and base our pricing structure accordingly, with no hidden costs!
- You will be provided with an integrated and fully comprehensive service
- You will have a dedicated personal contact that is readily available if issues arise

Please get in touch with your local office specialist for more information and to book your free initial meeting.

Changes to tax relief on pensions for high earners

If you are a higher earner, pension contributions can be a very tax efficient way of saving for your future. However, changes are due to come into force from 6 April 2016 which will reduce the relief available for some individuals with high incomes.

The changes

Generally personal pension contributions, whether you are a basic, higher or additional rate taxpayer, receive basic rate tax relief of 20% (subject to the maximum requirement of the higher of £3,600 per annum or 100% of net relevant earnings, which is explained below). The basic rate relief is paid directly into your pension pot by the government, i.e. £8,000 paid in by you equates to a total gross contribution of £10,000.

Higher or additional rate taxpayers can claim further tax relief up to a total of 40% or 45%, i.e. a further £2,000 or £2,500. Following the previous example, this means you could receive total tax relief of £4,000 or £4,500 on a net contribution of £8,000.

Pension contributions can also mitigate the loss of your tax free personal allowance. If your income exceeds £100,000 you lose £1 of your allowance for every £2 of that excess, meaning you are paying a marginal tax rate of 62%! Pension contributions reduce what is known as your 'adjusted net income' for these purposes. Therefore, you could potentially retain all of your personal allowance if you make large enough relievable contributions.

Similarly, if your income exceeds £50,000 and you are affected by the child benefit clawback charge, pension contributions will reduce your adjusted net income for these purposes and could therefore mitigate the loss of your child benefit.

The amount of personal contributions you can receive tax relief on is restricted firstly by your 'net relevant earnings', which includes income from employment, self-employment, partnerships, etc. but not things like income from investments, rental properties, etc. You can receive tax relief on pension contributions up to the gross equivalent of your net relevant earnings each tax year.

The annual allowance also limits the tax relief you can receive on your contributions. It is currently £40,000 (having previously been as high as £255,000 in 2010/11). You can carry forward unused amounts of annual allowance from the previous 3 tax years, providing you were a member of a registered pension scheme during the earliest year. Employer contributions are also included when calculating total contributions made for the purposes of the annual allowance.

From 6 April 2016, the annual allowance will be reduced for those with incomes exceeding £150,000 by £2 for every £1 over this threshold. The minimum annual allowance will remain at £10,000, therefore even if your income exceeds £210,000 you will still be entitled to £10,000 of allowance. Income for these purposes includes employer contributions and some types of personal contributions.

The amount of annual allowance available for each tax year was previously calculated by reference to the 'pension input period' ending in the relevant tax year. The Summer 2015 Budget announced that these periods would be aligned with the tax year end from 6 April 2016. Transitional rules were also announced for the 2015-16 tax year, which means that individuals can **potentially** benefit from up to £80,000 of annual allowance before 5 April 2016.

Action points

If you do not already have a pension scheme, you may wish to consider setting one up to take advantage of the tax relief which is currently available. If you are already contributing to a pension, you should review the level of your contributions before 5 April 2016 in order to take advantage of unused allowance brought forward and the potential £80,000 annual allowance, if it is applicable to you.

We would be very happy to assist and discuss how the changes to tax relief on pensions for high earners impact you, so please contact us.

www.hawsons.co.uk

Spring 2016

Your local specialist:

Sheffield

Chris Hill
Partner
0114 266 7141
cih@hawsons.co.uk

Doncaster

Richard Marsh
Partner
01302 367 262
rwm@hawsons.co.uk

Northampton

David Cairns
Partner
01604 645 600
davidcairns@hawsons.com

Find out more about our specialist agriculture services.

Please call your local office or visit:

www.hawsons.co.uk/agriculture

Register to receive this edition quarterly:

www.hawsons.co.uk/newsletter

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.

Sheffield
0114 266 7141

Pegasus House, 463a Glossop Road, Sheffield, S10 2QD

Doncaster
01302 367 262

5 Sidings Court, White Rose Way, Doncaster, DN4 5NU

Northampton
01604 645 600

Jubilee House, 32 Duncan Close, Moulton Park, Northampton, NN3 6WL

HLB International

INVESTORS IN PEOPLE