



Introduction & Welcome

On 23 March George Osborne presented the Government's economic policy objective which is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. Let's hope that agriculture enjoys some of this share! We cover a few key points in this newsletter, but for further details please see our website.

HMRC has recently been targeting and investigating separate businesses such as Bed and Breakfast operations. We have been successful in defending these challenges but there is now a greater chance of investigation - we share with you steps that can be taken to mitigate the risk.

There are significant changes to capital allowances and we review these in the context of buildings. We show how arable farmers may save tax, as other tax planning ideas will become more important as plant and machinery capital allowances are restricted in 2012.

There are now more horses in Europe than dairy cows and we highlight how horses may in certain circumstances increase inheritance tax bills.

I hope that you find our spring newsletter useful. Should you need any advice please say.

John Thame

Building on Good Advice

Tax allowances on buildings expenditure can vary from 100% to 20% pa to nil! Expenditure on farm buildings falls into various categories:

Repairs - If an asset is repaired, i.e. restored to original condition, the cost would normally be tax deductible. However, do take advice before embarking on significant repairs - the tax treatment of repairs has been the subject of numerous complex tax cases.

Agricultural Buildings Allowances (ABAs) -

As ABAs have reduced to 1% from 6 April 2011 (1 April 2011 for companies), and nil from 2012, they do not merit further examination here.

Plant and machinery - Buildings often include equipment such as stalls, slurry channels and storage areas, drinking and feeding systems etc. These can attract Capital Allowances as plant and machinery. Annual Investment Allowances give a 100% write off on most types of plant and machinery, including integral

features and long life assets of up to £100,000 pa, but are expected to be lower from April 2012.

Any costs over the AIA limit fall into the normal Capital Allowances pools at 20%, or 10% for long life assets or integral features. A 100% First Year Allowance may be available on energy efficient plant - including certain energy or water saving equipment. Further good news is that alterations to an existing building, incidental to installing plant or machinery, can also be eligible to Capital Allowances as plant or machinery.

Abortive expenditure, e.g. unsuccessful planning applications - In H M Revenue & Customs' view, expenditure that would have been capital had it been successful does not change its character merely because the project is aborted.

Conclusion - Before committing to significant expenditure, talk to your accountant. Then discuss your needs in detail with suppliers, and ensure that you understand the after-tax cost of the various elements.

Artificial separation – the VAT risk

HM Revenue & Customs (HMRC) is increasingly inspecting businesses that they deem to be artificially separated in order to avoid VAT. Where HMRC see organisational, financial and economic links between separated businesses that result in an avoidance of VAT, they may seek to recover output tax on turnover from the non-VAT registered business. By following the steps below, you can help to mitigate the risk.

- Have separate bank accounts for each business. Signatories for these accounts should reflect the difference in control of the businesses. Having a partner as a signatory can also help assert their involvement in the business. Ensure that all partners in the relevant business sign the overdraft approval letters for instance.
- Where one supplier account is used to pay for items used by both businesses, as the supplier will not allow there to be two accounts registered to the same address, obtain written notification from the supplier to explain this and ensure that the relevant purchases are recharged to the other business.
- If a tenancy restricts use and prevents subletting, obtain agreement from the landlord for any diversification use and their

agreement for another business to be run from the premises by the specific personnel involved. Consider if rent should be payable from one business to another – for example where a wife runs a Bed & Breakfast enterprise from the farmhouse on a holding where her husband is the tenant farmer.

- Ensure that insurance cover is separate for each business; do not have one policy that covers multiple businesses.
- Demonstrate that the businesses are separate entities by ensuring they have separate identities. This includes advertising, trading names, invoices, websites, accounting records, accounts and tax returns and partnership agreements
- Show some involvement, such as attendance at meetings with professionals, by all partners. Show that the partners in one business are not also involved in the other, if they are not partners in that other business.



Putting fuel into the tank of the British economy...

This was the message that George Osborne wanted us to take away from his first full-year budget report. The 1p cut in fuel duty was welcomed, but increases in National Insurance and VAT will further burden rural businesses. However, there was good news for companies, with the announcement of a reduction in the rate of corporation tax.

Overall, individuals will be paying more in tax in real terms from April 2011, because the tax allowances and rate bands are set lower than the 2010/11 year. Consequently, we are expecting family businesses to review how each member withdraws their profits.

The impact of the new 50% rate of tax for those with an annual income over £150,000, combined with the withdrawal of the personal allowance, will significantly affect individuals with higher incomes.

In a bid to promote enterprise and growth, the Chancellor has doubled the Entrepreneurs' Relief lifetime limit to £10,000,000. This allows business owners to pay capital gains tax at 10% rather than 28%. The small company tax rate will fall to 20% after 31 March 2011, and we anticipate increased use of limited companies and their lower rates of tax. Despite general increases in tax, it should be possible for families to structure their affairs so that less tax is paid. Good advice and careful planning is required to make sure that you can benefit from all relevant allowances and reliefs.



Integration is key to saving time

A typical mixed enterprise farming business has a mountain-load of paperwork to deal with and every year there seems to be a new piece of legislation requiring additional record-keeping. You can spend hours recording the same information into multiple record books to satisfy each of the necessary legislative bodies i.e. VAT records, statutory movement books, assurance records and BCMS etc.

An integrated farm management program such as Sum-It's Total software eliminates the need to record data more than once. This not only saves considerable time but, vitally, it ensures data accuracy is maintained.

For example, you purchase some store cattle at market and need to update both your accounts and cattle records. With an integrated program this becomes a single action. By entering the

invoice details into the integrated software, you are not just adding to your monthly VAT records but simultaneously compiling your movement records and notifying BCMS too.

Sum-It's Total integrated software is fully modular, so you can purchase only the relevant modules that you require. Sum-It are based in Thame and can arrange on-farm demonstrations with no obligation or send you a demo CD, contact them on 01844 213003 or via www.sum-it.co.uk All Ellacotts' clients receive a 10% discount off the Total Software range. Ellacotts also operate and support other farm software systems.



Arable farmers – how to save income tax



Even though costs are starting to catch up, the increase in crop prices is leading to increases in trading profit. Farmers trading as sole traders or partnerships may be paying tax rates up to 50% and in fact sometimes higher! However companies are currently paying a tax rate of 20% on profits.

It may be that an incorporation (forming a limited company) of the whole business is not attractive, possibly because of the need to protect valuable inheritance tax reliefs. As an alternative, a limited company whose service is that of an arable contracting company could be utilised.

The separate and recently incorporated company could be used to own and manage arable machinery and labour. This is then charged to the core partnership or sole trader business as a contracting charge on a per acre basis. The benefits are that costs per acre will be extremely transparent and it will highlight effectiveness of operations. The contracting company will pay the running cost of machinery and take over the employee contracts of employment.

A "profit" may be built on top of the cost being charged across to the partnership thereby leaving profit in the company to be taxed at the lower rate of 20%. The example below demonstrates this:

Income: Contract rate per acre charged at £150	£150,000
Less Expenses: Labour, Fuel, Repairs and Insurance at £110 per acre	£110,000
Profit	£40,000
Annual Tax saving £40,000 x (50%-20%)	£12,000

Note for the above simple example, on a 1000 acre arable farm, depreciation and capital allowances have been ignored. There are also additional administrative costs and legal responsibilities of running limited companies. Before you choose this option, we can quickly carry out a cost versus benefit appraisal to give you the information you need.

Agricultural Property Relief and horses

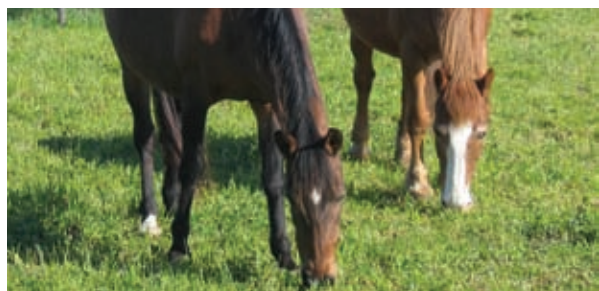
Q. For several years I have let some grassland to a neighbour who grazes horses on the land. In the event of my death would this land qualify for agricultural property relief?

A. Maybe - agricultural property can be owner occupied or let and Agricultural Property Relief (APR) is only available if the agricultural property is either:

- occupied by the transferor (in this case deceased person) for agricultural purposes for the two years immediately before the transfer (death or gift), or
- owned by the transferor throughout the seven years immediately before the transfer (death or gift) and throughout that period has been occupied for agricultural purposes (whether by the transferor or by another).

Agricultural property relief is due at 100% if land is let on a grazing licence (a licence granted for a period of less than twelve months which allows the licensee to graze animals or take grass from land for a season) to be grazed by agricultural livestock. Therefore land let on a grazing licence for use by horses kept for leisure pursuits will not qualify for APR. However, if the land owner were to also carry out haymaking on the land or the land were also to be grazed by agricultural livestock then the land may qualify as being occupied by the land owner for the purposes of agriculture.

For the purposes of agricultural property relief the term agricultural extends to stud farms engaged in the breeding and rearing of horses and land used for grazing associated with these activities. Provided you have owned the land for more than seven years, you may still be eligible for APR if the land is formally leased and occupied by stud horses.



Next Issue

In our summer edition, due out in early July, we will include details on how you can get VAT back on building conversions and explain more about renewables and tax. We will also look more closely at business property relief and show you how you can minimise inheritance tax.

For further advice and information on any of the above, or ideas on how to save money right now, call 01295 250401 and speak to a member of our specialist agriculture team.



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