



Introduction & welcome

With a good harvest and autumn drilling now mostly complete, arable farmers have plenty to be pleased about. In our summer newsletter we anticipated reduced crop yields – thankfully in this part of the country how wrong we all were.

Now is the time to get your financial affairs in order:- are you minimising risk by fixing at least part of your sales prices and costs? Take time to review your business strategy – have you addressed succession in the business? Are you providing for retirement?

We specialise in succession planning and inheritance tax planning – we can help you with these often sensitive and critical decisions.

I hope you find our autumn newsletter useful and we look forward to speaking to you soon.



John Thame

Building conversions – can I reclaim the VAT?

Thinking of converting a farm building into a dwelling? As always, there are various conditions which apply in order for builders to charge VAT at 5% on their services.

The building must be converted from a non-residential dwelling and create an additional residence separate from any others in existence. The property must also be able to be sold separately from another property. Planning permission does not always allow this.

If the above conditions are met your builder should be able to charge a reduced rate of VAT, which is currently 5%, for work to the fabric of the building and related ground works, for example the laying of drains.

What about reclaiming the VAT?

If you intend to live in the conversion, you may be able to reclaim the VAT under the DIY Housebuilders Scheme. It is important to note you can only make one claim and this must be within three months of the building having been completed. Crucially, if you have been charged the wrong amount of VAT, you will not be able to reclaim the VAT from HM Revenue & Customs, and will need to ask your builder to re-issue a correct invoice within the timescale highlighted above.

Under the DIY scheme you cannot claim the VAT back if you intend using the building for a business purpose.

If you are planning on running a business, such as a bed and breakfast, from the converted building, then you might be able to reclaim the VAT through your business, provided the business is registered for VAT and charging VAT on sales.

If you are planning on letting the conversion out, you may still be able to reclaim the VAT under the VAT partial exemption rules.

This is intended to be a snapshot of the rules, which we hope highlights the issues to consider. With VAT now being charged at 20%, there is scope to make significant savings with careful planning.



Should a farmer be making pension contributions?

Farmers have largely ignored this area in the past due to cash shortages. However, with increasing profits and tax liabilities, they can be used as a tax planning tool and hopefully an asset away from the farm to produce a retirement income.

Pension contributions are capped at £50,000 per person, per annum. However, the previous three years' allowances may be used, giving the possibility of a £200,000 contribution.

Using a contribution of £100,000 as an example, this will be paid net of basic rate income tax, thereby achieving tax relief of £20,000, immediately reducing the actual contribution payment to £80,000. If the farmer is a 40% or 50% higher rate tax payer, there will be additional tax relief of £20,000 or £30,000, realised during self assessment tax return preparation. The pension payment must be paid before the end of the tax year and clients' profits carefully reviewed to maximise tax benefits. We then calculate the most effective level of contribution to save higher rate income tax.

A Self Investment Pension Plan (SIPP), or the alternative Small Self Administered Scheme (SSAS), can be used to hold non-financial assets such as land, non-residential buildings, renewables etc., subject to specific rules. Using the example of a farming company purchasing land, it is possible to achieve corporation tax relief on the acquisition, either by a SSAS purchase, or in fact an "in specie" contribution of the land itself. For example, a farming company with husband and wife directors, looking to buy 100 acres of farmland for £600,000:

the company could contribute £400,000 to the pension scheme (two lots of £200,000), with the pension trustees borrowing another £200,000 (satisfying the no more than 50% borrowing rule). Corporation tax relief on buying the land of £80,000 (at a tax rate of 20%) should be achieved subject to fulfilling HMRC rules, thereby giving a good discount on the land. Remember, from April 2012, pension funds built-up over a lifetime will be limited to £1.5m (currently £1.8m), with the excess being subject to a tax charge.



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We advise on the tax benefits and structure of this. We also have IFAs advising on investment vehicles, such as pensions, as part of our wealth management service.

The new pension rules are complicated and advice should always be sought. A useful summary can be found on our website at:

www.ellacotts.co.uk/news/post/Tax-Tip-2011-the-new-pension-rules/



Tax planning - effective use of trusts

There is nothing new about using trusts for tax planning, but there is often a reluctance to use them because people do not understand them. The following examples aim to show you how trusts can be used in a simple, practical way, allowing you to save tax and retain control over assets.

- Relatives of minor children (other than the children's parents) can fund a child's expenses, such as school fees, in a tax efficient manner by settling capital into trust. The trust will pay income tax and pay the net income to the children. The children can claim a refund of the tax paid by the trust, meaning they effectively benefit from the total income of the trust. The settlor avoids paying income tax on the income from the capital, which may otherwise have been taxed in their hands at up to 50%. A useful summary can be seen at [www.ellacotts.co.uk/uploads/1315319803-Schoolfees-August2011\(2\).pdf](http://www.ellacotts.co.uk/uploads/1315319803-Schoolfees-August2011(2).pdf)
- Individuals, whose estates may be subject to inheritance tax in the event of their death, can transfer assets in their lifetime. Where a disposal of assets will give rise to a chargeable gain this can be deferred by transferring them to a discretionary trust and claiming hold-over

relief. There is a limit on the value of gifts that can be made without a lifetime inheritance tax charge arising - for a typical husband and wife, the maximum value that can be gifted is £650,000. Assets can also be transferred out of a discretionary trust and any gain held over, to ultimately transfer an asset from one individual to another over a period of time, without capital gains tax becoming due.

- Assets can be put in trust to reduce your estate, and trustees can decide how to make transfers on in later years. This can be beneficial where there are appreciating assets, but could give rise to a lifetime inheritance tax charge if a transfer were delayed. It can also help avoid a hefty inheritance charge, should the owner die unexpectedly whilst deciding on who should take ownership of the asset. This also prevents the asset becoming part of the beneficiary's estate. Control over assets can be retained; useful if a beneficiary is likely to spend the capital or be at risk from from a divorcing spouse.



Looking after your assets Nigel Parsons, Managing Director, Landmark Systems

It is easy to think of your most visually exciting business assets – the shiny new tractor, or the glass-fronted barn conversion.

Don't forget to look after the less exciting data held on your office computer. You insure your equipment, buildings and contents for accidental damage, fire and theft, but what about the hard drive on your computer? Your hard drive is a moving mechanism recording data onto magnetic media, so is susceptible to break down too.

'Back up' is a word guaranteed to send most people to sleep, but data loss can and does happen. It only takes a power cut or 'spike' to destroy your hard drive, or as happened to a client of ours this year, an office fire, to wipe out accounts and property data, a database and more. Think how long it would take to accumulate not only your business data but email addresses, spreadsheets and letters.

We recommend a simple online, offsite data backup service to give the best belt and braces approach. Memory sticks and external hard drives are of course invaluable, but they are fragile and often kept onsite.

By paying a small monthly fee, from £12 per-month, your data can be stored on a staged backup system for a rolling 30 days in the UK. Only you can retrieve data, which can be restored to any machine with Windows XP and broadband and technical assistance is available 24/7.

Ralph Castle, an Oxfordshire farmer, has recently installed Landmark's data backup: "In a recent power cut I lost everything. It always happens when you are at your most busy – my downtime during harvest doesn't bear thinking about and now I want to be 100% sure that I can reload everything from a specific date and an off-site source."



Landmark Systems is just one of a range of specialist software suppliers for the farming industry that we work closely with.

Goodbye, hello

The Ellacotts' Agriculture team continues to grow in order to meet our clients' needs, and now has seventeen specialist staff within its agricultural and property department.

We have recently bid a fond farewell to two long-standing team members, notably Jean Hanwell, who retired after thirty-five years of service to Ellacotts and our clients. Pip Elms also said goodbye and

left Ellacotts on 30 September, to relocate to Shropshire. Both go with our very best wishes for the future.

We are delighted to welcome four new team members. Bringing years of experience from previous roles, Anne Pritchard joins us as a qualified accounts senior and Mathew Taylor as a tax adviser. Two trainees also join us to start their accountancy careers. This continued development within the team will further strengthen Ellacotts' level of client service.



The Blakesley Show – Fastest Milker in the Midlands!



Making her second appearance at the Blakesley Show, on the Ellacotts' stand, 'Myrtle the Milking Cow', gave visitors the chance to challenge to become the 'Fastest Milker in the Midlands!' This year's competition was won by Suzy Fuller, who took home a magnificent magnum of Champagne. Well done Suzy!

John Thame, head of Ellacotts LLP's Agriculture and Property team, presents Suzy Fuller with a magnum of Champagne, as the 'Fastest Milker in the Midlands!'

Next issue

In the next issue we look at proposed changes to Single Farm Payment and Milk Quota and how this affects your taxation position. We will also be looking at the surrender and regrant of agricultural tenancies and how to secure tax benefits.

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.

For information of users

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