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How will Making Tax Digital affect my farm?

A common misconception of Making Tax Digital (MTD) is that all UK VAT registered business need to be compliant by 1 April 2019. This is not the case.

Who needs to be compliant?

Only UK VAT registered businesses with a turnover above £85,000 will need to keep digital records and submit VAT returns to HM Revenue & Customs (HMRC) using MTD compatible software.

The only exception is for a very small minority of businesses with more complex requirements for which HMRC are deferring the deadline to 1 October 2019.

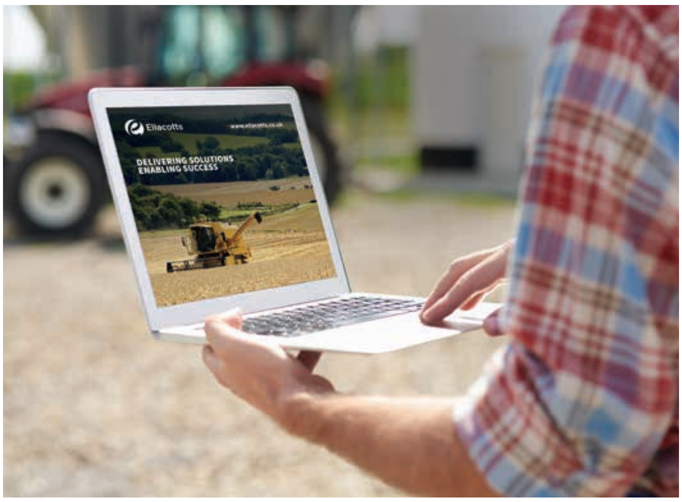
If after being required to comply, VAT taxable turnover falls below the VAT registration threshold, MTD still applies, unless the business deregisters from VAT or meets one of the other exception criteria, such as insolvency.

The deadlines for sending VAT returns and making payments are not changing.

What is classed as 'turnover' for VAT purposes?

Turnover for VAT purposes often does not include rental income from residential lettings or subsidy receipts that may be classed as exempt for VAT purposes. If your annual turnover for VAT purposes is below the threshold then you are NOT required to be MTD compliant by 1 April 2019. However, you will need to be compliant in future, likely by 1 April 2020.

If your annual turnover is near the threshold you should monitor this in line with HMRC guidelines.



What classifies as 'digital'?

Digital means that records need to be maintained in a format which can be directly linked to HMRC when submitting VAT returns.

As spreadsheets and handwritten records are NOT classified as digital and will not be compliant, those bookkeeping on these systems will need to transfer to one of the software platforms recommended by HMRC.

Another option is something called 'bridging software', which enables data to be sent from spreadsheets to HMRC. Ellacotts have teamed up with bridging software companies to enable our clients to be MTD compliant whilst still using spreadsheets.

"If it's not broke why fix it?"

Although this change may be daunting, keeping digital records will also bring along with it many benefits.

Farmers can easily see what parts of the business are most profitable, where costs need to be cut and how much money is owed to and from the business, which greatly helps cash flow monitoring.

Many business owners who have taken the leap to convert to a digital system have said they would never go back due to the ease of use, time saved and the greater control they have over business finances.

Ensuring your business is compliant with MTD is also a great opportunity to get the younger generation more involved in the business.

Will 'splitting' the business mean we avoid having to become MTD compliant?

Some businesses have considered 'splitting up' certain parts of their business. For example, splitting up the arable enterprise and livestock enterprise, to reduce the turnover so it falls below the £85,000 threshold in the hope that they will no longer need to be MTD compliant. This is unlikely to work- the enterprises will still have financial, economic and organisational links and therefore HMRC will identify this as one business.

Can I still keep different sets of records for each enterprise?

You can still maintain separate records for each enterprise in order to track income and expenses accurately, and to monitor profitability.

When choosing an MTD compliant software, it is vital to consider which one is most suited to the particular needs of your business. At Ellacotts, we have a dedicated team of cloud accounting experts who can help you find the right software and transfer your manual records onto it.

If you would like to find out more, please speak to your usual Ellacotts contact, alternatively you can email solutions@ellacotts.co.uk or call 01295 250401. We are here to help you to be ready for MTD.

Employed or self-employed - and why it matters

To minimise costs, businesses can seek to use self-employed workers rather than employees, with the aim of saving on Employer's National Insurance Contributions and sundry employment rights and costs, such as paid holiday, sick pay, auto enrolment pensions, etc.

Recent cases involving plumbers, taxi drivers and others in the so-called "gig economy" have highlighted the importance of ascertaining whether a worker is employed or self-employed. Relief milkers, seasonal tractor drivers and part-time grooms often fall into this grey area.

As well as the factors above, there can be other Inheritance Tax/Capital Gains Tax considerations in rural work.

So, how do you decide the nature of the role? Perhaps nothing is written down, but contractual terms and working practices will have been agreed. H M Revenue & Customs (HMRC) have a useful checking tool to guide their view:

www.tax.service.gov.uk/check-employment-status-for-tax

Key factors include:

- The degree of supervision
- How closely the worker is integrated into the business, e.g. hiring and firing other staff, interacting with customers and suppliers
- Who schedules the hours to be worked? What happens if there is no work on a given day?
- If the work goes wrong, would the worker be paid for correcting work?
- Is the worker taking financial risk? Can the worker lose money on the task? Is pay according to the hour or week, or for the job?
- Whose tools, vehicle, etc. are used?
- Can the worker send a substitute if needed, with or without the agreement of the employer/customer? Who would pay the substitute?

Many farming families have one of the family working away as a form of farm diversification, under arrangements that can fall very close to the employed/self-employed line, e.g. working five mornings a week feeding and bedding up cattle wintered away from their home farm, using the kit provided, for (say) £15/hour. Employed or self-employed? HMRC would probably say employed, and expect normal payroll procedures to be operated. As an aside, as an employee, there is no tax relief on the costs of getting to and from work.

Farm workers are often provided with accommodation as part of the remuneration package, regardless of whether the role is employed or self-employed. If self-employed, the impact on the tax position of the owner of the accommodation could be severe:

- **Inheritance Tax** - no longer qualifying for Agricultural Property Relief (and thus vulnerable to Inheritance Tax at 40%);
- **Capital Gains Tax** - no longer qualifying as an asset used in the trade for Rollover Relief or Business Property Relief purposes.

The longer-term Capital Gains Tax/Inheritance Tax cost of achieving a short-term cash saving can be enormous.

Insurance is also critical: let us imagine an accident happens - a fall from height, a nasty accident in the cattle yard, or whilst exercising horses - whose insurer would pay out, and how long would this take to resolve? Appropriate insurance cover matters, even where those involved are family members and perhaps there is little written evidence of agreed arrangements.

Ultimately, courts and tribunals can be called on to determine the position based on evidence. Do take advice if reading this has set off any alarm bells - employed or self-employed - it matters!

If you would like more advice on this matter please contact Helen King on 01295 250401 or hking@ellacotts.co.uk.

How to protect your income if you are unable to work

Previous newsletters have looked at ways of funding for retirement income and protecting your business and family in the event of death. But how do you protect your income should you be unable to work due to long term accident or illness?

The answer is **Income Protection Insurance**. In the past, this type of insurance has been almost impossible to obtain in the agricultural sector due to the high risk nature of the work. More recently some providers have relaxed their underwriting requirements making cover more affordable.

Income Protection pays a tax free income after a waiting, or deferred, period. The shorter the deferred period, the more expensive the cover. Generally, the shortest deferred period is four weeks, meaning you have to be unable to work for more than four weeks before any benefit is paid.

As benefits are paid tax free, cover is limited to around 65% of earnings.

Cover is set up to a predetermined retirement age, so as long as you continue to meet the disability definition, benefits will continue to be paid, either until you are able to return to work or until the end of the plan.

Probably the most important part of this insurance is ensuring the occupation definition is right for you. The most comprehensive definition is 'own occupation', which means benefits will be paid if you cannot do your normal job. A broader definition is 'any occupation', which basically means benefits will be paid if you cannot do any type of work. The final definition is a 'work tasks' definition: in order for a claim to be admitted you have to be unable to perform certain 'tasks' for example, walking up a flight of stairs without getting out of breath.

There are some insurers who are able to offer cover on an own occupation basis to farmers and farm workers, making Income Protection more available and relevant to farm businesses.

Before deciding whether or not this type of cover is right for you, or key staff, you must seek advice. Contact our Independent Financial Advisor, Chris Slatter, on cslatter@ellacottswealth.co.uk or 01295 250401 to ensure you're protected.

Benchmarking – 2017 Harvest

We recently hosted an evening for our arable clients to discuss the results of the 2017 harvest and summarise below our findings and comments.

	Wheat (per acre)		Oilseed (per acre)	
	2017	2016	2017	2016
Yield				
Average	3.54t	3.44t	1.4t	1.23t
Range	2.09t - 4.41t	2.64t – 4.11t	0.56t – 1.78t	0.8t – 1.75t
Gross output				
Average	£503	£447	£466	£405
Range	£300/£657	£335/£615	£239/£612	£235/£660

Taking a typical arable client's overheads:

	2017 Harvest £/acre	2016 Harvest £/acre
Gross output	£444	£394
Variable costs	£195	£215
Gross margin	£249	£179
Fixed costs		
Labour	£43	£38
Power and machinery	£136	£125
Property	£35	£31
Administration	£33	£29
Subtotal fixed costs	**£247**	**£223**
Management (Loss) before rent and finance	(£2)	(£44)
Rent	£35	£29
Finance	£17	£15
Total	**£52**	**£44**
Other income including Basic Payment Scheme	£211	£181
Management profit per acre	**£157**	**£93**

Key Trends:

- Although generally 2017 crop yields are higher than 2016, there have been exceptions.
- Higher commodity prices, especially for wheat and barley, have helped raise gross output for barley to levels similar to 2016. Average wheat gross output for the 2017 harvest showed a 12% improvement over 2016.
- Higher output and variable costs savings have together led to significantly better arable gross margins.
- Our average and top performers show little difference in fixed costs per acre. Higher performers' better management profits come from higher other, or diversified, income.
- Labour, power and machinery costs continue to rise, due to wage inflation, auto enrolment pension costs, and the additional costs of generating other income.
- Basic payment receipts account for nearly 40% of other income. With this support expected to fall, environmental schemes will become more important. We expect to see participation rising from current low levels, and urge farmers to consider these schemes, and also any grant funding available for potential projects.
- The 2018 harvest has seen starting prices for wheat and barley significantly higher than for the 2017 harvest. Selling appears to have got off to a slow start and most farmers still have significant crop stocks to sell. Pulses continue to show significant price increases although barley and wheat prices have seen recent falls.
- With increasing price volatility likely to be a factor, crop marketing, and purchasing of inputs, will be more important. Your local buying group, crop marketing group, or options contract, all merit consideration. Minimising business risk, and locking into prices that guarantee a positive margin on at least some of your crop early on, have to be considered.

For more information please contact Steve Gardner on sgardner@ellacotts.co.uk or 01536 646000.

The Oxford Farming Conference 2019

On Thursday 3 January we joined some of the most influential speakers from the farming community and sponsored a debate at the Oxford Union for the Oxford Farming Conference 2019. Our next newsletter will include more information and insights.

Expansion of the team

To further strengthen our client service, we are delighted to announce the arrival of Robert Black in our Agricultural & Property team in Kettering. Robert is a qualified Chartered Certified Accountant (ACCA) and Chartered Tax Adviser (CTA), with significant experience in advising farmers and land owners in finance and taxation matters. He enjoys the country life and is a keen shot as well as a rugby and polo player.

Joanne Wright, Director, sees Robert's arrival as a significant boost to Ellacotts and to our clients. "We are very excited about Robert joining the Kettering team. Robert shares Ellacotts' understanding of the challenges and opportunities that face the farming industry. His arrival gives us a very knowledgeable and experienced resource to further develop our finance, tax and business services to farmers and landowners in the Midlands and Eastern regions."

Meet some of our team

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