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HS2, East West rail and other infrastructure projects

Over the years, the team at Ellacotts has helped clients through various significant infrastructure projects - the M40, A43 improvements, numerous smaller bypasses, rail improvement and flood alleviation projects.

The scale and number of the projects we are now dealing with is unprecedented. Many infrastructure projects bring with them the potential for new housing, railway stations, new hospitals, and new villages, towns or cities.

Whether or not the project is of national significance makes little difference to affected landowners: the impact on them, their family, their farming business, and their quality of life, is what matters.

Some projects are of such scale that numbers of our clients are affected, notably:

- Rail Central, the proposed new strategic rail freight interchange and logistics and distribution hub in Northamptonshire, sited on the West Coast mainline which is south west of Northampton, between Blisworth and Milton Malsor. This also comes with associated road links and highway improvements.
- The Cambridge-Milton Keynes-Oxford (CaMkOx) Arc, which includes a new East-West rail line connecting Oxford and Cambridge, accelerates plans for the Oxford to Cambridge Expressway Road; and aims to deliver one million new homes along the corridor by 2050.
- HS2, and associated infrastructure maintenance depots and railhead developments along the route, and notably around Birmingham Airport.

The Bicester area is set to be doubly impacted at the point where the new East-West rail line crosses HS2.

It is vital that you consider your tax position as a priority, to maximise the value of the price or compensation you retain, after tax.

In particular, consider:
- Who owns the property beneficially, rather than legally
- Current values for each property element, and the Capital Gains Tax base cost for each owner
- Do you currently meet the conditions to claim Entrepreneurs' Relief, or could you?
- The use made of each part of the property, for example:
  - Your home attracts Capital Gains Tax Principal Private Residence Relief
  - If used in a business, Rollover Relief may be available, although this is not a requirement if the property is subject to a Compulsory Purchase Order.
- Will all of the compensation relate to land or will some relate to the business? And whose business is that?
- Will you be reinvesting in replacement property? (Rollover Relief could be available).
- Should gifts be made of the affected property? But remember to consider the impact on potential compensation, as well as tax aspects.

Particularly if Rollover Relief is not being claimed, careful planning is needed to minimise Capital Gains Tax. A claim for Entrepreneurs' Relief can reduce Capital Gains Tax to 10%, rather than the standard 20%. This may require the business to cease, or property ownership to change. Careful planning is therefore essential at any early stage.

If Rollover Relief is being claimed, the new asset must be acquired, or an unconditional contract for the acquisition must be entered into in the period:
- beginning 12 months before or
- ending three years after the date of disposal of the old asset

These limits may be extended at HM Revenue & Customs' (HMRC) discretion. For landowners affected by Compulsory Purchase, HMRC can, at their discretion, extend the time limit to three years before disposal and six years after compensation is finally agreed.

Good tax advice at an early stage is essential to help direct your plans. If you are affected by any projects, we would be pleased to talk through how we can help you, and your farm business, and to work with your land agent and solicitor to achieve the best outcome for you.

Residence Nil Rate Band – an additional tax free relief against Inheritance Tax

On 6 April 2017, the Government introduced an enhancement to the Inheritance Tax nil rate band (of £325,000) for residential properties. For the 2018/19 tax year this enhancement is £125,000, due to increase to £150,000 in 2019/20, and £175,000 in 2020/21.

As with the standard nil rate band, any amount which is unused can be transferred to a surviving spouse. Therefore in the current tax year the relief could save the estate of a married couple up to £100,000 of Inheritance Tax.

An individual's death estate is eligible for the additional nil rate band amount if it includes a residential property which is bequeathed to children, descendants (including step-children) and/or their spouses. The relief can also apply if the property is transferred into a favoured trust for the benefit of a descendant.

The residential property will only qualify for the relief it was lived in by the individual at some point. However, it is worth noting that it need not have been your main residence and if more than one property meets the criteria your personal representatives can make an election to determine which property receives the relief. A property outside of the farming business may be best use of the relief, if residential properties held on the balance sheet of the farming business are already eligible for Business Property Relief.

Withdrawal of relief

Individuals with large estates (a total value of £2 million), will suffer a tapered withdrawal of the relief (reducing by £1 for every £2 that the estate is worth more than £2 million). For the 2018/19 tax year the relief would be completely lost for estates over £2.5 million. The value of the estate is calculated before other reliefs such as Agricultural Property Relief and Business Property Relief are deducted. Farmers must consider the value of assets held within partnerships, or shares in family companies, which will fall into their estate and count towards the £2 million limit, even if perhaps fully relieved themselves against Inheritance Tax.

Now could be the right time to consider gifting assets to bring your estate below £2 million and preserve your additional nil rate band amount. As ever, personal circumstances, needs, and family situation have to be considered. The Capital Gains Tax position of any proposed gift is also important.

This is only a brief summary of a complicated area. Ellacotts would be happy to review your Will and potential Inheritance Tax position and consider whether you should be making lifetime gifts or taking other steps to optimise your position. Please speak to your usual Ellacotts contact, or telephone one of our offices.

Residential conversions – are you paying too much?

Maximising income from assets has never been more important. With this in mind, we are seeing an ever-rising level of diversification across our clients - a common diversification being the conversion of redundant farm buildings into residential dwellings. Here we look at the reduced rate of VAT connected to residential conversions and ask, are you paying too much?

The construction of a new building and work to an existing building is normally standard-rated. However the conversion of a non-residential building into a qualifying dwelling can qualify for the reduced, 5% VAT rate when certain conditions are met.

Qualifying conversion

There are various types of conversion that are 'qualifying conversions'. The most common one we see is conversion into a 'single household dwelling'. Here, a qualifying conversion is carried out when a building, or part of a building, is converted into a greater or lower number (but not less than one) of 'single household dwellings'. Where the number of 'single household dwellings' remains unchanged, the reduced rate is not available.

A qualifying conversion therefore covers the conversion to residential use of a property that has never been lived in, such as a redundant farm building.

Single household dwelling

The term 'single household dwelling' can cause confusion in itself. Simply, the term means self-contained living accommodation that is designed for occupation by a single household. It must, however, have no provision for direct internal access to any other dwelling or part of a dwelling. This therefore rules out for example most 'granny' annexes which have a connecting access to the main farmhouse - a point to consider at the design and planning stage.

What can be covered by the reduced rate?

Other than installing goods that are not building materials, any works of repair, maintenance or improvement carried out to the fabric of the building can be covered by the reduced rate of VAT. This would cover redecoration, construction of an extension and installation of double-glazing, to name but a few. Works within the immediate site of the premises being converted can also qualify for the reduced rate of VAT. These include works to provide water, power and drainage.

Certain works are specifically excluded and must be standard-rated. These include:

- Installation of carpets, fitted bedroom furniture, etc.
- Erection and dismantling of scaffolding
- Hire of goods
- Provision of professional services e.g. architect fees, surveyors and consultants

VAT on buildings and construction is a very complex area. If the building is to be your home, VAT can largely be recovered under the DIY self-build scheme. If the existing building is being demolished first, the rules are different again. Consideration of VAT at the outset is vital, before plans are finalised, certainly before planning permission is applied for, and a builder chosen. Ellacotts are here to help you ensure you are not paying too much - the potential savings from getting VAT right can be enormous.

Benchmarking – 2017 harvest

An early indication from clients' year end accounts

We are currently preparing 2017 harvest gross margin accounts for our arable clients. An early indication of how the 2017 harvest compares with 2016 harvest, drawn from clients' year end accounts, is summarised below:

	Barley (per acre)		**Wheat** (per acre)		**Oilseed** (per acre)	
Harvest	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Yield						
Average	2.23t	2.63t	3.83t	3.9t	1.58t	1.6t
Range	1.7t - 3.6t	1.8t - 3.82t	2.65t - 4.18t	2.6t - 4.4t	0.9t - 1.75t	0.8t - 1.96t
Gross Output						
Average	£286	£307	£531	£447	£526	£405
Range	£215 / £564	£208 / £457	£382 / £586	£341 / £567	£308 / £588	£260 / £691

Taking the overhead costs of a typical, mainly arable client:

	2017(£/acre)	**2016**(£/acre)
Gross output	£356	£325
Variable costs	£138	£179
Gross margin	£218	£146
Fixed costs		
Labour and contract	£45	£38
Machinery and power	£129	£125
Property	£43	£31
Administration	£25	£30
Total fixed costs	£242	£224
Management loss before rent and finance	(£24)	(£78)
Rent	£32	£29
Finance	£20	£15
	£52	£44
Other income incl Basic Payment	£210	£193
Profit before drawings, tax etc.	**£134**	**£71**

Key trends:

- Early indications show lower barley yields but significant improvements in wheat and oilseed rape yields. This, coupled with higher prices, has resulted in improved margins especially for the average arable farm. Figures analysed to date show average oilseed rape prices including oil premiums are £332 per ton, but we may see this average price drop as market prices slide.
- We have seen savings across all variable costs resulting in better than expected arable gross margins. The average gross margin across the cropped arable area shows an improvement of over £100 per acre, nearly a 38% increase.
- Labour, machinery and power costs have increased but this may be due to different farming techniques being adopted. Those using minimum tillage systems have lower fuel and labour costs, often offset by higher depreciation costs as new machinery is bought. To counter this, some farmers are receiving significant grant contributions towards new machinery.
- Rents payable have remained largely static but finance costs are increasing albeit from a low base cost.
- Other income has on average increased by 10% over the previous year. There appears to be less reliance on subsidies as farmers increasingly find other opportunities to increase non farming income. Most of the old stewardship schemes have come to an end, with little uptake for new projects, probably due to Brexit concerns.
- The 2017 harvest looks to have been a better year for management profit, but there is still little in reserve to carry forward after taking into account drawings, taxation and capital repayment costs on kit.

Forthcoming events

In the next few months we'll be attending and sponsoring a number of events around the country. We'd love to see you there!

Blakesley Show | Saturday 4 August
Maidford, Northamptonshire

Bucks County Show | Thursday 30 August
Weedon Park, Buckinghamshire

Moreton-in-Marsh Show | Saturday 1 September
Gloucestershire

The Oxford Farming Conference | Thursday 3 January 2019
Oxford University

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