Ellacotts

AGRICULTURAL NEWSLETTER
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## In this edition...



# Annual Investment Allowance – know your limits

The Chancellor's 2018 Autumn Budget included an announcement that the Annual Investment Allowance (AIA) would increase to £1,000,000 for a two year period from 1 January 2019 to 31 December 2020. With the previous AIA limit standing at £200,000, this substantial increase provides businesses with a huge incentive to invest in plant and machinery and receive immediate tax relief on the investment into qualifying expenditure. Capital expenditure qualifying for Capital Allowances but exceeding the AIA limit will rank for Capital Allowances at the standard (likely 18%) rate.

For businesses with a 31 December year end, the relief is straightforward however for year ends which span 1 January 2019, transitional rules will apply.

Where a business has an accounting period that spans 1 January 2019, when considering how much AIA the business can benefit from, the AIA entitlement before and after 1 January is considered as follows:

**a)** Based on the £200,000 allowance pre 1 January 2019, apportioned for the number of months making up the accounting period falling before 1 January 2019.

**b)** Based on the £1,000,000 allowance post 1 January 2019, apportioned for the number of months making up the accounting period falling after 1 January 2019.

(a) + (b) are then added together to calculate the maximum potential AIA for the accounting period subject to the transitional rules. For example, a business with a 31 March 2019 year end would have the following AIA entitlement:

**a)** £200,000 x 9 months = £150,000 (1 April 2018 – 31 December 2018)

**b)** £1,000,000 x 3 months = £250,000 (1 January 2019 – 31 March 2019)

(a) + (b) = Maximum potential AIA = £400,000

But the actual AIA claim is then also determined by the date on which the expenditure occurs during the accounting period that is subject to the transitional rules. The transitional rules state that expenditure incurred prior to 1 January 2019 is limited to the maximum AIA available at that time i.e. £200,000.

In the example above, only £200,000 of AIA would be available to claim on expenditure between 1 April 2018 and 31 December 2018. To maximise the full potential AIA claim of £400,000, a further investment of £200,000 would be needed between 1 January and 31 March 2019.

Similar complex rules apply when the AIA drops back to £200,000 on 1 January 2021, with for example only £50,000 of AIA available in the three months ending 31 March 2021. Purchasing decisions and contracts will need to be finalised early so there could be a rush of orders for scarce kit in late 2020.

For those contemplating investing in new grain handling facilities, a recent tax case has helped to clarify the tax relief available on grain silos. We will cover this in more detail next time, but would be pleased to hear from you sooner if this applies to your business.

Additionally, relief under the new Structures and Buildings Allowance will also be given on a 2% straight line basis for non-residential structures and building works where contracts were entered into after 29 October 2018.

For those farming in a non-company structure, an additional complexity is that tax relief for losses against total income is capped at 25% of total income. This means you may not be able to benefit in the year from all the investment made, as the remainder will be carried forward. Claims for losses against Capital Gains are not subject to this cap, although the rate of relief may be lower (Capital Gains Tax being charged at 28% or 20% compared to Income Tax rates of perhaps 40% or even 45%).

The timing of expenditure is crucial to get the most benefit from the AIA. If you are unsure of your limits or would like advice on when best to invest to utilise your AIA fully, please get in touch with your usual Ellacotts contact.

# Making Tax Digital in practice

From 1 April 2019, Making Tax Digital (MTD) is mandatory for VAT registered businesses with a taxable turnover above the VAT registration threshold of £85,000, except those that have been deferred.

For those that have been deferred MTD becomes mandatory from October 2019. Deferral covers:

- Trusts
- 'Not for profit' organisations that are not set up as a company
- VAT divisions, VAT groups
- Public sector entities required to provide additional information on heir VAT return (Government departments, NHS Trusts)
- Local authorities
- Public corporations
- Traders based overseas
- Those required to make payments on account and annual accounting scheme users

**What is classified as taxable turnover?**

Many farms will not be caught by MTD and this can be checked easily. Taxable turnover does not include the Basic Payment or most rental income (vatable rents from holiday accommodation or because of an option to tax should be included). If your farm income, excluding Basic Payment and non-vatable rental income, is below £85,000 for the year then you do not need to file your VAT by MTD.

If you are selling machinery such as a tractor then this sale could push you over the MTD threshold. It is therefore important to keep an eye on your taxable turnover on a rolling twelve month basis.

**Do you know what you need to do?**

MTD is mandatory for VAT periods starting on or after 1 April 2019 so this means the first filing is either for the month April 2019 or for the quarter ended June 2019.

**What classifies as digital?**

Compatible Software

Many businesses are already using software and these providers are doing as much as they can to assist users upgrading to be MTD compliant. We are helping clients do this and we can help you.

Spreadsheets

Those using spreadsheets can continue to do so and file using bridging software. The spreadsheets need to contain the transaction data and not simply the figures to populate the nine boxes on the face of the VAT return. There are many bridging software applications available, and here at Ellacotts we have an in-house bridging software which we can use to file your VAT return on your behalf.

Manual records

These will not be compliant with MTD as they are not in a digital format. If you are using manual records, we can help set you up on spreadsheets or compatible software.

Soft landing

For the first year, HM Revenue & Customs (HMRC) will allow a soft-landing period for businesses.

We would be pleased to help you with this transition. Please speak to your usual Ellacotts contact to discuss your requirements.

# Reminder: Restricted tax relief for landlord finance costs

The 2019-20 tax year is the third year of a four year phased implementation of the Chancellor's strategy to restrict the tax relief residential landlords gain on finance costs to the value enjoyed by basic rate taxpayers.

Prior to 2017-18, landlords were able to deduct 100% of finance costs against property income, therefore benefitting from tax relief at all tax rates, for example 40% for higher rate tax payers.

After 2020-21, individuals will only be able to claim a basic rate tax reduction from their Income Tax liability, on the portion of finance costs not deducted in calculating the profit.

This tax reduction will be calculated as 20% of the lower of:

1. Finance costs not deducted from income in the tax year
2. Profits of the property business in the tax year
3. Total income of the individual (excluding savings income & dividend income) that exceeds the personal allowance in the tax year.

The percentage of finance costs not deductible from income within the phased implementation is:

| 2018-19 | 2019-20 | 2020-21 |
|---|---|---|
| 50% | 75% | 100% |

In 2018-19, 50% of finance costs were fully deductible from income to arrive at rental profits and a basic rate tax reduction is needed for the remaining 50% not deductible from income. By 2020-21 no finance costs will be deductible from income and the tax reduction will need to be calculated on the full amount.

Where relief is restricted to 20% but the tax reduction cannot be deducted due to the above restriction, it may be carried forward to future years.

**What can you do?**

- If a basic rate and higher rate taxpayer jointly own property, think about changing the ownership proportions
- Can your borrowings be rearranged?

**Property Allowance**

From 6 April 2017, HMRC introduced a Property Allowance, allowing up to £1,000 each tax year in tax-free allowances to claim against property income.

- If annual gross property income exceeds £1,000 - use the tax-free allowance of £1,000 instead of deducting any expenses or other allowances. This is a useful way of reducing taxable property income.
- Up to £1,000 of Property Allowance can be claimed, limited to property income. This is known as 'partial relief'.
- If expenses are more than property income or more than £1,000, claiming actual expenses will be preferable to claiming the £1,000 allowance.

**Joint rental income for married couples or civil partners**

Rental income is normally split according to the legal ownership of a property. However, for married couples or civil partners who own a property as joint tenants or tenants-in-common, the income for tax purposes is split 50:50 by default, regardless of actual ownership.

Property can be owned in unequal shares as tenants-in-common either by actual or beneficial ownership. If you wish the to vary the beneficial ownership proportions then you need to make a joint election on HMRC's Form 17.

These are all matters that the Ellacotts team review regularly with clients. Please contact us today if you would like more information on any of the above, or to discuss any potential worthwhile changes to your property arrangements.

# State Pension changes: Everything you need to know

| Date of Birth | Date State pension age reached |
|---|---|
| 6 January 1954 - 5 February 1954 | 6 May 2019 |
| 6 February 1954 - 5 March 1954 | 6 July 2019 |
| 6 March 1954 - 5 April 1954 | 6 September 2019 |
| 6 April 1954 - 5 May 1954 | 6 November 2019 |
| 6 May 1954 - 5 June 1954 | 6 January 2020 |
| 6 June 1954 - 5 July 1954 | 6 March 2020 |
| 6 July 1954 - 5 August 1954 | 6 May 2020 |
| 6 August 1954 - 5 September 1954 | 6 July 2020 |
| 6 September 1954 - 5 October 1954 | 6 September 2020 |
| 6 October 1954 - 5 April 1960 | 66th Birthday |
| 6 April 1960 - 5 May 1960 | 66 years and 1 month |
| 6 May 1960 - 5 June 1960 | 66 years and 2 months |
| 6 June 1960 - 5 July 1960 | 66 Years and 3 Months |
| 6 July 1960 - 5 August 1960 | 66 years and 4 Months |
| 6 August 1960 - 5 Septemeber 1960 | 66 years and 5 months |
| 6 September 1960 - 5 October 1960 | 66 years and 6 months |
| 6 October 1960 - 5 November 1960 | 66 years and 7 months |
| 6 November - 5 December 1960 | 66 years and 8 months |
| 6 December 1960 - 5 January 1961 | 67 years and 9 months |
| 6 January 1961 - 5 February 1961 | 66 years and 10 months |
| 6 February 1961 - 5 March 1961 | 66 years and 11 months |
| 6 March 1961 - 5 April 1977* | 67th Birthday |

In recent years there have been a number of changes to the State Pension, including at what age people will be eligible to claim.

**How much will you get?**

A single person's State Pension is currently £164.35 per week. To receive this, you have to have paid 35 years' National Insurance contributions.

**When will you get your pension?**

For anyone born after 6 December 1953, State Pension age is being graduated towards age 67 - see table for details.

**How do you find out your entitlement?**

You can find out what your State Pension entitlement is by logging on to the UK Government Gateway. This will detail your National Insurance record and when you will get your State Pension.

**Do you have enough to fund your dream retirement?**

Most people's State Pension will not be enough to fund all the things they want to achieve whilst in retirement. Whether it be a luxury cruise, holidays abroad or renovating your home, you'll need another source of income other than your State Pension.

We can help to ensure that you're in the best possible position to enjoy all the things you want in retirement. Please get in touch with your usual Ellacotts contact to discuss what steps you should take.

*Further increases could take place affecting those born before 1977.

# Ellacotts sponsor the Oxford Farming Conference

Ellacotts were delighted to sponsor and attend the 73rd Oxford Farming Conference in January.

The annual Oxford Farming Conference is a highlight in the farming year. Hundreds of delegates and professionals heard talks on the theme of "A World of Opportunity". The delegate list was a "who's who" of British agriculture and food, and the speakers list even more so.

Key themes were the importance of investment in research into technology, such as robotics, gene editing, precision farming techniques and artificial intelligence to boost farming productivity, including a floating dairy farm in Holland!

One statistic stuck with me: over 20% of cereal, dairy, lowland grazing livestock, mixed and poultry farms failed to make a profit in 2016/17, and 50% made less than £20,000. Change is therefore inevitable. It requires farmers and landowners to have accurate information on how their business is doing, both financially, and in output terms. Clever use of technology to efficiently manage day to day farm tasks, and back office tasks such as bookkeeping, will allow land managers and farmers to focus on those tasks that need human involvement.

Benchmarking is incredibly useful in providing information for farm and business comparisons, and highlighting where change is needed. Ellacotts work with our clients to benchmark financial and margin results. The AHDB and the Farm Business Survey information is readily available, much of which farmers are paying for through statutory levies, so why not get involved?

The Ellacotts team are frequently involved, along with solicitors, land agents, and other professionals in helping clients move through times of change, involving succession planning in land ownership and in business management. Communication is key, and can be challenging in family businesses.

Please contact us for help and guidance with succession planning and business transition.

THE OXFORD FARMING CONFERENCE

inform • challenge • inspire

## 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!

**Bedfordshire Young Farmers Rally** | Saturday 18 May
Leighton Buzzard, Bedfordshire

**Kenilworth Show** | Saturday 8 June
Stoneleigh Park, Kenilworth, Warwickshire

**Cereals** | Wednesday 12 – Thursday 13 June
Boothby Graffoe, Lincoln

**Blakesley Show** | Saturday 3 August
Maidford, Northamptonshire

**Bucks County Show** | Thursday 29 August
Weedon Park, near Aylesbury


## Meet some of our team

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