Ellacotts LLP
Chartered Accountants & Business Advisers

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AGRICULTURAL NEWSLETTER

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A14 Huntingdon Bypass, HS2, East West railway

It is obvious that the Government are pushing very high profile transport infrastructure projects. We aim to be involved early in the process with our clients. This maximises the opportunity to increase the post-tax compensation. We work very closely with land agents to look at:

- Business ownership
- Business structure
- Land ownership
- Land use
- Timing of compensation
- Nature of compensation
- Reliefs to reduce tax rates
- Farmhouses and Inheritance Tax

Every landowner's situation is different and needs bespoke planning solutions. For example, Compulsory Purchase Orders (CPO's) may increase the effectiveness of a rollover relief claim for capital gains tax purposes – the choice of reinvested asset being much wider than a normal sale. The right "replacement" land is not always available to buy and we have also had success with applying to H M Revenue and Customs for extensions to rollover relief reinvestment periods.

Quite often reducing tax by way of Entrepreneurs Relief can be useful particularly where succession planning is being looked at as part of a strategic business review. Don't forget that land may actually be more valuable following a scheme and it's important to review who owns that land and check whether they are exposed from an inheritance tax point of view.

Above all get us involved early to save paying unnecessary tax.

Plan ahead to ensure you don't waste potential loss relief

For the last few years' farmers have been struggling to make a profit from farming. With the current position of depressed commodity prices and poor yields we anticipate that many farmers will continue to make losses from farming in the next few years, particularly as overheads such as labour are increasing.

To survive many farms have diversified into other non-farming income such as rental income. We have been able to offset any loss which may have generated from the farming trade against this other income to reduce the overall tax liability.

It is a general rule in tax that loss relief is not available for hobby activities. However, farming has its own set of hobby farming rules which state that a farming profit must be made every six years.

If you are in your sixth year with no taxable profit from the farming element of your business, you may not be eligible to allocate the current year farming loss against your other income, e.g. rental income. Instead any loss not used can be carried forward and allocated against future farming profits.

Once a farming profit is made then the five-year loss rules start again. The figure used to calculate whether you have made a loss for five consecutive years is not the taxable loss you see on your tax return, but the tax adjusted figures excluding capital allowances for the year. Hobby farming losses also need to be calculated on a tax year basis. So if your year-end is not in line with the tax year then a proportion from each accounting year will need to be included to calculate the figure for the tax year.

If you are concerned you may be in the 4th or 5th year of making a loss, then please speak to your contact at Ellacotts, who can calculate whether you have made a loss for hobby farming purposes and discuss potential ways to create a profit. For example, you may be able to accelerate some income and defer some costs into the next tax year.

Different rules apply in the opening years of a trade.

Please get in touch to discuss maximising available tax reliefs.

VAT on property development

VAT on property is a very complex area and one where mistakes can, and are, made. Property conversions; new developments; creation of more dwellings from an existing dwelling; non-residential development all have different VAT treatments and may be subject to the zero-rate, reduced-rate or standard-rate of VAT. Property sales and lettings could be at the zero or standard rate or be exempt from VAT.

Take, for example, an opportunity to develop a bare plot of land for a residential home which you then plan on selling. You have various options:

- Obtain planning permission, incur architect fees etc. and then sell the plot before any building work is commenced
- Obtain planning permission etc. and commence work on building the house yourself before selling on

Each of these scenarios has different VAT implications.

In the first scenario, a plot of land is being sold. The sale of the plot is an exempt supply of land. This means that input VAT cannot be recovered on the architect's and other professional fees incurred in getting the property ready for sale.

In the latter scenario, the building work has commenced. This means that a residential property is being sold (even if the building work is not completed).

Sales of new residential buildings or new residential buildings in the process of being constructed are usually zero-rated supplies for VAT purposes (although this is subject to various conditions being met). As the sale is a taxable supply the input VAT on the architect's fees etc. can be reclaimed.

This example shows just one type of property development. We commonly see clients converting agricultural barns to residential use, which can be subject to a 5% VAT rate, which can be very beneficial but where their builders are not necessarily aware of this reduced rate option. More and more clients are also selling plots for large scale development and therefore Opting to Tax the land (thereby bringing the land into the VAT regime), may be beneficial if there are promoter's fees (subject to VAT) to pay. Opting to Tax allows that input VAT to be recovered.

Each scenario needs to be carefully considered and it is important to discuss any development plans with your adviser before work is commenced so that the VAT treatment can be correctly ascertained.

What you can do now

At the time of writing, and no doubt for some time to come, the implications of the Brexit decision for UK agriculture are unknown. Farming businesses should, as far as they can, plan for uncertain times ahead, by reducing the impact of risk. You should review: -

- How produce is sold; consider forward contracts to reduce price uncertainty;
- How key inputs are bought; again, consider forward contracts/fixing for major inputs, such as feed, fertiliser and borrowings;
- How your business could survive without Basic Payment beyond 2019;
- Are all assets working as hard as they can? Consider:
  - Letting/selling under-utilised property;
  - Are all workers and family members working to their full potential? Is earning money off-farm an option (e.g. by contract work, or taking other employment/self-employment)?
  - Machinery or labour sharing opportunities;
  - Should any land be grassed down or left fallow?
- Any diversification/business changes?
- Your machinery replacement plan;
- Your current borrowing terms. Make sure you are complying, including sending your accounts to the bank on time. Talk informally to your bank about any borrowing plans early on to gauge their view;
- Insurances. Don't forget "real" risk: are all risks covered at appropriate levels?
- Uncertainty and change can increase friction between those involved in the business, so review your Partnership Agreement;
- Private drawings. What do you need from the business over the coming (say) five years? Can the business generate this? If not, go back down this list and re-plan, which may include reducing drawings if other sources of funds can't be found;
- Draw up budgets and cashflows, and monitor them regularly. If your plans aren't working, take action straightaway.

Keep us informed of your plans. We are here to help, and particularly to ensure that any business changes don't have any adverse tax implications, including VAT.

Likely 2016 Harvest Results

Now that most farmers have finished harvesting their 2016 crops we have the following early observations of how this harvest compares with that of 2015.

Yield – average per Hectare			
	2016 Harvest	2015 Harvest	% Change
Winter Barley	7.25	9.25	**-21.61**
Spring Barley	6.90	6.75	**2.21**
Winter Wheat	9.40	10.40	**-9.62**
Oilseed Rape	3.20	4.15	**-22.9**

Barley
Wide variations in quality and yields.

Wheat
Quality generally good and making premiums.

Oilseed
Small seeds resulting in a lower than expected yield. Typically, oilseed rape is often sold first. We have seen contracts entered into at the time of "Brexit" for £270 per tonne basic. Currently this is selling for around £330 per tonne basic which would appear to be mainly due to recent currency fluctuations.

Outlook
It would appear that many continental farmers have not fared any better and in a lot of cases are seeing an even greater reduction in yields. Commodity prices are only just starting to show any improvement again due to currency changes.

You would hope that the same fluctuations would reduce variable costs and although UK produced nitrogen was available for around £164 per tonne approximately three months ago, this has now risen to around £175 per tonne. Although this is still a considerable reduction on past years' prices it would seem that strong demand is keeping current prices higher than expected.

With current uncertainty caused by the Brexit vote, and no guarantee that the basic payment will be paid out on time in December, there will be considerable pressure on many farmers' cash flows for the foreseeable future.

Support from the banks and a very good control on fixed and variable costs will be essential for the coming growing season.

We will be providing full details of our benchmarking figures for the 2015 Harvest and early 2016 Harvest results in our Winter 2016 newsletter edition. Alternatively you can learn more by attending our benchmarking event on Thursday 3rd November, see details over the page.

Farmhouses and Inheritance Tax

Farmhouses have always been a complex area when it comes to inheritance tax (IHT), and this position has been complicated further by the new 'main residence nil-rate band' (MRNRB).

First mentioned by George Osborne in last year's summer budget, the MRNRB will increase an individual's tax free allowance on death by £100,000 from 6 April 2017, increasing over subsequent years to a further £175,000 when fully implemented from 6 April 2020. However, the increased allowance is only available in respect of the value of an individual's 'main residence' (generally their home), and provided that the home is passed to a direct descendant on death.

We spend a significant amount of time working with clients to ensure that they are in a strong position to be able to claim Agricultural Property Relief (APR) on their farmhouse in the event of their death, so as to reduce their overall IHT liability. However, it is very unlikely that APR will fully cover the value of the farmhouse, with H M Revenue & Customs typically suggesting that only 70% of the value will be relieved.

The MRNRB therefore provides an opportunity to relieve the remaining 30% of value, but this additional relief is only available if an individual's estate is valued at £2m or less. To complicate matters further, the £2m threshold is the value before other reliefs are applied, in particular APR and Business Property Relief.

So, in terms of action points, many farmers will not be in a position to claim the MRNRB due to the value of other assets in their estate, in particular farmland. However, for those individuals that will be able to claim, it would be worth reviewing their Will to ensure that the enhanced nil-rate band can be claimed. This could then be combined with a wider review of an individual's estate planning strategy so as to minimise future IHT liabilities.

Talk to us if this area concerns you.

Events

We have a busy Autumn and Winter schedule of various events and seminars. One such event is our benchmarking event on Thursday 3rd November 2016 at our Kettering Office. We reveal, amongst other things, our farming clients' 2015 Harvest data and early observations of 2016 Harvest data.

We will also show you how to monitor your cash requirements particularly using "what if" scenarios for commodity prices and also levels of uncertain Basic Payment. If you would like to attend this farmers only event, please contact **Claire Waters** on **01536 646000** or **cwaters@ellacotts.co.uk**.

If we don't see you at one of our events please do get in touch with us if you need any help and advice.

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