Ellacotts LLP
Chartered Accountants & Business Advisers

AGRICULTURAL NEWSLETTER
Winter 2017 Edition

In this edition...

31st January Tax Payments & Cash Flow

Many farmers are experiencing cash flow pressures. With the 31st January tax payment deadline fast approaching, cash may be tight. There are various options to help smooth out the tax payments falling due, but it is important that action is taken before 31st January.

Reduction to payments on accounts
Where appropriate farmers can look to reduce payments being made on account of next year's tax bill. You should review your position and speak to your accountant to project the likely tax liability for 2016/17 and determine whether there is scope to reduce your 2016/17 payment on account, due Jan 2017 and July 2017.

Taxable profits could be substantially lower for various reasons, such as commodity prices, changes in stock levels or maybe investing in some additional machinery.

If you reduce your payments on account too far, interest will be applied on the shortfall from each payment date (currently at 2.75% per annum) , - this being a comparatively low rate but not tax deductible!

Farmers' averaging
Averaging enables farmers to lessen the effect of high tax rates in a successful year when preceded or followed by a more difficult trading year. This can help to smooth significant fluctuations in tax liabilities.

From 6 April 2016 averaging will consider profits over a five year period rather than the previous two years. Five year averaging will only be an

option where an individual has been in business for at least five years and the 'volatility test' is satisfied.

Approach HMRC
If you simply cannot afford to pay your tax bill, you, or your accountant, can approach HMRC with a payment proposal. If an instalment plan is agreed, interest will apply (currently 2.75% per annum) but no additional penalties will be imposed. The 5% surcharge which normally applies if your tax is not paid by 28th February is therefore avoided.

It is important that you do not ignore your tax bill. Doing so will only make the problem worse. If you have concerns please get in touch.

Valuations with Divorce

It is always sad when relationships break down. We are often called in to assist matrimonial solicitors, possibly under Court instruction, as Independent Experts. We work closely with other professionals to obtain property valuations and to restate balance sheets to reflect current business interests. We are often asked to report on liquidity and post Capital Gains Tax proceeds of a sale of property or shares. We will be seeking to make the most of existing Capital Gains Tax reliefs, as a reduced tax burden will benefit both parties. Our reports will highlight available tax planning opportunities.

The key to our work in this area is unquestionably to have an independent view, but also experience and timeliness. We often report to the two firms of solicitors in readiness for the Court hearing. We also assist with completion of Form E declarations where requested.

We often use Trusts in this area as they can provide safeguards for the next generation with independent trustees playing a useful role.

One of the most satisfying cases was where we carried out a business valuation for the Court, presenting our report to the two legal firms, then to learn that the couple had in fact put their differences behind them and stayed together!

The 2016 Autumn Statement

The new Chancellor Philip Hammond delivered his first Autumn Statement on 23rd November. As it turns out it will also be his last because he is advancing Budget Day to Autumn 2017. We will therefore face two Budgets in 2017! There was not much of enormous significance in November's statement but there are many tax changes to bear in mind. Here are some of the highlights with our tax planning tips.

The tax relief known as 'farmer's averaging' was extended from April 2016 to allow averaging of taxable farming profits over five years rather than two years. Many farming sole traders and partnerships facing fluctuating profits may benefit from this in coming years.

The tax relief known as capital allowances is continuing at 100% on £200,000 of equipment purchases. This will assist many capital intensive businesses such as farmers. Timing of planned capital expenditure is important to maximise the benefit of tax relief.

The company Corporation Tax rate is reducing to 19% in April 2017 and to 17% in April 2020. So, some farming partnerships could consider incorporating into a limited company to benefit from lower tax rates.

The Capital Gains Tax rate is reduced to 20% for higher rate taxpayers, trusts and estates, and 10% for standard rate taxpayers. The 28%/18% rates are retained for capital gains on sale of residential properties but the sale of farmland should now only attract a maximum tax rate of 20%. Entrepreneur's Relief continues to reduce the rate to 10% for qualifying gains up to £10 million on trading asset disposals. Business owners should check carefully whether they qualify for Entrepreneurs' Relief, which can be worth up to £1,000,000 in tax savings per individual.

Pensions Freedom and Choice

In April 2015, the rules were changed to give people greater access to their pensions. Over the last year, we have seen that farming alone has struggled to be profitable. Accessing the lump sum and/or income from pensions may be a way of freeing up cash to assist with cash flow.

Flexi-Access Drawdown may offer a solution in certain circumstances. There are various advantages and disadvantages to this, some of which we detail below:

Advantages

- A variable income can be withdrawn by taking either a single or multiple withdrawals of any amount over any time period in order to suit personal circumstances.
- Tax free cash can be structured to help mitigate personal Income Tax.
- The residual drawdown funds may provide the opportunity for further growth.
- The annuity purchase can be timed to maximise potential income rates.
- The death benefits are extremely flexible and are exempt from Inheritance Tax prior to age 75.

Disadvantages

- By accessing pension income flexibly, the lower money purchase annual allowance is triggered.
- The pension fund will remain invested and may go down resulting in a lower income.
- Ongoing charges and the need for regular advice and/or plan administration.

- Annuity income rates may be lower when an income is required in the future.
- Taking large withdrawals from pension funds in the early years may result in you running out of money in the future, exacerbated by ongoing charges .

Not all pensions offer flexible options and it is important to check with your provider to see what they offer. As always you have the right to shop around to find another pension that can provide the solution you want.

Advice should be sought before accessing pensions. Remember that pensions are generally taken out to provide an income when you are no longer working. Accessing pension funds earlier than originally planned can help with your business cash flow, but should be viewed as a last resort option.

Yet more houses...

We are continuing to see significant levels of development activity among clients who own land that is strategically important to promoters and house builders. The demand for land in the right location shows no sign of slowing. This is being fuelled by what we are hearing from the Government.

The realisation that your land has a premium value can be very unsettling, which is why it is important to make sure that you are supported by experienced advisers to help guide you through the process. This is not just about getting the right tax adviser, it is also about getting the right land agent and legal team who have detailed knowledge of this type of sale.

From our perspective, we are concerned to make sure that agreements to promote and hopefully sell land are constructed in such a way as to ensure that your tax position is protected. There are a number of 'tax traps' for the unwary, which is why it is important to involve your advisers at the earliest opportunity. This is particularly the case when we see neighbouring landowners join forces to 'jointly' sell their land and split the proceeds.

Conversations that we are typically having with clients focus on Capital Gains Tax (CGT) and Inheritance Tax (IHT). From a CGT perspective, it is important to make sure that valuable reliefs such as Entrepreneurs' Relief and Rollover Relief are available in the event of land being sold. Our main focus from an IHT perspective is to ensure that land with development value is protected from the 40% IHT charge and that ownership of this land is reviewed at the earliest opportunity when values are likely to be lower.

If you are being approached about a future sale of your land, please do speak to us to ensure you are in the best position possible.

Benchmarking - 2015 Harvest

2017 looks like being another varied year for farmers with variable commodity prices. We have recently held an event discussing the final results of the 2015 harvest for our arable clients and summarise below our findings and comments:

	Wheat Harvest (per acre)		Oilseed Harvest (per acre)	
	2015	2014	2015	2014
Yield				
Average	3.90t	3.98t	1.60t	1.55t
Range	2.85t - 4.60t	3.00 - 4.90t	1.20 - 1.90t	1.09t - 2.05t
Gross Output				
Average	£442	£512	£450	£430
Range	£335 / £615	£359 / £727	£345 / £590	£297 / £626

Taking a typical 750 acre client's overheads:

	2015 £/acre	2014 £/acre
Gross Output	£424	£439
Variable Costs	£220	£219
Gross Margin	£204	£220
Fixed Costs		
Labour and Contract	£33	£33
Machinery and Power	£150	£171
Property	£37	£49
Administration	£32	£38
Total Fixed Costs	£252	£291
Management loss before rent and finance	(£48)	(£71)
Rent	£32	£30
Finance	£19	£13
	£51	£43
Other income including Basic Payment	£224	£222
Profit	£125	£108

Key trends

- Higher yielding clients no longer generate the greater management profit. Other income is now very significant and where opportunities exist our farmer clients are showing that by maximising these, profits can still be made.
- Power and machinery costs continue to rise and the differences seen between similar businesses can be high.
- Farmers are still experiencing cash flow issues with lower reinvestment in machinery.
- 2016 harvest we believe will show even wider variations between our clients, with significant crop sales early in the season against the rapid decline in sterling benefitting farmers who held on to crops.
- There are still many opportunities for some clients who either happen to farm in the right location or have identified different income streams. With careful planning, many of these can give rise to low tax rates. It is always advisable to involve your advisers at the earliest opportunity.

Forthcoming Events

Over the coming months we will be attending and speaking at the following events:

IAgSA Conference | 3rd - 5th March 2017

Walton Hall Hotel and Conference Centre, Walton, Warwickshire
John Thame will be chairing the conference and Helen King will be speaking.

Budget Seminars | 9th March 2017

Banbury Budget Breakfast Seminar, Banbury Cricket Club
Kettering Budget Evening Seminar, Ellacotts office in Kettering
Join us at one of our Budget seminars to learn more about how the changes will affect you. Please check our website nearer the time for more details.

Swalcliffe Horse Trials | 18th - 19th March 2017

Swalcliffe Park Equestrian, Banbury
We will once again be sponsoring the Horse Trials.

March 2017

MON	TUE	WED	THU	FRI	SAT	SUN
27	28	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31	1	2

Meet some of our 30 strong Agri team

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