Ellacotts LLP
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Delivering Solutions

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WELCOME TO OUR SPRING NEWSLETTER

IN THIS ISSUE:

Plan now for machinery purchases

There has been a lot of press about the £500,000 Annual Investment Allowance (AIA) being a "temporary" increase going back to £25,000 from 1 January 2016. This may feel like a long way ahead, but due to the complex rules which surround AIA careful planning is required now. Here are some examples to illustrate how your year-end impacts on the relief available

Year ended 31 March 2015
100% tax relief on any expenditure qualifying for capital allowances (excluding cars), up to £500,000:

Year ended 31 March 2016
1 April 2015 – 31 December 2015
= 9/12 x £500,000 = £375,000

1 January 2016 – 31 March 2016
= 3/12 x £25,000 = £6,250

Total expenditure for the year is £381,250.

However, if you have not spent this before 31 December 2015 anything spent in the period between 1 January 2016 and 31 March 2016 will be limited to £6,250.

Year ended 30 September 2015
100% tax relief on any expenditure qualifying for capital allowances (excluding cars), up to £500,000.

Year ended 30 September 2016
1 October 2015 – 31 December 2015
= 3/12 x £500,000 = £125,000

1 January 2016 – 30 September 2016
= 9/12 x £25,000 = £18,750

Total expenditure for the year is £143,750. However, if you have not spent this before 31 December 2015 anything spent in the period between 1 January 2016 and 30 September 2016 will be limited to £18,750.

Timing is crucial for any qualifying purchases and becomes even more complicated when assets are bought on hire purchase. If you think this may affect you we suggest you seek professional advice before your accounting year end and discuss any planned machinery purchases to ensure that you are maximising the reliefs available. If you would like further help on this matter then please do get in touch.

Quarterly Agriculture Newsletter Spring 2015
www.ellacotts.co.uk

structure of corporate partners, combining the flexibility of partnerships with the benefit of lower corporate tax rates. In these structures it is not uncommon for properties such as farmhouses to be held on the balance sheet, therefore falling within the ATED regime.

The good news is that there is a relief that will apply to farmhouses. For the relief to apply the following conditions need to be met:

- The farmhouse must form part of the land occupied for farming. Farming is defined as "the occupation of land wholly or mainly for the purposes of husbandry"
- The person carrying on the farming trade must have an interest in the farmhouse
- The farmhouse must be occupied by a farmer/farm worker or a retired farmer/spouse who occupies it for the purposes of the farming trade
- The farm worker must have a substantial involvement (more than 20 hours per week on average throughout the year) in the day-to-day work of the trade and/or the direction and control of the farming trade.

Properties lived in by family members who are not active workers in the farming business will be liable for the tax. Advice should be sought to see if restructuring could remove this charge e.g. gifting the property outright, or charging a commercial rent.

Farmhouse relief or rental relief is not automatic and can only be claimed by completing and sending a return to HMRC. If you are 'potentially liable' to pay ATED, you need to complete and send a return to HMRC, even if you are claiming reliefs.

We would recommend that you check your business structure and if you believe you may potentially have properties that ATED applies to, that you get in touch. Contact Joanne Wright at jwright@ellacotts.co.uk

Have personal pensions become more attractive?

People have generally been wary of contributing to pensions. Whilst you were able to gain tax relief on higher rate tax by investing cash or land/property in a pension and letting it grow tax free, there was a nasty sting in the tail. After crystallising your pension, on death, 55% of the value of the pension pot could disappear as a tax charge. But are new rules making pensions an effective tax tool?

Income Tax
When making a contribution, the pension provider adds an additional 20% to your pension pot from HMRC and higher and additional rate relief is also available.

New rules allow anyone over the age of 55 to withdraw funds from their pension arrangement: 25% of it will be tax free and the rest will be taxed at the individuals' marginal tax rates in that year.

By proactive planning, the use of pensions can even out fluctuating profits and minimise tax bills by contributing in years where you are higher rate tax payer and withdrawing the funds when you are a basic rate taxpayer.

There is however speculation that the government may abolish the higher rate tax relief, so act now to take advantage of the rules.

Inheritance Tax
Residual funds on death of an individual will now neither be subject to inheritance tax nor a special exit charge. This has removed one of the major disadvantages of investing in a pension and opens up a wide range of planning opportunities.

With these rules, pensions can also be used as an inheritance tax planning tool, by holding assets on which Agricultural Property Relief or Business Property Relief would not be available e.g. commercial units (but not residential property) within a pension, allowing assets which you intend to retain for a long time, to be passed down through the generations in a tax efficient way.

Once the property is in the pension, if you die before the age of 75 years, the funds can be passed to any beneficiary tax free. After age 75, the fund can still, on death, be passed on to beneficiaries less a tax charge and can be drawn by them (they do not need to be over 55 years of age). This means you might be able to pass property down to the next generation free of tax and the next generation will have the option of keeping the asset inside a pension (tax-free) for as long as they want.

Pensions are complex and careful tax planning will be needed, but with specialist advice pensions should be considered a valuable tax saving vehicle.

If you would like to speak to our Chartered Financial Planner about how to make the most of your pension, contact Malcolm Smith at msmith@ellacottswealth.co.uk

Benchmarking – 2014 Harvest (an early indication)

Ellacotts have so far prepared 2014/15 accounts for arable clients farming 20,000 acres in total. This provides an early indication of how the 2014 harvest compares to 2013.

Wheat (per acre)			**Oilseed (per acre)**		
Yield	**2014**	**2013**	**Yield**	**2014**	**2013**
Average	4.15t	2.96t	Average	1.52t	1.22t
Range	3.2t – 4.86t	2.00t – 3.8t	Range	1.25t – 2.05t	0.74t – 1.82t
Gross Output			**Gross Output**		
Average	£485	£491	Average	£406	£405
Range	£411 / £765	£310 / £623	Range	£341 / £498	£245 / £603

Key trends:

- Early indications show significant increases in yield with a wide variation in price per tonne. Good margins have been achieved where milling wheat has reached specification.
- Average gross output per acre is static, but variable costs have increased by 10%, particularly where controlling blackgrass is a problem.
- Power and machinery costs have fallen as clients cut back on capital expenditure, reducing depreciation. Higher Annual Investment Allowance may see this trend reverse in 2015.
- Better harvesting conditions slashed drying costs.

Typical arable client per acre	**2014 £/acre**	**2013 £/acre**
Gross Output	505	460
Variable Costs	214	191
Gross Margin	291	269
Fixed Costs		
Labour and Contract	65	55
Machinery and Power	101	110
Rent	30	31
Property	32	35
Administration	29	28
Finance	5	15
Total fixed Costs	262	274
Other income incl Single Payment	160	145
Management Profit	**189**	**140**

- Interestingly only a handful of farmers would have shown a profit before other income in 2013, but more achieved a profit before sundry income and Single Payment in the 2014 harvest.
- 2015 will see many farmers having to adapt their farming practices to comply with new regulations. Attention to detail and controlling costs become more and more crucial.

To discuss the results of your harvest in more detail, please contact Steve Gardner at sgardner@ellacotts.co.uk

Protect Your Property From Extra Tax

ATED (Annual Tax on Enveloped Dwellings) is an additional tax charge on high value residential properties owned by 'non-natural' persons. This broadly means companies, partnerships with company members or trusts, and collective investment schemes.

ATED has been in force since 6 April 2013, but only applied to dwellings worth more than £2,000,000, but with the threshold being lowered to £1,000,000 from 1 April 2015 and only £500,000 from 1 April 2016, it is impacting on more and more businesses including many farming businesses.

From 1 April 2015 the annual tax charge is £7,000 per year for properties valued between £1 million and £2 million. From 1 April 2016 there will be an annual tax charge of £3,500 per year for properties valued between £500,000 and £1 million.

In recent years many farming partnerships adopted the

Agricultural Development in the East

Many of you will know that Ellacotts has been growing in size, particularly our Wellingborough office. We are now delighted to add another new member to the Wellingborough team, Joanne Wright.

Joanne joins us as an Agricultural Manager who will help us to develop our client-base in the East including areas such as Market Harborough, Cambridgeshire, Bedfordshire, Hertfordshire, Peterborough and beyond.

Joanne specialises in tax planning for farms, land owners and agricultural businesses. Her work will involve advising clients in all aspects of tax, both from a compliance and advisory aspect. In particular she specialises in Entrepreneurs' relief, trusts, inheritance tax planning, succession and capital allowance. She is passionate about agriculture and helping farmers save tax.

John Thame, Partner in Ellacotts' Agriculture & Property team sees Joanne's arrival as a real asset to the firm and its clients, adding "We are committed to recruiting the best team; people who are experts within their fields. It sets us apart from our competition and means we are able to provide clients with the best service. We are pleased to welcome Joanne and look forward to introducing her to our clients and colleagues over the coming months."

Ellacotts Events

The following are just a few of the events we are excited to be hosting and supporting over the coming months. We hope to see many of our clients and colleagues for a cup of tea and a catch up!

- **ALA Spring Event,**
  The Great Barn, Aynho – 10 March
- **Budget Events,**
  Banbury and Kettering – 19 March
- **Pytchley Point to Point,**
  Guilsborough – 12 April
- **Warwickshire Point to Point,**
  Mollington – 4 May
- **Grafton Hunt Point to Point,**
  Whitfield – 17 May
- **Northants YFC Country Show & Rally,**
  Stowe Lodge – 23 May
- **Kenilworth Show,**
  Stoneleigh Park – 6 June
- **Blakesley Show,**
  Blakesley – 1 August

Our next newsletter will be published in June 2015

Some Key Team Members

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