In this edition...

The 2017 Spring Budget

Philip Hammond's Budget proposals was not seen as very exciting for many but there has been some subsequent backlash on some of the changes. Here are some key points to bear in mind.

The rate of self-employed national insurance contributions ("Class 4 NICs") was set to increase by 1% to 10% in April 2018 and to 11% in April 2019. This would have increased the overall tax burden for farmers, but as most people now know the Chancellor withdrew this proposal. The factors affecting whether to be self-employed or to set up a company continue to be complicated. It is still important for new farming enterprises to seek specialist tax advice when deciding which business structure to use.

Mr Hammond also tweaked the new rules coming with the Making Tax Digital (MTD) campaign. He announced that the requirement for businesses to send financial information to HM Revenue & Customs (HMRC) quarterly would be delayed for smaller business from April 2018 to April 2019. On the face of it, this is good news but businesses with annual turnover exceeding the VAT threshold (currently £85,000) will need to start sending quarterly business data to HMRC in 2018. These details must be in a set digital format and sent online but it is not yet clear how this will work for seasonal businesses like farming where some will only have business receipts in one quarter each year. All businesses with a turnover exceeding £10,000pa will need to do this from 2019. It is recommended that businesses take advice on their record-keeping systems to make sure they are ready for the impact of MTD. (See our article inside for more details on MTD.)

The tax relief ("Capital Allowances") at 100% continues for equipment purchases costing up to £200,000. This is an important benefit for capital-intensive businesses such as farmers but the timing of the expenditure is crucial to ensure tax relief falls into a tax year that maximises relief.

The Inheritance Tax "nil rate band" increases by £100,000 from £325,000 on the value of family homes which may allow more wealth to be passed down to the next generation without tax being payable at 40%. However, the increase is restricted for estates with a value exceeding £2 million. This might seem like a high figure but it is calculated before deducting agricultural and business property reliefs and so will rule out the benefit for many estates that include farmland. As usual, tax planning for these estates can pay dividends.

The Capital Gains Tax rate of 20% applies to higher rate taxpayers, trusts and estates. However, the 28%/18% rates remain for capital gains on sale of residential properties. 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 as this relief could be worth up to £1,000,000 in tax savings per individual.

Be prepared for Making Tax Digital (MTD) from 5 April 2018

HM Revenue & Customs' plan to "simplify" tax for their "customers"

By 2020 all businesses in the UK will be expected to file quarterly accounting returns online using HM Revenue & Customs' new digital tax system, Making Tax Digital (MTD). For businesses, the obligations start from the first accounting period beginning after 5 April 2018. A similar system will be in place for landlords.

The potential "perfect storm" of a new Government IT project, busy farmers with variable computer skills, and poor rural broadband has been commented upon by farmers, landowners and their representatives as part of a consultation process between HMRC and taxpayers. Ellacotts have contributed to this consultation with the aim of producing the best possible outcome for our clients. The main challenge is the discrepancy between bookkeeping transactions and profit in an industry that carries stock for months, if not years, before a sale occurs, and makes significant "lumpy" investment in machinery. Those involved in contract farming or share farming arrangements may face further challenges. Capital Allowances, farmers' averaging relief, and the interaction with annual tax returns still need to be factored in to the system.

The deadline for finalising the taxable profit may be earlier than the existing 31 January tax return filing deadline, depending on the date the accounting period runs to.

Software providers will be key in the changes. HMRC propose that entries are made into software or an app, which will upload summary data to HMRC. The specialist agricultural software developers are working with HMRC, farmers and accountants to make this happen. Farmers using manual cashbooks or spreadsheets are likely to need to upgrade these systems to meet MTD requirements.

Ellacotts are working with software providers and responding to consultations to help clients through this transition, and to offer clients a range of solutions to suit their needs. We will read the small print for you and walk you through the transition to MTD.

Inheritance Tax on Land Sales

Under current legislation, broadly speaking, so long as land is being used for agricultural purposes, on death it can be passed to dependants free of Inheritance Tax (IHT). However, if the land is sold, unless the proceeds are rolled over into a further land purchase, the proceeds become potentially liable to IHT.

There are options available to mitigate the effects of IHT, the simplest one being to give the money away. This creates a potentially exempt transfer (PET) and providing the person making the gift survives 7 years, no IHT will be due. Should the person making the gift die within 7 years, IHT is applied on a sliding scale as follows:

Years 1-3	100%
Year 4	80%
Year 5	60%
Year 6	40%
Year 7	20%
Year 8 Onwards	Nil

Gifting money is not always an option, as the person making the gift cannot benefit from the money once the gift has been made.

There are IHT planning solutions available to mitigate the effects of death duties, however, there generally has to be a compromise, this being giving up either access to capital or access to income. For people requiring an income, a "discounted gift" arrangement may work, however, this may have IHT consequences, and if done in tandem with a straightforward gift, additional tax charges may apply.

Sometimes the creation of a trust will provide a useful way to reduce the overall burden of IHT on the family. A loan to a trust does not remove all the value from an estate, however, it does limit the value of the taxable estate, as any growth of the fund is outside of the estate from day one.

A transfer of assets to a trust can allow value to be removed from an estate, as an immediate gift. After 7 years, the full value of the trust is outside of the estate, however, the person setting up the trust could have access to some of the funds each year if invested in the correct manner.

In summary, IHT mitigation can be complex, and not every scheme will suit everyone. We strongly recommend that tax and financial planning advice are sought to ensure any solution is right for the individuals involved.

Changes to Annual Tax on Enveloped Dwellings (ATED)

ATED is a tax charge introduced from 1 April 2012 and can apply when a company or a partnership, which has a company as a partner, owns residential property in the UK. When introduced it applied to properties in excess of £2m. However, the limit has dropped and ATED now applies to residential properties worth more than £500,000.

Currently the tax due for each chargeable period depends on the valuation of the property at 1 April 2012 for properties owned on this date. However, property needs to be revalued at five yearly intervals; the 2017 return is thus the final year using 1 April 2012 valuations to determine if an ATED tax return is required. Purchase price is used for property purchased since 1 April 2012.

This means that 2018 ATED returns will require a new valuation dated 1 April 2017. With average house prices rising, this revaluation is likely to bring more, previously exempt, properties into the ATED regime. We are therefore advising clients to obtain these valuations now to ensure that valuations are documented ready for next year, especially where houses are close to the £500,000 limit.

This valuation can be determined by either yourself or a professional valuer such as an estate agent or surveyor.

There are various reliefs available to claim which may reduce part or all of the liability due to HMRC. However, a return is still required even if the return is Nil, and more importantly, a claim for a relief cannot be backdated. Correct, on-time, returns and relief claims are therefore essential. If a property value is close to the limit and you are unsure whether you are required to make an ATED return, you can ask HMRC for a Pre-Return Banding Check if your property valuation falls within 10% of a banding threshold. This check needs to be requested from HMRC in plenty of time as it can take up to 30 working days for them to respond.

The 30-day filing window for the ATED return is 1 April 2017 to 30 April 2017, and the payment deadline for any tax due is 30 April 2017.

If you are concerned about the above, please speak to your contact here at Ellacotts.

More tax on rental income

Farms and landed estates often rely upon rental income to supplement overall business receipts and to help cope with the financial ups and downs of agriculture. Various tax rules for property income, especially residential lettings, are being changed, increasing the likely tax bill. Here are some of the key recent changes:

- Owners of rented residential property are facing increased income tax charges on their rental income, as tax relief is being restricted on the costs of finance, such as mortgage interest, from 6 April 2017 onwards. The extra tax paid could even exceed profits, leaving property owners with a rental loss and a cash shortfall. This will only affect individuals and partnerships, as companies owning buy-to-let property will be excluded. The rules do not apply to commercial lettings or furnished holiday lets.

  The changes will be phased in over three years. All finance costs (not just loan interest) will cease to be an allowable expense. There will instead be a basic rate tax deduction of up to 20% allowed for the finance costs after the rental profits have been taxed.

  Planning ahead will help determine whether a property owner will become a higher rate taxpayer and we can advise on potential solutions to reduce taxable income.

- The traditional 10% 'wear & tear' allowance for furnished lets was abolished from 6 April 2016. This basis allowed a simple method for tax relief on worn out furniture & fittings. Property owners therefore need to keep more detailed records of replaced or repaired property items.

- Stamp duty land tax rates were increased by 3% for most additional residences purchased from 1 April 2016. This extra charge will not apply to non-residential purchases, or to farmers or landowners who build houses on their own land.

- On a disposal, Capital Gains Tax is charged at 28% on gains from residential property (generally excluding your home) compared to 20% on gains from other chargeable assets.

There are plans for property owners to be required to report income and expenses to HM Revenue & Customs on a quarterly basis from April 2018 under Making Tax Digital (MTD). We will provide further advice on these proposals when the details have been confirmed.

Another tax year draws to a close...

We work in an environment of what feels like a never-ending series of deadlines. As soon as 31 January passes, 5 April looms to focus us on helping our clients to make decisions and take action before the end of the tax year.

From a tax perspective, the most significant decision to make to reduce your business tax liability is the timing of machinery purchases. Although future profit prospects are uncertain, we are still seeing strong profits for many before the cost of new machinery is taken into account. Annual Investment Allowance is capped at £200,000. Investment beyond this level risks the excess not being relieved in the year. It is therefore important that you review and plan your capital expenditure to maximise the amount of tax relief available. This similarly applies to the disposal of old machinery, the proceeds from which are most likely to be taxed in full. If commercially sensible, you could consider buying the new asset this year and selling the old one next year. It is also important that you understand the value of tax relief that you are receiving – rather than purchase kit, you might decide to pay tax and use the rest of your profit to repay debt or invest in other opportunities.

There is also a window of opportunity for owners of limited companies between now and 5 April 2017. The new dividend tax regime from 6 April 2016 increases the amount of income tax payable on dividends received from your company. However, there is also a new "Dividend Allowance", which allows you to receive dividends of up to £5,000 tax-free. Shareholders should be seeking to utilise their Dividend Allowance each year, as it is very much a case of using this allowance or losing it. In reality, many shareholders will be receiving dividends in excess of £5,000 and so a review should be carried out to make sure that all family members are using their available tax allowances to best effect.

This article is only looking at two topical points; there is much more to consider. **Forward planning has never been as important as it is today.**

Forthcoming Events

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

Pytchley Point to Point | Sunday 9th April
Guilsborough, Northamptonshire

Grafton Point to Point | Sunday 14th May
Whitfield near Brackley, Northamptonshire

Kenilworth Show | Saturday 10th June
Stoneleigh Park, Kenilworth, Warwickshire

Cereals | Wednesday 14th – Thursday 15th June
Boothby Graffoe, Lincolnshire

Upton Horse Trials | Wednesday 12th – Thursday 13th July
Upton Estate, near Edgehill, Warwickshire

Blakesley Show | Saturday 5th August
Maidford, Northamptonshire

Bucks County Show | Thursday 31st August
Weedon Park, near Aylesbury

Meet some of our 30 strong Agri team

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