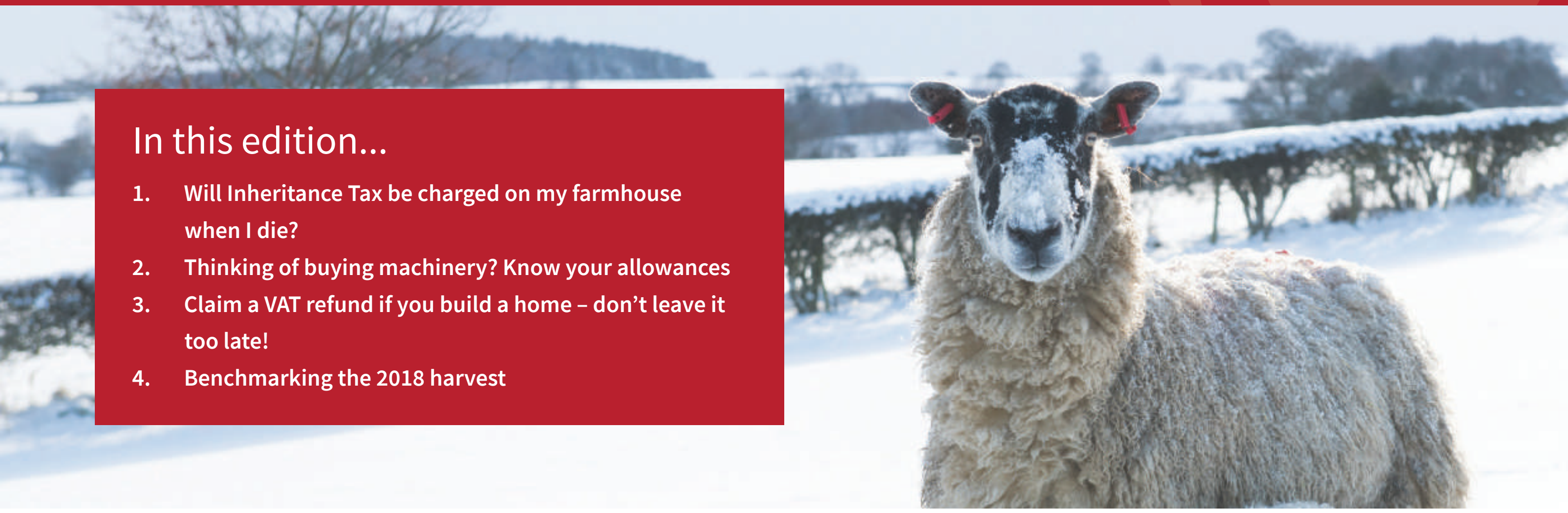


In this edition...

Will Inheritance Tax be charged on my farmhouse when I die?

We are often asked about how Inheritance Tax (IHT) will be charged on farmhouses. Sometimes the answer is simple, however, often it's not. This is because legislation changes, the use of a particular house changes, and the use of the land the farmhouse serves changes.

When you die, the market values of your assets are calculated, and reliefs are claimed against certain assets.

What Inheritance Tax reliefs are there for a farmhouse?

1. Nil Rate Band (NRB) of £325,000 - which is available to everyone. Plus, any unused NRB transferred from a deceased spouse.
2. Residence Nil Rate Band (RNRB) - which extends the NRB by an additional £150,000 when an individual's main residence is passed to their direct descendants on death. The RNRB is reduced by £1 for every £2 by which the deceased's net estate exceeds £2million, before reliefs. The RNRB is often irrelevant for landowners due to this threshold.
3. Agricultural Property Relief (APR) – which is given on the agricultural value of agricultural property.

Agricultural Property Relief (APR) on farmhouses

APR is only available on the agricultural value of the property, which is often lower than market value. Business Property Relief (BPR) may be available on the excess above agricultural value.

What rate of Agricultural Property Relief can I get?

1. APR is at 100% where the owner has the right to vacant possession, or the right to obtain it within 12 months (or by concession within 24 months)
2. In other cases, it is 50%

You may qualify for APR by either occupying land yourself for the purposes of agriculture for two years before the transfer, or by owning land for seven years before the transfer which someone else occupies for the purposes of agriculture.

How does a farmhouse qualify for Agricultural Property Relief?

In order to qualify for APR, cottages, farm buildings and farmhouses must be of a 'character appropriate' to the property. There must be an agricultural unit, with the land dominating and the farmhouse ancillary to the land. If the house is not character appropriate, it will not be eligible for relief.

Antrobus (2002) identified how to decide whether the farmhouse was character appropriate:

- Whether the house was appropriate in size, content and layout with the farm buildings and the area of farmland being farmed.
- Whether the house was proportionate in size and nature to the requirements of the farming activities carried out on the land.
- Although it might not be possible to describe a farmhouse which satisfied the character appropriate test, you know one when you see it, often referred to as the 'elephant test'.
- Whether an educated rural layman would view the property as a farm, or as a house with land.
- How long the house had been associated with the agricultural property and the history of agricultural production.

Can I claim for both BPR and APR?

One recent case saw a successful claim for both BPR on farmland and APR on a farmhouse and surrounding land.

The land was let on a grazing licence and the deceased did not own the livestock. However, he was responsible for their care which included checking them daily and carrying out husbandry tasks. He was also responsible for maintaining the land including fencing, hedging, ditching, harrowing, rolling and topping with his own equipment.

For a successful claim for APR, there must be a functional connection between the occupation of the house and the agricultural activities carried on. It was decided that the deceased ran a farming business and occupied the farmhouse, on a farm, where he was an active farmer and therefore APR was allowed.

The issue relating to BPR was whether the business carried on by the deceased consisted wholly or mainly of making or holding investments. Business requires the activity to be carried on with a view to making a profit or gain. Simply receiving rent or non-commercial hobby farming does not meet this definition. In this case, the Tribunal held that the asset was being used in the deceased's farming activities, albeit with some additional investment income received.

It's easy for your arrangements to move towards renting. If your land is rented rather than farmed at death, APR will not be due on the agricultural value of the farmhouse, the outbuildings, and potentially on the land, unless the use by the third party qualifies.

HMRC will consider entries on Self Assessment tax returns as well as witness statements when deciding claims.

This article is only a brief summary of complex and continually developing rules. Please speak to Helen King on hking@ellacotts.co.uk or 01295 250401 who would be delighted to review your circumstances and give advice.

Thinking of buying machinery? Know your allowances

It's that time of year again, the nights are long and it's the start of a new year. Whilst the thought of harvest 2020 is a particularly daunting one given the horrendous conditions affecting autumn drilling, you may be thinking ahead to machinery requirements, keen to take advantage of off-season deals. Such deals often see expensive equipment purchased on hire purchase agreements or similar arrangements. Here, we explore the Capital Allowances Act (CAA01/S67) which can mean that the tax relief available on such purchases is not always as expected.

How do I qualify for Plant and Machinery Allowances?

For machinery purchases to qualify for Plant and Machinery Allowances (PMA), the person looking to claim the allowances must own the machinery at some time in that chargeable period. Under many hire purchase agreements, there is an option to acquire the legal title at the end of the contract. This means that the person does not technically own the machinery until this payment is made at the end of the contract.

This is where section 67 steps in. Section 67(2) notes that the machinery is to be treated as owned by the person at any time when they are entitled to the benefit of the contract. This allows PMAs to be claimed as each payment is made, throughout the contract. Furthermore, Section 67(3) allows PMAs to be claimed on the future payments when the machinery is brought into use for the purposes of the qualifying activity i.e. the trade. If this is in the same chargeable period as the hire purchase agreement is entered into, full allowances can be claimed in that chargeable period. If the item is brought into use after the year end, the PMAs would be claimable across different chargeable periods.

In practice, whilst the Annual Investment Allowance stands at £1,000,000, obtaining full PMAs in the earliest possible chargeable period is likely to accelerate the tax relief available. For day-to-day machinery such as tractors, the 'brought into use criteria' is easy to achieve. For more seasonal machinery such as combines and balers, where chargeable periods end in the spring (31 March / 5 April, for example) if acquired in an off-season winter deal, the likelihood is that the kit will not have been brought into use at the year end. As a result, PMAs will only be available on the payments made.

What if I part-exchange farming machinery?

It is also crucial to take into account that if machinery is part-exchanged as part of the deal, the value given for the part-exchange is taken into account when calculating the PMAs for the chargeable period. It may be that the trade-in value triggers a balancing charge and is effectively added to the taxable profits for the year.

Purchasing machinery is a huge financial commitment and when timed right can be extremely tax efficient. There may be actions you can take, such as alternative finance, to optimise your tax position. Make sure you take advice before signing any deal to ensure you are in the best tax position possible.

Please contact Kerry O'Reilley on koreilley@ellacotts.co.uk or 01295 250401 for more information about how to buy machinery in the most tax efficient way.

Claim a VAT refund if you build a home – don't leave it too late!

If you are building a new home or converting a non-residential building (such as a barn) into a home, you may be able to reclaim VAT on materials used under the 'DIY Scheme'. The value of claims under this scheme can be significant.

When do I need to submit my VAT refund claim?

HM Revenue and Customs' (HMRC) guidance states that the VAT claim must be made within 3 months of completing the work. This is generally understood to be 3 months from when a Building Regulation Completion Certificate has been granted by the local authority, but in our experience this can often be several months, if not years, after the property has been completed and occupied.

A recent VAT tribunal case has highlighted the importance of determining when a property has been completed. In this case, the owner of the newly-constructed house was issued with a Council Tax certificate in June 2016. However, a Building Regulation Completion Certificate was not issued until April 2018 due to queries over some of the work.

The DIY VAT claim was then submitted in July 2018, but this was rejected by HMRC on the basis that it was outside the statutory 3 month deadline from when the building work had been completed. The tribunal agreed with HMRC's decision and also rejected the claim.

HMRC have always looked closely at DIY VAT claims, but this case suggests that they are now looking more closely at the completion date, to ensure that the claim is made within 3 months of the property being completed. It is therefore very important to be aware of when the construction work has been completed from a VAT perspective, so that the opportunity to make a VAT claim within the 3 month window is not missed.

If you are considering building a new home or converting a barn into a residential building, don't miss the chance to get a VAT refund. Contact Mark Dickin on mdickin@ellacotts.co.uk or 01295 250401 for more information.

Benchmarking the 2018 harvest

We recently held an event for our arable clients to discuss the 2018 harvest and summarise below our findings and comments:

	Wheat (per acre)		**Oilseed** (per acre)	
Harvest	**2018**	**2017**	**2018**	**2017**
Yield				
Average	3.19t	3.5t	1.25t	1.37t
Range	2.38t - 4.11t	2.09t – 4.41t	0.81t – 1.66t	0.56t – 1.78t
Gross Output				
Average	£541	£502	£430	£461
Range	£346/£739	£278/£681	£239/£612	£239/£612

Taking a typical predominantly arable client's figures:

	2018(£/acre)	**2017**(£/acre)
Gross output	£461	£441
Variable costs	£211	£194
Gross margin	£250	£247
Fixed costs		
Labour	£48	£45
Power and machinery	£137	£133
Property	£44	£34
Administration	£38	£32
Total fixed costs excluding rent and finance	£267	£244
Management (loss)/profit before rent and finance	(£17)	£3
Rent	£36	£35
Finance	£21	£18
Other income including Basic payment scheme	£237	£209
Profit before drawings, tax and capital repayments etc.	**£163**	**£159**

Key trends:

- We have generally seen a drop in combinable crop yields for the 2018 harvest compared to 2017. This reduction has been less for our top 20% farmers. With the exception of oilseed rape, significantly higher commodity prices have helped to push gross output for 2018 to around 5% above 2017. The difference between our top 20% and average gross output is around £75 per acre for this harvest year, due to better yields and higher commodity prices.

- Variable costs for the 2018 harvest have increased by nearly 10%, nearly cancelling the gain in gross output. The rate of increase has been slower for our top 20% farmers, suggesting the increase in precision farming has led to savings. The difference between gross margins of our top 20% and our average arable farmer is now over £100 per acre.

- Average labour, power and machinery costs have risen slightly but our top 20% have achieved a decrease.

- Basic payments account for over a third of other income. With support likely to fall over coming years we expected to see a far greater take up of environmental schemes. However, we are still seeing very low numbers joining these schemes. Straw sales from the 2018 harvest were significantly higher. We have also seen a near 20% increase in rental income. Other income totals have increased by 14%; surprisingly the figures for our top 20% show a reduction of 6% from the previous year.

- Management profits have risen this year, significantly so for our top 20% performers. However after drawings, taxation and capital repayments against loans and hire purchase, there is little left over for reinvestment.

- The 2019 harvest was good but with prices significantly lower than 2018. Due to the ongoing wet weather drilling is well behind target. Although this would suggest a lower harvest in 2020, there is still no significant rise in commodity prices. Currently prices are still lower than the 2017 harvest levels. There is likely to be a shortage of spring seed available and we may see areas left fallow this year.

Oxford Farming Conference 2020

On Wednesday 8 January 2020 we are joining some of the most influential speakers from the farming community and sponsoring The Oxford Union Debate and Post Debate Supper as part of the Oxford Farming Conference 2020.

We're hiring

We are always looking for talented people who are interested in Rural Business Services to join our thriving Agricultural and Property team in Banbury and Kettering.

Whether you are a school leaver or graduate wanting to study as a **trainee accountant** or are already qualified and looking for a step up as a **Manager or Director**.

We would love to hear from you:
View our vacancies online at www.ellacotts.co.uk/careers or contact Alice Taylor on ataylor@ellacotts.co.uk or 01295 250401

Meet some of our team

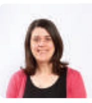

Ann Bibby
Partner
abibby@ellacotts.co.uk


Robert Black
Assistant Manager
rblack@ellacotts.co.uk


Mark Dickin
Partner
mdickin@ellacotts.co.uk


Patrick Gardner
Assistant Manager
pgardner@ellacotts.co.uk


Steve Gardner
Manager
sgardner@ellacotts.co.uk


Louise Hosking
Director
lhosking@ellacotts.co.uk


Helen King
Partner
hking@ellacotts.co.uk


Kerry O'Reilley
Director
koreilley@ellacotts.co.uk


Rachel Rahman
Manager
rrahman@ellacotts.co.uk


Claire Rigby
Director
crigby@ellacotts.co.uk


Andrew Slack
Consultant
aslack@ellacotts.co.uk


Chris Slatter
Independent Financial Adviser
cslatter@ellacottswealth.co.uk


John Thame
Partner
jthame@ellacotts.co.uk


Joanne Wright
Partner
jwright@ellacotts.co.uk

Banbury

Countrywide House
23 West Bar
Banbury
Oxfordshire
OX16 9SA
+44 (0)1295 250401

Kettering

Vantage House
2700 Kettering Parkway
Kettering Venture Park
Kettering
Northamptonshire
NN15 6XR
+44 (0)1536 646000

London

Suite 100
99 Bishopsgate
London
EC2M 3XD
+44 (0)203 6937315

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