Ellacotts

AGRICULTURAL NEWSLETTER
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How to ensure maximum tax relief on your farm expenditure

Deciding whether to maintain and repair the farmyard, farm buildings and machinery or invest in improvements can be difficult. Any available tax relief must be maximised. Tax relief can determine whether a proposal to build or refurbish farm buildings is financially viable.

If you have Rollover Relief sums to reinvest, improving an existing asset could be tax-efficient, rather than becoming involved in a bidding war on a possible land purchase. This could save both Capital Gains Tax and Income Tax.

Is the expenditure a repair or an improvement?
The cost of repairing an existing asset can be offset in full against profits in the year incurred. For example replacing a barn roof or resurfacing an existing track are likely to be classed as repairs as long as there is no element of improvement, and the work just brings the asset back to its original condition. If an asset is altered, improved or replaced, the expenditure is classed as capital expenditure. Tax relief can be obtained through various types of Capital Allowances:

1. General plant and machinery can be written down at a rate of 18% per annum
2. Integral features such as electrical systems or water heating systems can be written down at a rate of 6%

Annual Investment Allowance (AIA)
You may be able to claim the Annual Investment Allowance (AIA) giving 100% allowance up to £1m of cost. This allowance was due to decrease to £200,000 on 1 January 2021 but now continues at £1m for a further year to 1 January 2022.

Structures and Buildings Allowance (SBA)
Any expenditure on items which are structural i.e. buildings and fixed items such as walls and floors used to not qualify for Capital Allowances. However, in 2018 the government introduced a new Structures and Buildings Allowance (SBA) to encourage investment in buildings. When the allowance was created it was set at a flat 2%, however, in the 2020 budget, the Chancellor increased this to 3%.

This new SBA allowance gives tax relief on building a new structure and renovation or conversion of an existing structure. It covers not only farm and livestock buildings used in the farming business but also non-residential rental properties such as commercial offices or storage. It also applies to structures such as roads, fencing and tunnels. Residential dwellings are excluded. The allowance does not cover the cost of the land itself or any fees for planning permission.

Broadly, the allowances are available for any qualifying expenditure incurred or contract entered into, from 29 October 2018.

To claim SBA an allowance statement must be created. If you are the first person to use the structure, you must create a written allowance statement before you can make a claim. If the building is then sold, subsequent purchasers must obtain a copy of the statement to claim any remaining allowances, and your allowance stops.

Capital Gains Tax implications
It is important to consider the interaction with other possible tax reliefs. When claiming SBAs, the base cost for Capital Gains Tax (CGT) is reduced by the amount claimed each year. The benefit gained from the SBAs will eventually be clawed back through an increased future CGT liability. Therefore, the process of claiming SBAs is purely a cash flow exercise, with no permanent tax benefit apart from differences in tax rates.

Structuring you Capital Allowances claim
Having multiple types of reliefs and allowances is beneficial, but to maximise the benefit available from new construction projects, the correct procedure should be followed to save the most tax:

1. First, identify any costs which are eligible for plant and machinery allowances. Claim these at the highest rate of relief available of either Annual Investment Allowance (AIA) (100%), general pool items (18%) or integral features (6%)
2. Then look to identify any costs (minus land) that qualify for the Structures and Buildings Allowance (SBA) at 3% from April 2020 (previously 2%)

Ellacotts can help maximise your tax reliefs for your farming business
Detailed invoices and quotes are important to support any Capital Allowances or indeed repairs claim. These need to split out the functional plant, such as feed barriers, grain dryers, gates, and any repairs, say to existing concrete, rather than one general invoice 'works to new cattle shed'. Without these detailed invoices, it will be hard to prove which parts of the construction are eligible for the specific allowances and reliefs.

Once again, it comes down to forensic analysis of the farm expenditure to maximise tax relief. We understand how complicated this process can be. Our team of experts will be pleased to help ensure that you are taking full advantage of these reliefs.

All change in capital taxes?

We live in challenging times, with frequent changes making life challenging from a tax planning and advice perspective.

We have put together a list of the most common topics, which we speak to clients about, which may be useful to your specific situation.

Capital Gains Tax (CGT) reporting deadline of 30 days for disposals of residential property
Since 6 April 2020, if you are a UK resident and dispose of UK residential property, you need to pay your Capital Gains Tax (CGT) and submit CGT returns within 30 days of completion of the sale. Before April 2020, you had between either 10 and 22 months to pay CGT. The 30-day deadline is a strict count of days. You must remember to factor in weekends.

Where no CGT is payable, there is nothing to report. Typically, the sale of a house that you have lived in as your home throughout ownership is not reportable.

Depending on income levels, CGT is likely to be payable at a rate of 28%. If you are disposing of a property, you should let us know as soon as possible. Establishing the deductible base cost of a property can take a significant amount of investigative work, so the more time we have, the better. We would also, of course, wish to give you maximum notice of the tax payable, to help with cash flow and funding.

An example of a complicated CGT calculation would be where a cottage is being sold off from a farm. Valuations may be needed of elements of the property not being sold, such as the farm, to apportion cost to the property being sold.

Non-UK residents already had to report within 30 days. From 6 April 2019, this was extended to apply to direct and indirect disposals of all UK land (whether or not a gain arises).

We will be pleased to talk you through the impact of these rules and to calculate the tax payable.

Stamp Duty Land Tax (SDLT) holiday expires 31 March 2021
The Chancellor had announced back in July 2020 a temporary Stamp Duty holiday for properties under £500,000 until 31 March 2021.

If you have any thoughts on making property gifts, selling a property, or needing to remortgage, you must act urgently to meet the deadline.

Lenders, conveyancing solicitors, surveyors and valuers are all extremely busy due to the 31 March 2021 deadline.

A relatively straightforward gift of property as part of wider tax planning may be caught in this backlog of legal work and take longer than expected.

It is important that you make this decision and start the process quickly.

Future changes to Capital Gains Tax (CGT) rates
The Office of Tax Simplification was tasked to look into the current Capital Gains Tax rules and "identify opportunities relating to administrative and technical issues. As well as areas where the present rules can distort behaviour or do not meet their policy intent."

We envisage the work of the OTS having a significant impact on CGT planning for individuals, with implications also for Inheritance Tax planning. The full report is available online and we would encourage you to read this. Rest assured Ellacotts will be monitoring developments and updating our advice to our clients as appropriate.

Possible changes to Inheritance Tax Business Property Relief (BPR)
Inheritance Tax Business Property Relief (BPR) is available on the value of certain business interests once held for two years, at up to 100%. BPR is available so long as the business is trading. Guidance and case law indicates that this trading test requires not less than 50% of business activities to be investment activities. This test is a blunt, pass or fail, test.

It has been recommended to Government that the 50% trading test be toughened to an 80% test. Businesses that can pass the 50% test, but are close to it, and may well fail an 80% test, should consider making use of BPR whilst they can. Appropriate steps you could take include gifts, or moving investment activities to a separate entity.

Ellacotts can help you with your taxes
We carry out periodic reviews of our clients' tax positions. This is particularly important where there are significant farm diversification projects or rental enterprises.

If you would like to discuss your tax position or any advice on your farming business, please contact us.

Smooth out your tax payments

With a dreary 2020 harvest behind us, it is time to look forward to a more hopeful 2021. Although the 2020 harvest was generally a disappointment, some growers find themselves with a larger than expected tax bill in January, linked to a more fruitful 2019 harvest.

Time to Pay scheme
As most will be aware, HM Revenue & Customs (HMRC) allowed those who had been adversely affected by COVID19 to defer their July 2020 tax payments to January 2021. This has meant that some have found themselves with increased tax bills. However, help is available to settle these large tax bills with HMRC's 'Time to Pay' scheme.

Time to Pay allows those adversely affected by COVID-19 with tax bills of less than £30,000 to set up a payment plan to spread the cost. This may allow you to pay your bill in instalments by Direct Debit, or HMRC may decide to give you more time to pay. We can help to set this up for you.

The poor 2020 harvest will likely mean reduced profits in the 2020/21 tax year. We can look with you at reducing the two tax payments payable in January 2021 and July 2021 on account of the final tax bill due in January 2022.

Farmers Averaging Relief
Future tax liabilities can also be reduced by claims for Farmers' Averaging relief, which averages farming profits over either two or five years. Relief smooths the profit taxable from year to year, and also potentially the rate of tax.

A claim can result in tax repayments from HMRC for previously paid tax which is no longer payable. Ellacotts review the availability and merits of Farmers' Averaging Relief annually for all our non-company farming clients.

Annual Investment Allowance (AIA)
Investing in plant and machinery is very tax-efficient, where cashflow allows, as explained in our other article. Annual Investment Allowance (AIA) allows for 100% tax relief on the first £1M of plant and machinery.

Bringing forward expenses such as repairs into the closing accounts year, rather than the new year, is also useful. Farmhouse repairs are less tax efficient as a proportion will be disallowed as relating to personal use.

Personal Tax Allowance
Does everyone in the family farming business use their tax Personal Allowance? Are some family members paying tax at higher rates? We can discuss with you whether income can be better and more tax efficiently shared across the partners and family.

Ellacotts can help you with your tax
These are just a few of the ways to smooth out your tax liabilities. Depending on your circumstances, there may be further options available to you. Please contact your Ellacotts contact or contact Helen King on hking@ellacotts.co.uk or 01295 250401. A member of our specialist Agricultural team would be happy to discuss your tax position.

End of year tax planning

Although the tax year-end is not until 5 April, between now and 5 April, you have the opportunity to save some tax with some careful planning.

Here are our top tips on how to best utilise your allowances before the end of the tax year.

Top up your pension pot
The standard annual pension allowance is £40,000 per person in the current tax year. This is reduced if your income exceeds certain limits or you have taken an income from pensions using flexi-access drawdown.

However, if you are a higher-rate or additional rate taxpayer, you can claim the extra tax relief. You can also carry forward any unused annual allowance from the three previous tax years, so long as you were a member of a registered pension scheme during the years you wish to claim relief for.

If you have not used up your allowance, you should consider doing so.

Use your Individual Savings Account (ISA) allowance
The tax-efficient ISA allowance for the current tax year is £20,000 per person. Therefore, a married couple can invest £40,000 before the end of the tax year. ISAs are exempt from Capital Gains Tax (CGT) and income tax, so there is no need to declare them on your tax return. If you do not make use of your ISA allowance, it cannot be carried forward, so use or lose it!

Capital Gains Tax (CGT) allowances
Individuals have an annual CGT allowance that currently enables them to make gains on investments of up to £12,300 free of tax.

Any gains over the allowance are charged to CGT at either 10% or 20%, depending on the individual's other total taxable income in the year the gain arises. Married couples may be able to use each other's allowances by transferring assets before they are sold. Higher rates are due on the disposal of certain residential property.

Additional rate taxpayers
If you earn £100,000 or more, your tax-free personal allowance falls by £1 for every £2 you earn over £100,000. Therefore, if you earn £125,000 or more, you will not receive a tax-free personal allowance at all. The additional rate income tax (45%) is also charged on earnings of over £150,000. Pension contributions and moving investments to a lower-rate tax-paying spouse could reduce this liability.

Utilise your spouse's personal allowance
If your spouse is a lower or non-taxpayer and you have income-producing assets (for example, buy-to-let property or even saving accounts), you could put these in their name to lower your overall Income Tax liability. Assets can be passed between spouses without any CGT liabilities.

Do you need help with your year-end tax planning?
Contact us for more information or help with your personal tax planning.

Benchmarking – 2019 harvest

We continue to gather information from our arable farmers' data and summarise below our findings and comments:

	Wheat (per acre)		**Oilseed** (per acre)	
Harvest	**2019**	**2018**	**2019**	**2018**
Yield				
Average	3.71t	3.21t	1.23t	1.25t
Range	2.3t - 4.58t	2.38t - 4.11t	0.61t - 1.65t	0.81t - 1.66t
Gross Output				
Average	£563	£538	£431	£427
Range	£365 - £743	£346 - £739	£217 - £583	£239 - £612

Taking a typical 600 acre arable client's overheads:

	2019(£/acre)	**2018**(£/acre)
Gross output	£481	£461
Variable costs	£216	£211
Gross margin	£265	£250
Fixed costs		
Labour and contract	£41	£48
Machinery and power	£145	£137
Property	£43	£44
Administration	£40	£38
Total fixed costs	£269	£267
Management (loss)/profit before rent and finance	(£4)	(£17)
Rent	£35	£36
Finance	£21	£21
	£56	£57
Other income incl. Basic Payment	£230	£237
Profit before drawings, tax etc.	**£170**	**£163**

Key trends:

- We have generally seen a yield improvement for the 2019 harvest compared to the 2018 harvest, other than for oilseed rape, which is unchanged. Average yields for other break crops such as oats and beans have significantly improved. Commodity prices dropped drastically to the levels seen for the 2017 harvest. Arable cropping has seen many changes as farmers look to alternatives to oilseed rape. Oilseed rape on average has seen average drop of 18% across both our top 20% group, and the average. Surprisingly there has been less barley planted with large increases in areas of oats and beans, albeit from a low starting area. With the relaxation of the three crop rule it will be interesting to see what happened to the 2020 harvest areas and what farmers' plans are for the 2020/21 growing season. The gross output difference between our top 20% and the average is around £68 per acre for the 2019 harvest, due to both better yields and slightly higher commodity prices.

- Variable costs for the 2019 harvest increased by £5 per acre. An average saving of £4 per acre for sprays was cancelled out by an increase of £8 per acre for fertiliser. The average gross output increased by £20 per acre but the top 20% saw a drop of £3 per acre which explains the narrowing of gross margin between the top 20% and the average.

- Average labour, power and machinery costs have dropped by £17 per acre and are now roughly the same as our top 20% farmers. Property, administration, rent and finance costs are very similar to the levels seen in the 2018 harvest year. It appears that the higher labour cost for our top 20% farmers is due to additional labour requirements for diversification enterprises like farm shops, bed and breakfast and leisure activities.

- Basic payment accounts for over a third of other income. With this level of support set to fall over coming years we are now seeing more take up of environmental schemes, especially among our top 20% farmers. Other income totals have on average fallen by nearly 6% but our top 20% have managed an increase of 24% this year, more than compensating for the 6% reduction seen last year.

- Management profits have risen this year by £38 per acre for our top 20% performers, and on average by £7 per acre.

- Due to the prolonged wet weather in 2019 and early 2020, very few farmers established all their planned winter crops, with spring planting to compensate. Although early prices for 2020 wheat are strong, at around £30/t above 2019, this is unlikely to make up for reduced yields. The 2020/21 growing year is also being affected by adverse weather. Add to this the uncertainty of Brexit and the impact of COVID-19 and we can expect another challenging year for farmers.

Get in touch with our team

If you have any questions about how these trends may impact your farm please get in touch with your usual Ellacotts contact or Steve Gardner on **sgardner@ellacotts.co.uk** or **01536 646000.**

Team growth and development

We are now looking for two Agricultural Accounts and Tax Managers to join our growing teams in both Banbury and Kettering. You can see more details about these exciting opportunities on our website www.ellacotts.co.uk/careers/jobs or contact careers@ellacotts.co.uk to discuss further.

These roles are a great opportunity to further develop a career in a forward thinking, client-focussed business.

Do you share our interest in agriculture and enjoy working with farmers and landowners? We are always keen to meet talented Trainee, Part-Qualified and Qualified Accountants or Tax Advisers to join our teams in Banbury and Kettering. Please get in touch!

Meet some of our team

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