Ellacotts

AGRICULTURE & PROPERTY

AUTUMN 2021 NEWSLETTER

In this edition....

Time for some business housekeeping?

Winter evenings or perhaps hours spent on a tractor can give time for thoughts and discussions regarding business structure and succession planning. The team at Ellacotts collectively have decades of experience in handling transitions in business management and land ownership with our farming and landowning clients. We also have strong links with similarly experienced solicitors and land agents, to share ideas and help you to move forward.

Here are some pointers:

1. Business restructuring

Are all appropriate family members involved in the business management and ownership? Is it time to include some new enthusiasm? Take advice, particularly as regards the tax implications of including new members, or retiring old members. There could be Capital Gains Tax and Inheritance Tax implications.
Incorporating part or all of your business into a limited company could offer significant tax savings.
Are any family members not using their personal allowance, or lower rate band, whilst some family members are paying higher rates of tax?

2. Cash flow / borrowings

Keep your accounts, cashflows and budget up to date. If budgets show a reduction in taxable profits, Income Tax payments on account can be reduced.
Check your banking arrangements- what information does the bank need, & by when? Are all correct signatures and authorities in place? Are any borrowings in the best business entity?

3. VAT

Is the information HM Revenue & Customs have in connection with your VAT registration up to date? Have there been any deaths, new partners appointed etc. which HM Revenue & Customs are unaware of? Check whether you have any Opted to Tax property. Check the plans submitted to HM Revenue & Customs against your invoicing and bookkeeping treatment. Misunderstandings can delay transactions whilst matters are tidied with HM Revenue & Customs.

4. Machinery purchases

Annual Investment Allowance (AIA) is a key tax planning tool. It is important that you maximise the relief available by planning the timing of your spending. The current AIA is £1,000,000 (end date extended to 31 March 2023 from 31 December 2021 in the Autumn 2021 Budget). A machinery replacement schedule is an effective tool for planning tax efficient capital expenditure.

5. Transferring assets

There are Inheritance Tax reliefs available for business and agricultural property. Carefully structuring asset ownership can maximise these reliefs. Gifts may be appropriate before assets are changed (e.g. before applying for planning permission, before taking an asset out of farm use (e.g. renting out a cottage previously lived in by farm staff).
Is your Will up to date? How do you wish to provide for beneficiaries in your lifetime, or after your death? Can non-farming wealth be directed to non-farming children without impacting on the core business?

6. Legal agreements

Depending on the structure of the business, an up to date partnership agreement, or shareholders' agreement is vital. Are assets within the business, to be dealt with by these agreements, or outside, to be dealt with by your Will? A correctly-worded partnership agreement should maximise the Inheritance Tax (IHT) reliefs available. Agreements should be reviewed regularly to ensure that they still meet the needs of the business and the family. The partnership agreement and Wills should be reviewed together, as a partnership agreement will override a Will if they are not aligned. Life assurance should be considered to ensure borrowings are covered on death, and any IHT can be paid without straining the family.

7. Pensions

Tax relief on pension contributions can reduce tax liabilities for higher rate tax payers. At the same time pensions can also be used to minimise IHT now that unused pension funds can be passed down the generations. Pension funds can be used to support the business: holding commercial property or farmland in a pension fund means that the asset grows free of any Capital Gains Tax. Rent paid to the pension fund is an expense in your accounts, reducing taxable profits.

8. Capital Gains Tax planning for any asset disposals

Capital Gains Tax legislation changes Budget by Budget. Does your Capital Gains Tax planning strategy still have the intended result? Are any changes needed? Please contact us to review.

9. Payroll

Are all staff contracts up to date? Do staff required to live in farm accommodation have contracts that make this clear? What happens when the employment ends?
Beware of self-employed staff living in farm accommodation; the property will count as a normal external let, rather than being used in the business, which can have significant tax and VAT implications. Again, what happens when the role ends- can you obtain possession of the house?

10. Review your insurances

Review your cover in the light of any change to the use of assets, or activities.
Think about key man cover and life insurance should a key member of the team be unwell, or worse.

We keep our clients' arrangements under review, and would be pleased to review your structure with you. Please get in touch.

Extracting profits from companies

The well known routes to take money out of your limited company are by way of salary and dividends. However, there are some alternatives:

Pensions

Pensions remain a very tax efficient way of extracting money by way of corporate contributions. As a reminder:

- There is no tax or National Insurance on pension contributions
- Growth in the fund is tax-free
- Contributions are generally treated as a business expense so reduce profits and tax
- Up to £40,000 each tax year can be paid into pensions
- It may be possible to utilise unused contributions from previous years
- Pensions do not generally form part of your estate for Inheritance Tax purposes
- The money is outside of your business

Venture Capital Trusts (VCTs)

As an alternative to pensions, VCTs offer very generous tax relief, however you have to have paid the tax to be able to reclaim the tax. With a VCT:

- The investment is in young growth-orientated companies
- These investments are high risk and you could lose all of the invested capital
- You can invest up to £200,000 per tax year
- You will receive a tax rebate of up to 30% on the amount invested. However, please note the tax rebate is restricted to the amount of income tax paid
- Shares must be held for at least five years to permanently keep the tax rebate.
- If the shares are disposed of within five years of issue, a clawback by HMRC of any income tax reliefs originally
- Dividends will be free of taxation
- On disposal, any gain will be exempt from capital gains tax

For example, ignoring personal allowances and assuming income is only chargeable to basic rate tax, if you were to draw a dividend of £37,500, tax payable would be £2,662.50. If you were to pay £8,875 into a VCT, tax relief would be £2,662.50. In this example, you have taken £37,500 from your company, paid £8,875 into a VCT and got back all of the tax paid on the dividend and still got cash of £28,625 to spend or invest as you wish.

If you did this for five years, you would have invested £44,375, received £13,312.50 tax relief, then from year six, if you were to reinvest the maturing holdings each year, with no growth, you would receive further tax relief of £2,662.50. Do this three times and from year 16, in effect HMRC are funding your investment, as you would have received back more in tax relief than the original investment and still have the value of the VCT.

Please contact Chris Slatter if you need further information

MTD (Making Tax Digital)

HM Revenue & Customs began their MTD (Making Tax Digital) project in April 2019, requiring all VAT registered businesses with turnover above £85,000 to make their VAT returns by electronic reporting. As the £85,000 turnover threshold has remained constant, more businesses year on year are required to comply.

The MTD project was intended to encourage electronic reporting and the transition to bookkeeping software. For those already familiar with various software packages, this was an easy move. For those using a manual cash book the change of bookkeeping system and adoption of electronic reporting was a bigger step. There are many general bookkeeping packages available which have been promoted heavily in the media, as well as agriculture- specific software, which all meet HM Revenue & Customs' requirements. We have helped numerous clients with set-up and training, and recommended bookkeepers for others, to help reduce the stress of learning a new system.

We now move towards the next phase of MTD where all VAT registered businesses will need to adopt MTD reporting from 1 April 2022.

Our agricultural clients face a choice:

1. De-register from VAT and the problem is dealt with…for now. Deregistering from VAT would be expensive for the many businesses who regularly reclaim Input VAT. However, the next phase of the Government's push towards electronic reporting is to implement Income Tax self-assessment reporting. This means everyone, VAT registered or not, will eventually have to keep electronic records. For a business with assets purchased over the years and Input VAT reclaimed, VAT will need to be repaid to HMRC based on the market value of those assets, potentially creating a large VAT bill. As mentioned above, the turnover threshold has not changed in the last few years and is not likely to; the business could eventually reach the £85,000 threshold and be required to VAT register again.

2. Accept the changes and start using electronic bookkeeping software. Ellacotts are discussing MTD with clients. We know our clients' businesses and can advise on suitable bookkeeping packages. Many clients who changed systems back in 2019 had the same worries: "Will I be able to learn the software as I'm not very good on computers?" "Our farm Wi-Fi is useless, how can I report data when I can't even get onto the internet?" and "How much is going to cost me?" Ellacotts can help!

HMRC do have some exemptions to MTD for now:

- Age or disability
- Religious grounds
- Location - if you live in a remote area with poor internet and no chance at all of getting signal, and have exhausted all possible solutions.

These exemptions are all very rare and HMRC have been reluctant to grant them. HMRC will consider each application on a case by case basis.

Ellacotts are here to explore solutions with you, which could be:

1. Training – by us, or through the software provider;
2. The Ellacotts team bookkeeping for you;
3. Recommending a farm secretary or bookkeeper with compliant software.

If you need to make changes in order to comply with MTD, please speak to us sooner rather than later to discuss the best options.

A rural view on the 2021 Autumn Budget

With the farming industry undergoing mass reforms and increased pressures as the Basic Payment Scheme is phased out, the Chancellor's latest Budget statement was eagerly awaited. In the end, the farming sector was largely overlooked, with the focus being on a new post -COVID economy of fiscal stability.

There were still a number of changes relevant to farmers and the rural economy:

1. Increase in Annual Investment Allowance (AIA)

Having the right machinery and vehicles is a challenging cost for many farming businesses. AIA, which allows businesses to claim 100% tax relief on qualifying assets against taxable profit, was due to drop from its cap of £1m to £200,000 on 31 December 2021. The £1m allowance was originally only intended for two years, was extended for another year, and in this Budget has now been extended until 31 March 2023. This alignment with tax years will simplify the transition back to the (presumably) £200,000 cap on 31 March 2023.

Since 1 April 2021, many companies have been able to benefit from the 130% super-deduction on qualifying plant and machinery investments. However, this allowance is not available to unincorporated businesses or on second hand kit, where instead AIA can be used to obtain the tax relief. The extension to the £1m allowance will therefore make a positive difference to many farming businesses.

2. New Green Investment Relief

In an effort to encourage the uptake of green technology, items such as solar panels will be exempt from business rates.

There have been calls for a reduction in VAT on these types of investments but this did not materialise. Given the upcoming COP26 meeting, there was very little in the way of green announcements regarding how we will meet the ambitious net zero 2050 pledge – a particularly challenging target for farming businesses.

3. Business rates

One of the key areas that the Chancellor did address was business rates for those most affected by COVID-19. The change will see a reduction of 50% for businesses in certain groups relating to entertainment, hospitality and leisure.

This will be welcome news for many farming business who have diversified into farm shops, wedding venues, campsites and holiday lets. The relief is available up to a maximum of £110,000 for each business. This will come into effect in April 2022.

This is in addition to a 12-month holiday on increased rates for businesses investing in their properties.

4. Capital Gain Tax

Surprisingly there were no changes to the rates or allowances for Capital Gains Tax, however the timelines for submitting information relating to sales of residential properties, previously within 30 days of the transaction being completed, is being extended immediately to 60 days. This is a much more achievable timescale allowing people time to seek correct advice and provide the information required.

5. Employment

With post-Brexit labour issues affecting the rural sector more than most, the increase in the National Living Wage to £9.50 per hour (a sizeable 6.6%), will put pressure on businesses in the future, when labour is already in short supply.

6. Fuel duty

Fuel is a large cost for many farming business. The expected increase after years of being held steady would have hit hard. However the decision to freeze fuel duty will be well-received by many businesses experiencing high fuel costs.

7. Research and Development

The agricultural sector has an abundance of activity around innovation, new technology and efficiency. R&D tax credits are a tax relief designed to encourage spending on research and innovation. The Chancellor made much of encouraging research and development spending including an overhaul of the tax relief system.

Currently the tax relief only applies to companies and as most farm businesses are partnerships, hopefully some changes may be on the way.

8. Property Developer Tax

A new tax, called the 'Building Safety Levy' was confirmed to apply to property developers with profits over £25 million, at a rate of 4% from 1 April 2022. Although not affecting landowners directly let us hope the additional cost does not filter down to the landowner selling farmland to a property developer, in the form of a reduced price per acre.

9. Basis period reform for Making Tax Digital

Despite lobbying from many accounting bodies for the Government to drop its plans to move away from the basis period rules, the Budget confirmed that the proposed change will go ahead, but a year later than initially proposed. From 6 April 2024 all accounting year ends will be aligned to 5 April.

For businesses with an accounting date other than the tax year end (5 April), this could accelerate profits into an earlier tax year, increasing tax liabilities for the transition year. This may affect cashflow, particularly around 31 January 2025, when the balancing payment for 2023/24 is due.

To mitigate the cashflow impact, an election is proposed to spread any excess profits in the transition tax year over a period of up to five years.

The purpose of alignment is to assist self-employed businesses and landlords with business turnover above £10,000, who from 6 April 2024 will be required to report under MTD for Income Tax.

Further information on this will follow as the mechanism and implications are known.

What does the future hold?

The Budget was one of giving, but as we all know, following this mass give away, at some point the piggy bank will need to be refilled. Announcements have already been made about:

- The increase in Corporation Tax from 19% to 25% to take effect from 1 April 2023;
- A new Health and Social Care Levy of 1.25% from 6 April 2022, which will initially be collected in the form of additional National Insurance contributions from employees, employers and the self-employed;
- A 1.25% increase in the rate of Income Tax on dividend income from April 2022.

Surprisingly there were no changes to Capital Gains Tax, Inheritance Tax or pensions as initially anticipated. However, it will be interesting to see what the Budget in March brings, especially following the Chancellor's announcement that expenditure must be funded by either an increase in tax rates, or from a growing economy. Hopefully it will be the latter but it would still be sensible to enact any planning now before we enter a post-COVID tax regime.

Ellacotts can help with any queries you have on the latest changes. Please feel free to contact your usual Ellacotts contact who will happily talk through how these changes will affect your business and your family.

Ellacotts Agriculture & Property Team News

We are pleased to announce that Kerry O'Reilley has been promoted to the position of partner in Ellacotts. Kerry joined us in November 2010 as a trainee and initially obtained the Accounting Technician qualification before taking the 'fast-track' route to qualifying as a Chartered Accountant in 2015.

Commenting on Kerry's promotion, Mark Dickin said "It is very heartening to see Kerry reach the position of partner and also to have had the pleasure of supporting her development over the last 10 years. I am sure that clients and friends of the firm will feel the same and wish Kerry the very best in her new role".

Kerry has also been recognised 12th in the "Accountancy Age 35 under 35 rankings", which seek to highlight the rising stars of the accountancy profession. This a great achievement.

Amy Moulton has been promoted to manager with effect from 1 September 2021. Amy joined Ellacotts in Oct 2017 as a senior and through hard work and dedication over the last four years is now ready to make the next step to manager. Amy has made a huge impact both within the team and with clients. Amy's promotion is well-deserved.

Interested in working in accountancy?

We are always on the lookout for the best talent to join Ellacotts' market- leading Agriculture and Property team. 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!

See our latest vacancies or email hr@ellacotts.co.uk

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