Whitley Stimpson
PARTNERS IN YOUR PROGRESS

AGRICULTURAL SPOTLIGHT

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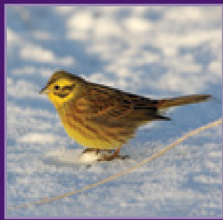
PENSIONS AUTO-ENROLMENT
ARE YOU READY?

PLUS: NEW INHERITANCE RULES + SELF ASSESSMENT DEADLINE

CONTENTS



WELCOME

Welcome to the Winter 2013 edition of Agricultural Spotlight. The nights have drawn in and we are well on our way to Christmas. As always, the farming world does not stop for any season so we have prepared various articles which we hope you are able to take a moment to read and find useful.

We at Whitley Stimpson wish you a pleasant festive season and a Happy New Year.

This quarter focuses on new developments in taxation, including recent cases which may affect many rural businesses. We hope it provides food for thought whilst you are providing food for all.

NEW INHERITANCE RULES COULD HIT BUSINESS OWNERS HARD

EXAMPLE 1

Tom takes out a loan secured against his home in order to purchase some buildings which he uses in his business. On his death, his business is valued at £500,000 and his home and other personal assets are valued at £750,000. The loan is still outstanding at £200,000. Under the old rules, assuming his business qualifies for Business Property Relief or Agricultural Property Relief, his taxable estate is as follows:

	£
Business Property	500,000
100% BPR	(500,000)
Personal Estate	750,000
Loan	(200,000)
Taxable Estate	**550,000**

As you can see, the loan was used against his personal estate and reduced his taxable estate by the full amount of the loan. However, the new rules look at what the loan was used for, not what it was secured on. See Example 2.

EXAMPLE 2

Under the new rules, the loan is deducted from Tom's business property. His taxable estate is as follows:

	£
Business Property	500,000
Loan	(200,000)
100% BPR on remainder	(300,000)
Personal Estate	750,000
Taxable Estate	**750,000**

His taxable estate is now £200,000 larger which could mean up to **£80,000** more Inheritance Tax to pay.

Following this year's budget, we look at two changes to how loans outstanding on death could be treated for Inheritance Tax and how they may affect you and your family.

Firstly, individuals who take out loans to invest in their business could be unknowingly increasing the Inheritance Tax on their estates. This is as a result of new rules which have come into force this year which seek to deduct the loans from the value of assets which already receive 100% relief rather than the chargeable estate. To illustrate, let us look at the rules as they existed. See Example 1.

The changes have been brought in to combat the 'abusive' avoidance of Inheritance Tax by individuals offsetting business loans against their personal assets. Fortunately for many business owners these new rules do not affect individuals who took their loans out before 6th April 2013. However if the terms of existing loans are amended after this date then the loans will then fall under the new rules. Furthermore you need to be able to prove that the loan in its current form was in existence prior to 5th April 2013.

With significant amounts of tax at stake, it is crucial that business owners get professional advice before undertaking or amending loan arrangements.

The other change which may affect the amount of Inheritance Tax charged on your estate also concerns unpaid liabilities at the date of death. Under the old rules, on death the value of your estate would be reduced by any outstanding debts which are legally enforceable. Inheritance Tax would then be calculated on the net value of the estate.

However the new rules state that if you die and you have outstanding liabilities, you can only deduct these from the value of your estate if the liabilities are settled by the estate.

Furthermore, where the debt is not repaid on or after death, it is only deductible from the estate when each of the following conditions are met:

1 There is a commercial reason for not paying off the debt. This means that a loan provider acting on a commercial, or arm's length basis, would not require the debt to be repaid.

2 The debt is not repaid as part of a tax avoidance arrangement.

3 The loan is not otherwise disallowable under Inheritance Tax rules.

For example, Tom has a loan from a close personal friend. After Tom's death, the friend decides not to reclaim the loan. Under these new rules the amount of the outstanding loan would not be able to be deducted from Tom's estate.

Unlike above, these rules do apply to existing loans rather than those entered into subsequent to 5th April 2013.

As you can see, there are considerable tax planning traps out there. If you are at all concerned that your financing decisions could have an untoward effect on your tax position, please contact us immediately.

KEEP YOUR MAPS UP TO DATE
SAYS RPA

Farmers are being urged to keep the Rural Payments Agency (RPA) informed of any changes to their land and update their Rural Land Register Maps on a regular basis.

Many farmers only update their maps when they submit their SPS application form rather than telling the Agency about land changes as soon as they happen. Letting the RPA know immediately not only saves time later, it also ensures that pre-populated SPS application forms are up to date and accurate, making the application process smoother and easier to complete.

Typical things that people forget to notify the Agency about include features that are ineligible for SPS, such as ponds, buildings and tracks with a hard surface, and it is a requirement of the scheme that farmers inform it of boundary changes to land parcels and Permanent Ineligible Features as soon as they take place. Customer Director Justin Chamberlain said:

"It is in everyone's interests to have maps that are as up to date as possible. Up to date information on customers' maps helps to ensure that they apply for SPS on the correct areas and in turn ensures that payments are accurate and timely. Now is a good time to act as changes submitted before Christmas will be reflected on the pre-populated SPS forms next year."

The Agency began using aerial photography alongside land inspections last year to help identify changes on the ground that need incorporating into RLR maps, but it is still better for farmers to act first and report changes to RPA.

The Rural Payments Agency should be notified of changes to land on the Rural Land Register by using a RLE 1 form which is available from the RPA website: rpa.defra.gov.uk.

In other RPA news, the Euro exchange rate used for calculating 2013 Single Payment Scheme (SPS) payments will be 1 = £0.83605.

SELF ASSESSMENT DEADLINE LOOMS

All individual and partnership Self Assessment tax returns for the year ended 5th April 2013 need to be submitted online and any tax due paid by 31st January 2014.

If you haven't yet submitted your return, please be aware that you may incur penalties if you leave it until after the deadline. These begin with an automatic £100 charge per return and increase after 30 days and 6 months respectively. If the business is in a partnership, each partner has to pay a penalty if the partnership return is late. This can mean that partners will be subject to two sets of penalties if their own Self Assessment returns are also outstanding.

The tax due is the balancing payment for the year ended 5th April 2013, plus the first payment on account for the year ended 5th April 2014, if required.

Overdue tax carries interest, chargeable from the first day the tax is late. Balancing payments can also have additional 5% surcharges if still unpaid after 30 days and again after 6 months.

For help completing your 2013 return please contact us and we will be happy to advise.

PENSIONS AUTO-ENROLMENT

ARE YOU READY?

After the recent shift to Real Time Information (RTI) for employers, the next significant change is already looming. Many small employers have not even heard of pensions auto-enrolment, but unfortunately it will affect all employers, even those who have one employee.

So what does this mean?

Essentially, all employers with at least one employee must automatically enrol certain members of their workforce into a pension scheme and make a contribution towards it. When you take on a new employee you have to automatically enrol them into a pension scheme, providing they are eligible (see below) and give them the opportunity to 'opt-out' of the scheme.

When do I need to start auto-enrolling my employees?

The largest employers are already doing it. By the end of 2013 those employers with more than 500 employees will be obliged to participate. By 1st October 2014 those with 60 employees or more will be participating with many small employers following all the way through to 2017. To find your staging date (the date which your business is required to start auto-enrolling from) you can enter your PAYE reference on the Pensions Regulator website: thepensionsregulator.gov.uk/employers/tools/staging-date.aspx

Which employees will be required to be enrolled?

The employees are known as eligible jobholders. They must:

- Be aged between 22 and state pension age
- Be working, or ordinarily working, in the UK
- Have qualifying earnings, payable by the employer, in the relevant pay reference period that are above the earnings trigger for automatic enrolment (currently £9,440)

The employer is required to auto-enrol all eligible jobholders and pay minimum contributions to the scheme on their behalf. Various other categories of workers can 'opt in' to the scheme.

What will it cost me?

Inevitably, there will be costs in setting up a scheme if you do not already provide one. Several standard packages will be available from many providers which may keep these costs lower. But the employer is also required to contribute a minimum amount to the employees' pensions as well as the employee themselves. The rates are calculated as a percentage of the employee's earnings between £5,668 and £41,450 (2013/14 limits) (see table below). So if you pay an employee £18,000 pa, you will be required to contribute an extra £123 up to Sept 2017, £246 to Sept 2018, and £369 thereafter.

What next?

We have only touched on a few of the issues to do with auto-enrolment. As with any nationwide system, it is complex and requires a considerable amount of planning. The advice from the Pension Regulator is to begin preparations at least 18 months before your staging date so many smaller businesses are being encouraged to make the first steps and avoid being caught out. Ultimately this may involve outsourcing your payroll to your accountant.

Whitley Stimpson has a dedicated payroll department who take the hassle out of paying your employees. For more information please contact us.

	Oct 2012 - Sept 2017	Oct 2017 - Sept 2018	Oct 2018 onwards
Total	2%	5%	8%
Employer	1%	2%	3%
Employee	0.8%	2.4%	4%
Tax Relief	0.2%	0.6%	1%

FARM INCOME FIGURES FALL

DEFRA recently issued data on Farm Business Income for 2012/13, with some less than encouraging results. Farm Business Income effectively refers to a farm's net profit as shown on the accountant's profit and loss report. DEFRA's published findings were as follows:

KEY RESULTS

▶ Average Farm Business Income fell across most farm types in 2012/13 (the exceptions being specialist pig and poultry farms) as the effect of the poor growing season and harvest was felt across both the cropping and livestock sectors.

▶ For the cropping sector lower yields and quality were offset to some extent by higher prices. However the additional impact of higher costs resulted in a fall in incomes.

▶ On dairy and grazing livestock farms (lowland and LFA) the impact of higher feed costs was a key driver behind lower incomes.

▶ For specialist pig and specialist poultry farms, incomes increased via higher output which was only partially offset by higher input costs, particularly for feed.

▶ The single payment for 2012/13 was on average 12% lower than the previous year due to the pound strengthening against the Euro.

On **cereal** farms, average Farm Business Income fell by just over 25% in 2012/13 to around £68,000. Both the yield and quality of cereal and oilseed rape crops were affected by the poor growing season but a substantial increase in prices driven by global markets meant that overall output from the crop enterprises, particularly winter barley, increased. However higher input costs, particularly for seed, fertiliser and crop protection offset this, resulting in a net fall in average incomes.

Average incomes on **general cropping** farms also fell but to a lesser extent (9%) than those on cereal farms. Output from potatoes was considerably higher than the previous year but total agricultural output fell due to a lower output from the other cropping enterprises, particularly wheat and sugar beet. On a per hectare basis, agricultural costs on these farms increased in line with those on cereal farms.

On **dairy** farms, average Farm Business Income fell substantially by around 40% to £51,000. Although agricultural output was higher, largely due to higher milk prices, input costs increased to a greater extent, particularly for feed. This is likely to reflect increased volumes as well as higher prices for purchased feed and forage due to a combination of reduced grazing days and lower quality home produced forage.

Large falls in average incomes were seen on **grazing livestock** farms in both the lowland and less favoured areas (LFAs) in 2012/13. Lower livestock output reflecting lower sheep prices in 2012, combined with higher costs, resulted in a 48% fall in incomes on lowland grazing farms and a 33% fall for LFA grazing livestock farms. Both these farm types failed to make a positive return from agriculture reflecting the difficult conditions for beef and sheep farmers throughout the year. The lower exchange rate for the single payment also represents a noticeable reduction in receipts for these farm types.

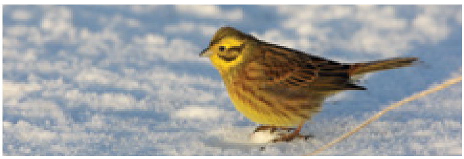
Incomes on **mixed** farms fell by nearly 50% in 2012/13 to around £38,000.Total farm output fell by almost a quarter with lower output across both crop and livestock enterprises. Total costs fell by around 15%. However, some of these differences are likely to be due to a slightly different sample compared to last year. This is because relatively small changes to cropping or stocking on farms that don't have a strongly dominant enterprise (as these are) can result in individual farms switching designated farm types between years.

On **horticulture** farms average incomes fell by over 40% as the poor growing season reduced output from fruit, flowers, bulbs and hardy nursery stock. Output from outdoor vegetables and potatoes increased, reflecting higher farmgate prices and a higher yield for some crops.

On **specialist pig** farms total output from the agriculture enterprises increased slightly, driven by higher output from the pig enterprise. The increase in costs was slightly less, particularly as feed costs did not increase to the extent expected, the net effect being that average Farm Business Income increased by 8% in 2012/13 on this farm type.

For **specialist poultry** farms average incomes more than doubled due to a substantial increase in output via higher output from the broiler and other poultry enterprises. Although egg prices increased, average output from eggs was unchanged due to a fall in production. Input costs also increased on these farms but to a lesser extent than output. NFU chief economist Phil Bicknell said the results highlighted the financial impact of poor weather in 2012:

"Whether it was reduced output or higher feed bills, many farmers' bottom lines will have taken a hit. Nor should we forget that the weather of 2012 will shape farming's fortunes in 2013/14, particularly the knock-on impact of planting problems last autumn on this year's cropping. Financially, this year is likely to be another tough one for some farming sectors"



The agricultural team at Whitley Stimpson understand the pressures that those in the farming sector are currently facing. For a comprehensive review of your accounts and help creating a reliable business plan please contact a member of the team.

Talk to someone who understands the real issues

Accounting for agriculture, farming and rural business is a specialist area that requires expertise and an understanding of the industry. Our dedicated team come from farming backgrounds and offer a clear understanding of the issues facing farmers.

We provide professional knowledge and hands-on experience in the agricultural sector. We have worked with agricultural businesses for over 80 years, providing the expert advice that is required to help you enhance the potential of your farming business.

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