AGRICULTURAL SPOTLIGHT

Whitley Stimpson
CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

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WELCOME

Welcome to the Spring 2017 edition of the Agricultural Spotlight and may we take this opportunity to wish you all a belated Happy New Year from all of us in the agricultural team at Whitley Stimpson.

We can hardly believe that it is spring already especially as so much has changed since our last edition. We have had potentially the last ever Autumn Statement, further confusion around Brexit and the shock election of Donald Trump as President of the USA.

In this issue we will, of course, be reviewing the Autumn Statement and the impact that this will have on the agricultural sector but we also feel that spring is a time for change and so, with 2017 promising to be a year of change for all of us we will be looking forward to what it may have in store.

AUTUMN STATEMENT 2016

AGRICULTURAL SECTOR CHANGES

The Autumn Statement 2016 was announced just days after our Winter edition of the Spotlight was sent out. As such we have now had some time to reflect on the announcements and can draw your attention to the changes which are most likely to impact the agricultural sector.

Income Tax and National Insurance

- The personal allowance for individuals will rise to £11,500 from 6 April 2017. This means that you will not pay tax on the first £11,500 of your income. It is worth noting that the rules regarding those with income levels above £100,000 remain unchanged and as such the personal allowance will gradually reduce for those with income above this threshold.
- The higher rate threshold will increase to £45,000 from 6 April 2017. This is the amount of income that you can earn before paying tax at the higher rates.
- The Government has reaffirmed its position that, by the end of Parliament, the personal allowance will be £12,500 and the higher rate threshold will be £50,000 meaning less middle income earners will be paying higher rate tax.
- Confirmation of the new dividend allowance which means that the first £5,000 of dividend income received will be tax free. Dividends received in excess of £5,000 will now be taxed at 7.5%, 32.5% or 38.1% depending on whether you are a basic rate, higher rate or additional rate tax payer.

Savings and Pensions

- A new lifetime ISA will be available from April 2017 for adults under the age of 40. Individuals can contribute up to £4,000 per annum and receive a 25% bonus from the Government. The account can then be used to either buy a first home or as a pension from age 60 completely tax free.
- From 6 April 2017 the annual amount that you will be able to contribute to a cash ISA will jump to £20,000. This allowance can be utilised in any combination of a cash ISA, a stocks and shares ISA, a lifetime ISA and an innovative finance ISA, which has been recently launched to incorporate peer-to-peer lending into the ISA system.
- The Government has proposed to reduce the Money Purchase Annual Allowance in relation to Pensions to £4,000 per annum from 6 April 2017. This allowance was first introduced in 2015 to counteract issues where people over 55 were recycling pensions that they had drawn down under flexible arrangements back into new pensions and thus claiming additional tax relief. If you are worried that you may be affected by these new rules we would advise contacting us or your Financial Advisor.

Capital Gains Tax and Inheritance Tax

- The current rates of Capital Gains Tax will continue to be 10%, to the extent that any income tax basic rate band is available, and 20% thereafter.
- Higher rates of 18% and 28%, again depending on utilisation of basic rate band, apply for certain gains of which the most common are any gains on residential properties which do not qualify for private residence relief.
- The Inheritance tax nil rate band has been frozen at £325,000 until April 2021.
- Additional nil rate band of £175,000 is being phased in from 6 April 2017 where an interest in a main residence passes to direct descendants. This additional nil rate band will start at £100,000 6 April 2017 and rise by £25,000 a year until it reaches the £175,000 maximum. However, as was advised in the previous edition of Spotlight, special care does need to be taken when considering this additional relief and Agricultural properties.

Insurance premium tax

- From 1 June 2017 there will be an increase of 2% to Insurance Premium Tax (IPT) which will impact all premiums which are currently subject to the standard rate of IPT.

Fuel Duty

- Fuel duty has again been frozen at the current rates until April 2018.

Should you want to discuss how these recent changes could affect you or your business please contact any of the Agricultural team at Whitley Stimpson.

Making Tax Digital – The future of tax reporting

The Government is continuing with its 'Making Tax Digital' initiative which many are describing as the biggest change to tax reporting since the introduction of Self-Assessment in 1996. In fact it has been described by several tax lecturers as Making Tax Disastrous!

The Government has suggested that there would be a staged introduction to the new rules but for most they would take effect from April 2018. The proposals that have been outlined so far are far reaching, but arguably the proposal with the biggest impact is the planned introduction of electronic quarterly reporting to H.M. Revenue and Customs of income and expenditure.

For many in the agricultural world this is a confusing idea because tax will still be paid on the annual profits, but these are not usually determined until after the harvest is in, which then renders the quarterly reports meaningless and arguably misleading. As an example, it is not unusual for arable farmers to collect 80% of their annual income over two months of the year whilst the majority of costs arise in the other ten months thus meaning that any quarterly data is likely to give little or no insight into the commercial reality of the situation.

Further to this, if you are one of the many operating under a contract or share farming arrangement, it may not be possible to collate the required information or you may be entirely dependent on other people preparing their information on time in order for you to meet your requirements.

After the initial shock of actually having to produce this information we can foresee two practical issues for our farming clients when trying to collate the required information:

1. Agricultural accounting software – under H.M. Revenue and Customs current proposals it is suggested that invoices will need to be electronically scanned into a software package, with the software then uploading summarised data to H.M. Revenue and Customs. Very few bespoke agricultural software packages are capable of submitting data to H.M. Revenue and Customs at present and so it will be very important to monitor how these develop over the forthcoming months in response to these proposed changes. It is therefore also worth noting at this point that any partners that still keep manual records, cashbooks or spreadsheets are likely to need to change in order to meet the requirements of the new provisions.

2. Internet coverage and speed – it goes without saying that in order to upload this data to H.M. Revenue and Customs you are going to need a good broadband internet connection with fast speeds. This is still an issue for large parts of the rural community and despite the Government promising to invest a further £1billion in broadband infrastructure many do not believe that this will be in place in time for digital reporting.

H.M. Revenue and Customs have suggested that income reporting will begin from April 2018 with VAT reporting coming in a year later and finally Corporation tax reporting from 2020 thus making the whole tax system digital. We therefore suggest that you start to prepare for these changes now.

It is probably too early to implement new systems, because the specifications have not yet been issued to the software package providers. However farmers should be asking themselves whether they have the expertise and confidence to deal with this themselves? Is their computer hardware and more importantly, broadband, adequate? If it is slow and unreliable then might they need to outsource the submission process? It is certainly worth reviewing record keeping processes sooner rather than later in order to be prepared.

Whitley Stimpson can offer support in many different ways to assist you with the transition to Making Tax Digital and so please do contact any member of the Agricultural team to discuss how Making Tax Digital may influence you and what we can do to help you.

Beware of the Universal Credit

In some areas of the country the Government has already began the introduction of the new Universal Credit 'UC' which is a single monthly payment for people on lower incomes or who find themselves out of work.

The UC is designed to replace a range of benefits and credits such as Child Tax Credits, Working Tax Credits and Income Support. Over the last few years we have seen a growing number of farmers and farm workers claiming these Credits in order to top up their income following the continued squeeze on their trading margins.

Although, so far, the new scheme has only been rolled out in certain parts of the country the Government has indicated that the aim is to have it fully introduced across the country from July 2019.

Where this has been introduced, the transfer from the legacy benefits to the UC has been triggered by a life event such as a separation from a partner, a child reaching 16, the birth of a new child or significant changes to your childcare costs.

Under the new rules, the major issue is that the payments to which you are entitled are calculated using a 'minimum income floor'. This assumes that all applicants to the UC earn a wage which is equivalent to the national minimum wage. This is where the issue arises for farmers and we believe that many of those who may be affected are unaware of the changes which will shortly be introduced.

The UC is claimed by submitting figures on a monthly basis in order to substantiate the claim. The issue therefore arises where many farmers will make losses for a majority of the year and may only turn profits in the months when the Basic Farm Payment is received or in months when the crops are sold following the harvest. At present, there is no proposed relief for these losses and so farmers claiming under the UC could see their Tax Credit income cut substantially when compared to the amounts received under the legacy rules.

Agricultural Tax Tip – Spring 2017

Enhanced Capital Allowances

We would like to take this opportunity to remind all farming businesses of the Enhanced Capital Allowance (ECA) scheme for energy saving equipment. From our experience this is one of the most underutilised tax schemes which can not only provide a significant tax saving to farming businesses but also generate an actual cash receipt to aide with your cashflow.

The ECA scheme was first introduced to encourage businesses to invest in energy saving equipment which normally have a higher cost price than the less efficient alternatives.

The ECA scheme allows businesses to write off 100% of the cost of qualifying equipment purchases against taxable profits in the year of purchase. The list of qualifying equipment is extensive and we often see expenditure which falls within the eligible categories when looking at spend on agricultural or estate buildings or property conversions for commercial use.

The list of qualifying equipment is maintained by the Carbon Trust and is detailed on the Energy Technology List (ETL). This list can be found here https://www.carbontrust.com/media/671511/energy-technology-list.pdf and we would recommend that you review it before purchasing any potential energy saving equipment.

Although all businesses can benefit from the 100% deduction from taxable profits and associated tax saving there is a further benefit for any business trading as a limited company. Where you trade as a company, and by claiming the ECA you generate a taxable loss, this can be surrendered for a cash payment. The cash amount that you would receive is currently 19% of the loss surrendered and so can provide a real cashflow benefit if large ECA expenditure has been incurred on project.

This scheme is currently only scheduled to be available until March 2018 and so we would advise considering any ECA expenditure carefully and potentially bringing forward plans for capital expenditure so as to benefit from this scheme.

It is possible to go back up to two accounting periods and make a retrospective claim for this expenditure. We are able to assist with this as either an individual assignment or as part of a larger scope and so if you think that you have may incurred some of this expenditure please do get in touch with one of our team.

Basic Farm Payments and FRS 102

As many of you will be aware the new accounting standards, FRS 102 and FRS 105, are now in full force for accounting periods beginning or after 1 January 2016. They were introduced for medium and large companies for periods beginning on or after 1 January 2015 and will now apply to all small companies and also to sole traders, partnerships and trusts that also prepare accounts under UK GAAP which are designed to show a true and fair view of the business position. These changes have been billed as the most significant changes to accounting standards in a generation.

One issue with the new standards which could have a large effect on a set of farm accounts relate to the treatment of government grants. The most common government grant for farming clients is the Basic Farm Payment.

Currently there are two methods of accounting for the Basic Farm Payment, the first of these is the receipts basis which will mean that if you have a December year end and you receive notification of your Basic Farm Payment amount on 1st December you will include the total amount in your income for the year and make no other adjustments.

The second method is the accruals method which, although less common, is still applied and means that in the same scenario as above the notification on 1st December would be split into two amounts. The first treated as relating to the current year and the balance relating to the next year because the Basic Farm Payment runs from May and therefore spans the December year end.

It is this accruals method which gives rise to a problem under FRS 102 because government grants cannot be recognised until there is reasonable assurance that the farmer will comply with the conditions for the grant and that the grant will therefore be received.

As Basic Payments are a government grant and you will not be able to confirm whether the Greening conditions have been met until 31 December (at the earliest) this means that some farms may be unable to recognise any of the income until after this date. Therefore although the occupation date and submissions are triggered in May, the income cannot be recognised until much later, potentially the next accounting period which may mean that there is one accounting period on transition to the new standards which does not show any Basic Payment income.

If you are unsure as to whether this could be an issue for your farm accounts then please do not hesitate to contact the Whitley Stimpson team.

HS2 UPDATE

There has been one small but potentially very valuable recent announcement made by the Government in relation to HS2 since the last edition of Spotlight. They have now confirmed that the proposed plans that could have allowed HS2's developer to use compulsory purchase orders on valuable land which was not actually needed for the railway have been dropped.

The plans would have seen landowners being forced to sell much more land than was necessary for the high speed railway development with the surplus then being sold on by the HS2 developers to private developers for a large profit.

The plans were formally dropped by Transport minister Chris Grayling on 18 January 2017 following recommendations from the HS2 House of Lords select committee.

UPCOMING EVENTS – COME AND MEET THE TEAM

Mollington Point to Point

We would like to invite you to come and meet the team on Monday 1 May at the upcoming Warwickshire Point to Point event. The event is being held at Mollington, and begins at 2pm. Whitley Stimpson are sponsoring the Men's Open on the day and the Agricultural Team would be delighted to see you at what promises to be a great day out.

Full details of the event can be found at http://mollingtonhorseraces.co.uk

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.

WHITLEY STIMPSON Ltd

Banbury
T. +44 (0)1295 270200
E. info@whitleystimpson.co.uk

Bicester
T. +44 (0)1869 252151
E. bph@whitleystimpson.co.uk

High Wycombe
T. +44 (0)1494 448122
E. hw@whitleystimpson.co.uk

Witney
T. +44 (0)1993 700010
E. mhg@whitleystimpson.co.uk

MEET THE AGRICULTURAL TEAM

Martin Anson
Agricultural Director
martina@whitleystimpson.co.uk

Stephen Payne
Agricultural Director
stephenp@whitleystimpson.co.uk

Owen Kyffin
Tax Director
owenk@whitleystimpson.co.uk

Ian Parker
Agricultural Manager
ianp@whitleystimpson.co.uk

ICAEW CHARTERED ACCOUNTANTS

British Accountancy Awards 2016 FINALIST

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Whitley Stimpson is a trading name of Whitley Stimpson Ltd
Registered office at Penrose House, 67 Hightown Road, Banbury, Oxfordshire OX16 9BE
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Details about our audit registration can be viewed at www.auditregister.org.uk, under reference number C003795019