AGRICULTURAL

Whitley Stimpson
CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

SPOTLIGHT

Winter 2016 | Issue 19

whitleystimpson.co.uk

THE RESIDENCE NIL-RATE BAND AND THE FARMHOUSE

PLUS: BREXIT – WHAT NEXT FOR UK AGRICULTURE?

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WELCOME

Welcome to the Winter 2016 edition of the Agricultural Spotlight.

Winter is the time of year when you battle the elements and the daylight whilst trying to get everything done in preparation for the New Year. However, hopefully you are also able to find time to take stock and reflect on what 2016 has delivered.

We in the agricultural team at Whitley Stimpson would like to take this opportunity to wish you all the best for Christmas and a prosperous New Year.

WHAT NEXT FOR UK AGRICULTURE?

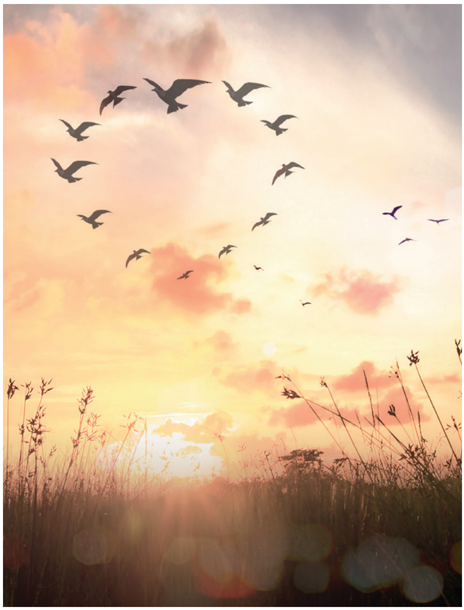
In the first Agricultural Spotlight since the biggest news of 2016 we felt that we could not ignore Brexit and consider what happens next for UK agriculture.

We have now discussed this with many of our clients and the overriding feeling is that Brexit provides the Government with the biggest opportunity in a generation to regenerate and support British Farming.

The Government has now promised funding for all agri-environment schemes until Article 50 is triggered. This is obviously positive news and provides medium to long term security for some farming businesses. Particular mention should be made to those who claim under the Countryside Stewardship Scheme, as it has been confirmed that even five year claims will be honoured post Brexit as long as the claim was agreed before Article 50 is triggered.

The forthcoming period of negotiations prior to leaving the EU will be pivotal in shaping UK agriculture for generations to come. Whether your farming business is currently thriving with increased exports to the EU or is dependent on EU subsidies or migrant labour for harvesting fruit, it is likely that you will be affected by these negotiations. We cannot second guess what the outcome of the negotiations will be and cannot predict the agricultural environment in a post Brexit world, but we at Whitley Stimpson will be here to support you with your financial affairs at every step of this journey.

We will have regular updates which will be covered both in our quarterly Agricultural Spotlight and on our website at www.whitleystimpson.co.uk so be sure to check in to ensure you are up to speed with any developments.



The Residence Nil-Rate Band and the Farmhouse

In our last edition of Agricultural Spotlight, we covered the announcement of a new residence nil rate band (RNRB) which is being phased in from April 2017. This will be available when passing a family home to a direct lineal descendant as part of the death estate but here we focus on how this links to the farmhouse and potential pitfalls to watch out for.

To recap, the RNRB will be £100,000 for the 2017/2018 tax year, rising in stages to £175,000 in 2020/2021. Therefore, for couples who qualify for the RNRB relief there are potential inheritance tax (IHT) savings of £140,000 to be had, but as with much tax advice things aren't as clear cut when applied to agriculture.

A farmhouse will be treated in the same way as any other main residence when considering this relief and by 2020/2021 qualifying married couples will have a combined nil rate band of £1,000,000. However, there are other considerations such as:

- **Pre-existing tax planning**

Many farming estates will already have detailed tax planning strategies in place and many of these will already be partially implemented to ensure that Agricultural Property Relief (APR) and Business Property Relief (BPR) are available against business assets upon death. These strategies are often essential in ensuring the continuation of the family business and careful consideration must be made before these are disturbed in favour of securing the RNRB. As an example, many retired farmers will have followed advice to gift the farmhouse to the next generation working farmer to ensure conditions for APR are met.

However if the working farmer is not a direct lineal descendant and the farmhouse is passed to a direct descendent in order to claim RNRB this may result in a loss of the APR relief.

- **The £2,000,000 estate limit**

One of the main drawbacks for owners of substantial estates is that the RNRB relief is subject to a tapered withdrawal where the estate is valued in excess of £2,000,000. The relief will be withdrawn by £1 for every £2 that the estate exceeds the threshold and hence is completely eradicated for estates in excess of £2.35 million. It is also important to note that the value of the estate is calculated before the APR, BPR or any other reliefs that may be available are applied and therefore this threshold is likely to catch many farm estates.

In summary, the RNRB has delivered the £1 million tax free inheritance band that the Conservative Government promised but care still needs to be taken when planning for the future. Our agricultural team would be pleased to discuss the various opportunities with you and ensure that your affairs are structured as efficiently as possible.

Annual investment allowance – Now could be the time to buy

The Annual Investment Allowance (AIA) is now well established and many will remember that the previous Chancellor set the AIA at a permanent rate of £200,000 per annum from 1st January 2016.

The AIA is a 100% first year allowance for purchases of qualifying business assets. As a general rule most items of plant and machinery are covered and therefore could include a tractor or combine purchased by a farming business.

However careful planning is required as to the exact timing of expenditure as businesses with a year end spanning this 1st January change date will be subject to transitional rules. By the time of you reading this the 2016 Autumn Statement will have been delivered and we hope that no decreases have been made to the AIA rate but if any changes are announced then particular care must be taken.

As an example, if the AIA rate was to return to the 2012 rate of £25,000 from 1st January 2017 then a business with a year end of 31st March 2017 will have a maximum AIA available to them of £156,250 but the maximum amount of AIA that could be claimed on expenditure made after 1st January 2017 would be limited to the new £25,000 rate.

As an example using the above scenario, if you purchase a new combine on 5th January 2017 for £250,000 the maximum amount of AIA available to claim would be £25,000. However if you were to have made this purchase on December 28th 2016 then the full amount of £156,250 would be available to claim.

As such, whilst the majority of the country awaits the January sales, depending on the outcome of the Autumn Statement it could prove to be beneficial to make the purchase this side of the New Year. If you have any doubts or want to discuss this further please contact any of the agricultural team.

PHONE MAST INCOME – ALL THE WRONG SIGNALS

New rules are due to be introduced in mid-2017 which could see income from phone masts cut by more than 90%. The new rules will shift the basis of rent from the open market value method to a compensation basis.

These changes are being introduced as part of The Electronic Communications Code which is designed to make construction of new digital infrastructure easier for communication companies as the Government pushes towards a digital age.

Research has shown that income from a 15m high mast which would currently be worth around £5,000 per annum could be cut to as little as £500 per annum. This is primarily because under the new laws being proposed there would be no restrictions for the telecom operators for access, assignments or upgrading the masts.

However, you still have time to renegotiate your existing leases and agreements to ensure that you continue to benefit from the higher rates for as long as possible.

Falling Commodity prices hit farm incomes in 2015/2016

DEFRA figures reported in late October 2016 highlighted the ever challenging environment that todays farmers face. DEFRA released its annual data on farm business incomes which showed that farm incomes have fallen for the third consecutive year.

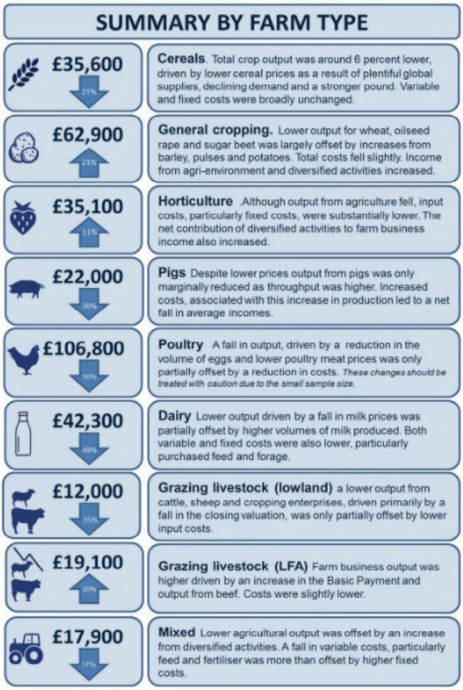
From the figures that were reported it was shown that average Farm Business Income fell in the vast majority of farm types with the exception of those trading in the Less Favoured Area (LFA).

Across all types of farming activity the income was down in part due to the decreased amounts received under the Basic Payment than compared to the Single Farm Payment of the prior year. On average farms received 5% less under the Basic Payment due to adverse exchange rate movements and this has had a direct effect on the Farm Business Income for the year.

The key driver for the decrease on cereal farms was the lower prices for key commodities such as wheat, barley and oilseed rape.

General cropping farms were one of the sectors shown to have an increase in the report which was credited with being due to increased potato yields and prices.

Dairy farms were among the hardest hit which further demonstrated the collapse of milk prices which began in March 2014.



The data shows that the average milk price throughout 2015/2016 was 25% lower than the previous twelve months.The NFU has expressed its concern at the report and in particular highlighted the plight of dairy and pig farming businesses who, in some instances, have seen their income halved.

A summary of year on year changes to average income by farm type is shown above.

However, despite the above, there could be more positive news on the horizon for Britain's agricultural community. The 2016/2017 projections for farm incomes are currently predicting increases from the 2015/2016 numbers, predominantly due to positive exchange rate movements since the news of Brexit.

The Self Assessment Deadline looms

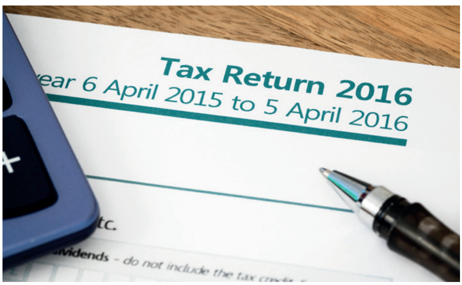
It is that time of year once again when we remind you that all individual and partnership Self Assessment Tax Returns for the year ended 5th April 2016 need to be submitted online and any tax due paid by 31st January 2017.

If you are one of the many who are yet to submit your return, please be aware that you may incur penalties if you do not get these filed by the 31st January deadline. The penalties begin with an automatic £100 charge per return and then increase after three months to a maximum of £10 per day. If the business is a partnership then each partner will be required to pay penalties if the filing deadline is missed. This could mean that partners are levied with two separate penalties, one for the partnership return and another if their personal return is also outstanding.

The tax that is due for payment by 31st January 2017 is the balancing payment for the year ended 5th April 2016 and the first payment on account for the year ended 5th April 2017, if applicable.

For existing clients we will contact you before the payment deadline and advise of any amounts due and methods for payment.

If you would like any help with completing your 2016 tax return please do not hesitate to contact us and we will be happy to assist and advise.



Shooting season is here – what can you claim

With the game season now well underway, you may be considering the purchase of a new shotgun for your estate.

You may not have considered what you can claim on this purchase and given the value of new guns the correct claims can amount to significant savings.

H.M. Revenue and Customs set out that for expenses to be allowable as business costs they must be wholly, exclusively and necessarily for the purpose of trade. As such the important point to consider is to what extent the new gun will be used for farm business purposes such as pest control.

From our experience, it is quite common that a gun may be used partially for business purposes and partially for private enjoyment on shoots.

As an example, if following discussions with the client, it can be substantiated that the business element amounts to 50% then we would recommend that 50% of the VAT on the purchase is reclaimed and that 50% of the cost of the gun is allowed as a business expense against your profits.

If you have recently acquired a gun or are considering a purchase in the near future it may be worth giving us a quick call to ensure you maximise your claim.

Tax case updates

Agricultural Property Relief on land let for diversified business

H.M. Revenue and Customs have recently confirmed that agricultural land which has been let to diversified businesses can still qualify for Agricultural Property Relief from inheritance tax.

The clarification was recently made with regards to tenancies in Northern Ireland which has typically had no framework for agricultural tenancies. However it has been stated that this interpretation from H.M. Revenue and Customs will also have a precedent for land let in Great Britain.

Auto enrolment – make sure you are ready

Swindon Town Football Club have recently been fined £22,900 by HMRC for failing to comply with its obligations to enrol employees into an auto enrolment pension scheme by their required deadline. This was further evidence the HMRC are enforcing non compliance in this area with severe penalties and were not taking into account the size of the employer.

It is vital that you are aware of your obligations and in particular your staging date if you employ staff in order to ensure you meet your obligations. If you have any concerns over this please contact the Whitley Stimpson payroll team who will be happy to assist you.

VAT implications of land let for wedding packages

In a recent case, Glendorgal vs HMRC, HMRC challenged the Glendorgal venue on the VAT treatment they applied to invoices raised for letting land on their estate as a wedding venue.

Glendorgal argued that this income was exempt from VAT as it qualified as passive letting of land which is an exempt supply.

However HMRC argued successfully that when land is provided as part of an overall package the VAT treatment of the letting of land should follow that of the total package which for weddings is to standard rate the supply.

HMRC provided further support for this case by also stating that land cannot qualify for passive letting if it has a marriage licence attached because the general public have access and the letting of land is therefore not exclusive to the customer.

If you have any concerns over your VAT treatment of land supplies and are concerned that you could be challenged by HMRC then please do not hesitate to contact us to discuss the matter further.

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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British Accountancy Awards 2016 FINALIST

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Whitley Stimpson is a trading name of Whitley Stimpson Ltd
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