AGRICULTURAL SPOTLIGHT

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CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Summer 2015 | Issue 17

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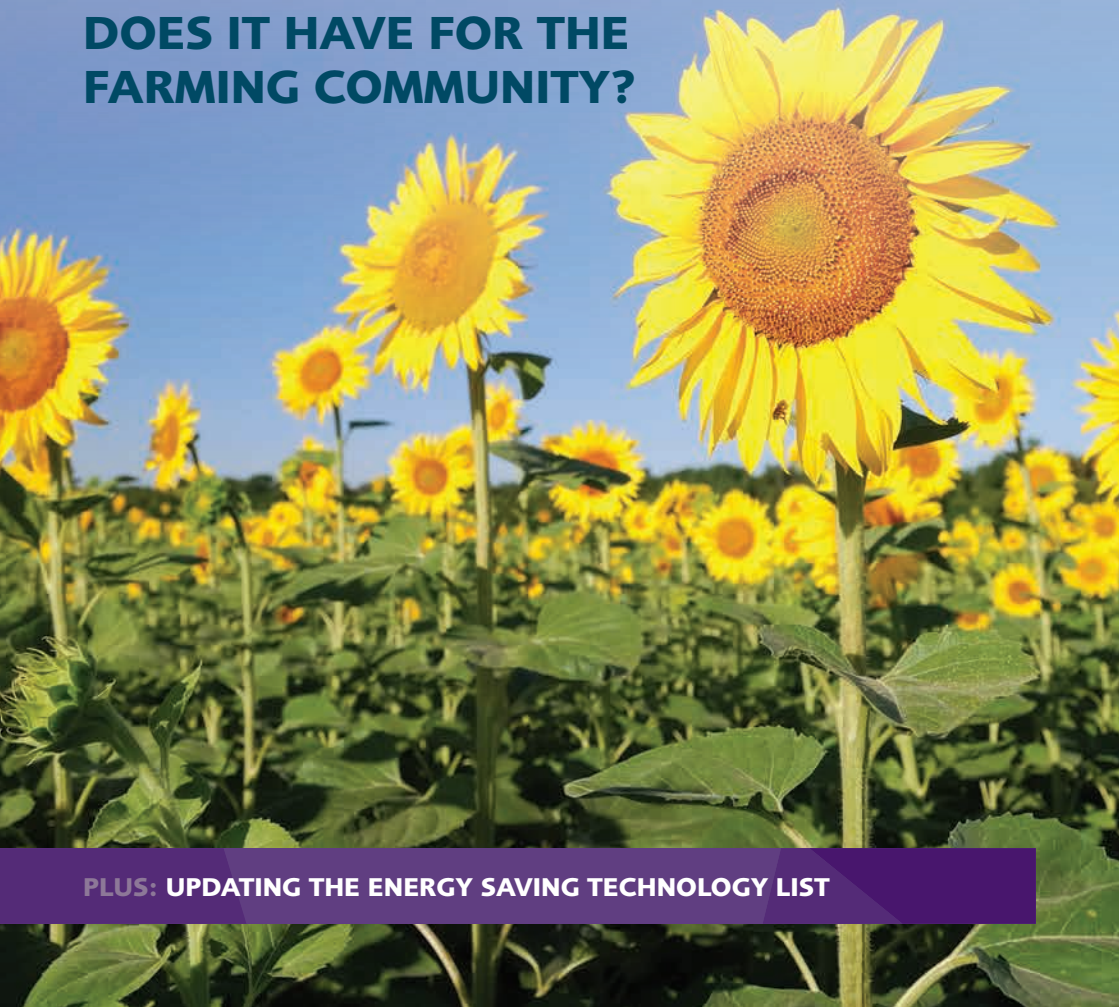
FINANCE ACT 2015

WHAT IMPLICATIONS DOES IT HAVE FOR THE FARMING COMMUNITY?



PLUS: UPDATING THE ENERGY SAVING TECHNOLOGY LIST

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WELCOME

Welcome to the Summer 2015 edition of Agricultural Spotlight. As we went to press many are hoping for rain to help with the summer crops and to support crop yields. With cereal prices at low levels this may be a critical time for some farmers.

We will also know the results of the General Election and hope that the result is favourable for UK farming.

This quarter focuses on the 2015 budget and how this may affect the rural community.

We hope it provides valuable information to help you.

FINANCE ACT 2015

WHAT IMPLICATIONS DOES IT HAVE FOR THE FARMING COMMUNITY?

The last budget from the Coalition government has been delivered by George Osbourne and was enacted before parliament was dissolved, allowing the political parties time to start canvassing for the May general election.

We were told not to expect any short-term giveaways before the General Election, but there were a few leaks and a number of surprises.

We have summarised the main points relevant to your business and highlighted those that may impact on the wider rural community.

CAPITAL ALLOWANCES: annual investment allowance

In his speech the Chancellor announced that the proposed reduction in the annual investment allowance from £500,000 to £25,000 after 31 December 2015 would be reviewed. It is likely that the limit will be greater than £25,000, but he did not indicate by how much.

We hope that any future Government keeps to this pledge, as this allowance gives essential tax relief on capital expenditure and allows good planning opportunities.

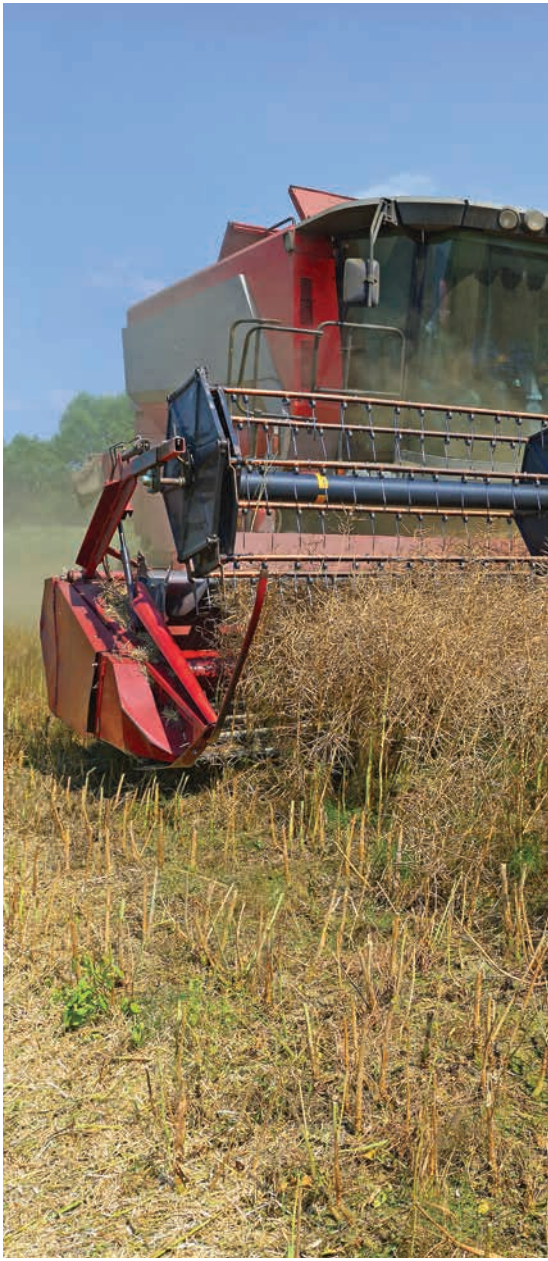
Extending averaging period for farmers

The government will extend the period over which self-employed farmers can average their profits for income tax purposes from 2 years to 5 years. A consultation will be held later this year on the detailed mechanics and implementation of the extension and will come into effect from 6 April 2016.

Whilst any flexibility for farmers is welcomed it will be interesting to see if it makes a major difference to the farmer in practice.

Diverted profits tax

A new diverted profits tax will be introduced in Finance Bill 2015. The tax will be at a rate of 25% of diverted profits relating to UK activity and commences from 1 April 2015. The diverted profits tax will operate through 2 basic rules which seek to counteract arrangements by which foreign companies exploit the permanent establishment rules and prevent companies from creating tax advantages using transactions or entities that lack economic substance.



ENTREPRENEURS' RELIEF: restricting relief on associated disposals

Legislation was introduced in Finance Bill 2015 to ensure that in order for the disposal of a privately owned asset used in a business carried on by a company or partnership to qualify for entrepreneurs' relief, the claimant must reduce their participation in the business by also disposing of a minimum of 5% of the shares of the company conducting the business. This measure came into effect on 18 March 2015. If the business is a partnership, the associated disposal must be a minimum of a 5% share of the assets of the partnership.

This amendment is to prevent people claiming entrepreneurs' relief but not making a significant withdrawal from the business. Whilst it potentially makes the claim harder to establish, we believe that it may give clarity to the issue. Specifying a detailed percentage should help advisers give their clients clarity in this area.

Class 2 national insurance contributions

The government will abolish Class 2 national insurance contributions (NICs) in the next parliament and reform Class 4 to introduce a new contributory benefit test. Consultation on the proposal and timing of the reforms will be later in 2015.

Fuel duty

The automatic retail prices index (RPI) fuel duty increase due on 1 September 2015 is cancelled.

A new personal savings allowance

A new personal savings allowance will be available to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate taxpayers from 6 April 2016. However, additional rate taxpayers will not receive an allowance.

Annuities

From April 2016, the government will legislate to allow people who are already receiving income from an annuity to agree with their annuity provider to assign their annuity income to a third party in exchange for a lump sum or an alternative retirement product.

PENSIONS: lifetime allowance

The current lifetime allowance of £1.25 million will reduce to £1 million from 6 April 2016. Transitional protection for pension rights already over £1 million will be introduced at the same time to ensure the change is not retrospective.

Taxation of inherited annuities

From April 2015, beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity will be able to receive any future payments from such policies tax-free where no payments have been made to the beneficiary before 6 April 2015.

Deed of variation

The government will consult on the use of deeds of variation for tax purposes.

We eagerly await the results of this consultation which could have wide scale implications for the rural community and for the passing of assets from one generation to the next. It would appear that the government sees the use of Deeds of variation as a tax avoidance scheme.

Many Wills are written many years earlier than they are needed and are not always

regularly reviewed. Deeds of variation are useful instruments in bringing these up to date by supporting the family's wishes or correcting issues which were not foreseen at the time the Will was drafted. Depending on the extent of this legislation, it could have significant tax and financial issues and will emphasize the importance of regularly reviewing your will.

It is very likely that after the May General election that any new government will have an additional Budget within a few weeks of being elected. We will report on any changes introduced in the next addition of the Agricultural Spotlight.

It will also be interesting to see if the consultation points mentioned in the March budgets are progressed.

If you are likely to be affected by any of the matters referred to above and wish to discuss them further, please contact a member of the agricultural team.

CAPITAL GRANT SCHEMES

Capital grants of between £2,500 and £35,000 are now on offer to help farmers buy equipment to improve their productivity. The maximum claim being 40% of total costs (maximum 50% in a severely disadvantaged area)

This is part of a Rural Development programme which will offer capital grants in tranches until 2020. In the first tranche £5m will be available to the farming community to invest in equipment and new technology as well as innovative productivity schemes.

Applications must be submitted between March and June 2015, but this is a competitive process and the successful process is based on the best applications. It is expected that at least three written quotes will be needed for equipment under the scheme, with a recommendation as to the preferred one.

RELAXATION OF LATE PAYE FILING

In a welcomed development, H. M. Revenue and Customs has decided to give Companies a three day grace period before imposing penalties on them for late filing of monthly returns. If you received a late filing penalty for the period 6th October 2014 to 5th January 2015 and who filed within the three days of the normal filing date can appeal against any penalties imposed.

RULE CHANGES REQUIRE THE NEED TO REVIEW YOUR PENSION PLANS

Significant changes have come into effect form 6 April 2015 which give more freedom to the farmer. Whilst the increase in flexibility is welcomed, significant care is needed to plan early for your retirement and then to utilise the fund in a tax efficient way.

The main changes are as follows:

1. All restrictions on the amount of cash that a person over 55 can withdraw from their pension funds are being removed.

2. Those under the age of 75 will in addition be able to pass on any unused pension savings to their beneficiaries free of Inheritance tax.

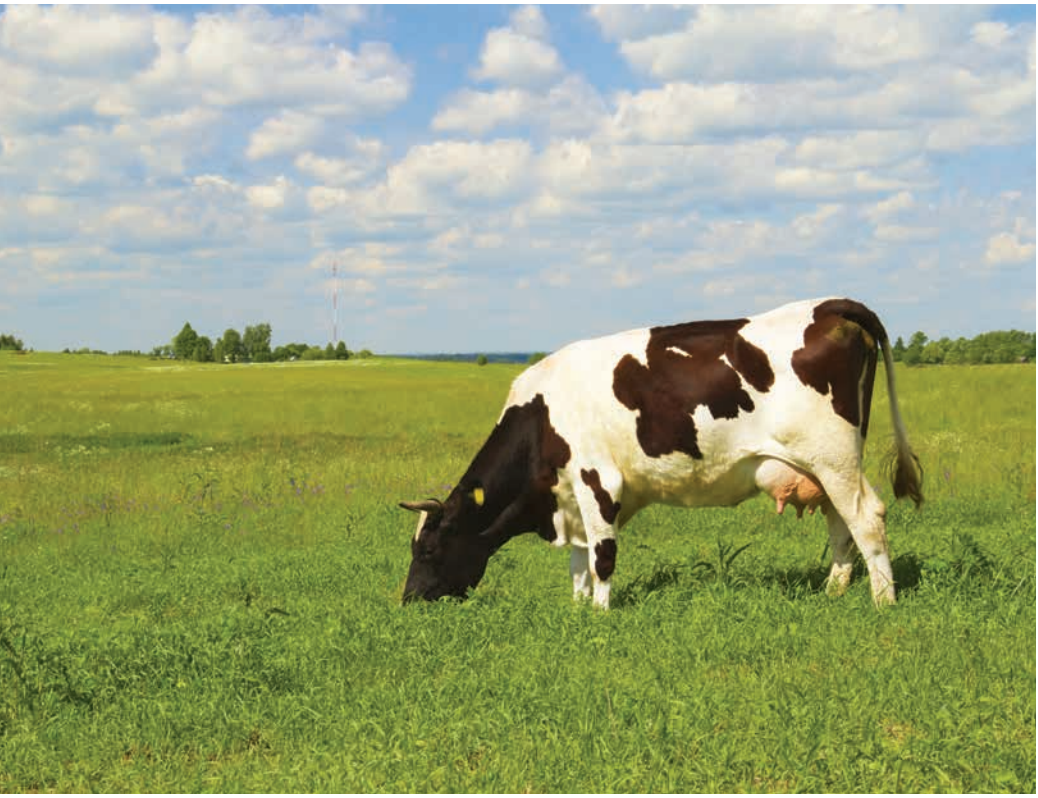
The effects of this mean that for many the pension fund will be effectively removed from Inheritance tax. This together with the amount of flexibility will mean that pensions may form part of wealth planning for many families. However with greater freedoms come additional pitfalls. These include reduced levels of pension contributions, anti avoidance legislation and `trigger points`, such as taking income for the first time.

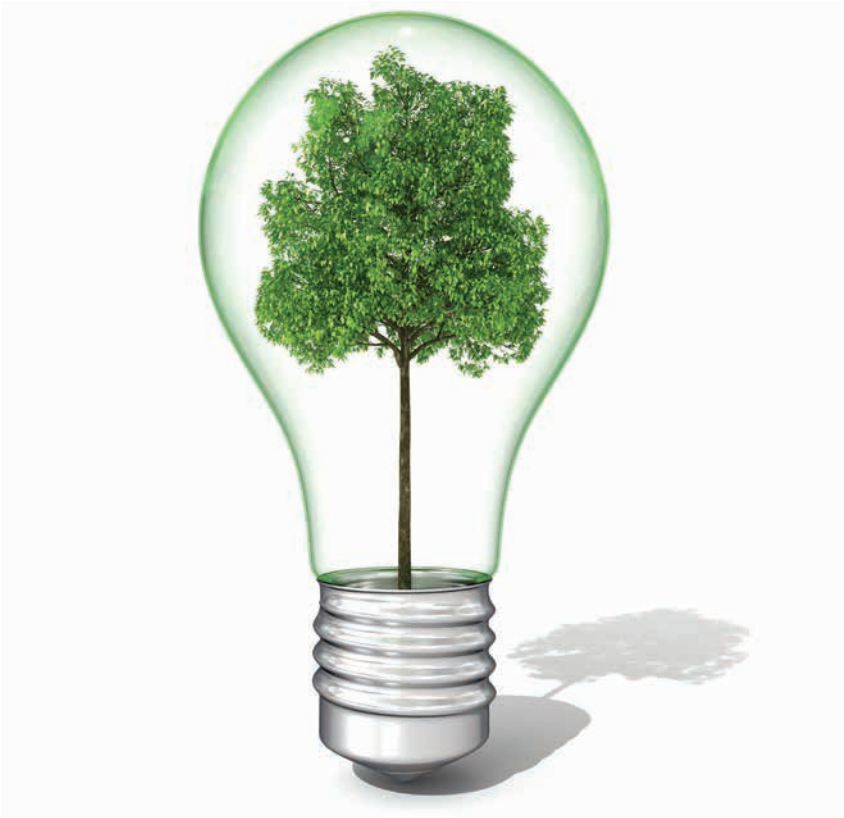
If you are approaching 55, this is an ideal time to review your pension arrangements to maximise the opportunities for you and your family in the future. Care is needed as the structure of many pension products may need to be amended to give the desired flexibility.

It is essential that separate professional advice is taken before proceeding with irrevocable decisions.

END OF MILK QUOTAS

As EU Milk quota`s come to an end it is time to ensure that you have claimed your capital loss on that original investment. Many farmers have spent vast sums over the years acquiring these quotas. These now have no economic value. Therefore now may be a good time to establish a capital loss, by making a `negligible value` claim, which can either be offset against other chargeable gains which have arisen in the year or carried forward to future tax years and offset against future capital gains. This claim is made by declaring the figures on the respective Self Assessment Tax Return.





UPDATING THE ENERGY SAVING TECHNOLOGY LIST

The government has issued plans to amend the list of Energy Saving Technologies that qualify for Enhanced tax relief. These are planned to be introduced later this year. Businesses who suffer income or Corporation tax can claim a 100% first year allowance on such equipment, as long as the expenditure is included on the approved list at time of purchase.

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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