AGRICULTURAL SPOTLIGHT

Whitley Stimpson
CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Autumn 2015 | Issue 18

whitleystimpson.co.uk

SECOND FINANCE ACT 2015

WHAT IMPLICATIONS DOES IT HAVE FOR THE FARMING COMMUNITY?

PLUS: NEW COMBI VAN LIST

CONTENTS

WELCOME

Welcome to the Autumn 2015 edition of Agricultural Spotlight.
Hopefully, by the time you receive this newsletter the crops are safely in the barn and preparations for the next harvest are well advanced.

Farming is finding things tough at the moment and let's hope that prices for our products reflect the time and effort that goes into their production.

In this issue we make no apology for focusing on this first Conservative budget and how this may affect the rural community.

We hope it provides valuable information to help you.

SECOND FINANCE ACT 2015

WHAT IMPLICATIONS DOES IT HAVE FOR THE FARMING COMMUNITY?

The unexpected Election victory for the Conservatives was achieved with a clear majority that has given George Osbourne the opportunity to deliver a first Conservative Budget since Kenneth Clarke in 1996.

The Chancellor spoke about a Budget for working people, based on higher wages, lower taxes and lower welfare.

We were aware of some of the changes that were likely to be introduced with a Conservative win, however a number of measures particularly with regard to the reforms of the taxation of dividend income, the introduction of the living wage and the buy-to-let changes were totally unexpected.

We have summarised those points we believe to be important and should be considered by all rural businesses.

NATIONAL LIVING WAGE

A major announcement in the Summer Budget is the proposed introduction of a new National Living Wage. The wage, which will be introduced in 2017, will begin at £7.20 per hour and rise thereafter to over £9 by 2020. The wage will only affect those aged over 25 years.

Farmers and other unincorporated rural businesses will be met with significant increases in their annual wage costs. These additional costs together with the introduction of the Work Place Auto Enrolment pension scheme will put increased pressure on farm costs and ultimately the profitability of the farming enterprise.

As many farms operate through unincorporated structures, they will not benefit from the cut in corporation tax that is to be introduced to compensate for this.

National Insurance Contributions (NICS) Employment Allowance increase

Employers can reduce the amount of National Insurance contributions (NICs) they pay for their employees by up to £2,000. From April 2016 the 'Employment Allowance' will increase from £2,000 to £3,000 a year.

This is part of a package of measures designed to offset the increased wage bill as a result of the compulsory Living Wage. If you own a business that can claim the Employers Allowance your national insurance bill will be lower.

Employers need to pay careful attention to the Related Party rules which only allow for one Employment Allowance to be claimed per related business.

Buy to let properties

Loan interest relief on residential rental properties will be restricted to basic rate tax rather than the 40% (or in some cases 45%) tax relief that some landlords are currently receiving. This does not include properties that qualify under the rules for furnished holiday lettings.

Landlords will no longer receive a reduction to their rental income for the loan interest paid, they will receive a tax credit based on 20%

of the cost. This interest relief restriction will be phased in over four years starting from April 2017.

This could have a significant impact on property investors, particularly those that rely on rental profits as their main source of income.

In addition with the cost of finance likely to rise towards the end of the calendar year the landlord will no longer be receiving the same return on their investment. Landlords may then decide to increase rents to their tenants to recover these costs.

Rent a Room Relief

This measure will increase the level of Rent a Room relief, which provides for tax-free income that can be received from renting out a room or rooms in an individual's only or main residential property, from £4,250 to £7,500 per year. It also increases the level if an individual rents out rooms in a guest house, bed and breakfast or similar businesses, providing that it is their main residence. The increase to the Rent a Room limit will apply from 6 April 2016.

Many farming enterprises supplement farm incomes by providing Bed and Breakfast facilities. Landlords with lodgers or those who own a guest house or Bed and Breakfast will now be able to reduce their income tax liability on the rents that they receive. Tax payers need to ensure however that the respective pages on their individual tax returns are completed to claim this allowance.

Wear and Tear Relief

The government will reform how landlords of residential property can account for the costs they incur in improving and maintaining rental property. Currently, landlords of furnished properties can deduct 10% of their rent from their profit to account for wear and tear, irrespective of their expenditure. From April 2016, the government will replace this allowance with a new system that enables all landlords of residential property to only deduct costs they actually incur. Landlords who rent furnished properties will now only be able to deduct what they spend on property maintenance from their rental income.

Reform of the taxation of Dividend income

The 10% dividend tax credit will be replaced with a £5,000 dividend allowance from April 2016. At the same time, new rates of dividend tax will be introduced; these will start at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate tax payers.

Whilst this may not have a huge impact on investors with modest share portfolios, it will affect those with more significant share holdings where the income is taxed at additional or higher rates.

However we see the major impact affecting owner manager businesses.

An example of this would be where a farming enterprise have a structure which has split out various profit centres, such as contracting. The contracting business operates through an incorporated company. This runs alongside the existing farming business.

This enables profits to be charged at corporation tax rates which are lower than personal tax rates and secondly it enables the business to time its income streams.

Depending on the respective shareholders of

the incorporated business dividend payments can be used as a way of efficient profit extraction. The introduction of this tax may mean that this method of profit extraction is not as attractive as it once was.

Vehicle Excise Duty

This measure reforms Vehicle Excise Duty (VED) for cars registered from 1 April 2017 onwards. First Year Rates (FYRs) of VED will vary according to the carbon dioxide (CO2) emissions of the vehicle.

A flat Standard Rate (SR) of £140 will apply in all subsequent years, except for zero emission cars which will pay £0.Cars with a list price in excess of £40,000 will incur a supplement of £310 on their SR for the first 5 years in which a SR is paid.

All cars registered before 1 April 2017 will remain in the current VED system, which will not change. New charges will be levied on all cars bought after April 2017 which will catch more zero or low carbon emission vehicles currently with little or no Vehicle Excise Duty (VED) applied to them.

Extending averaging for farmers

As announced in the March Budget 2015, the averaging period for farmers will be extended from 2 years to 5 years as of April 2016. The government will publish a consultation on the detail of the extension.

If you are a farmer with fluctuating amounts of income from year to year, from next year you will be able to average your profits for income taxes purposes over five years. This will even out the tax you pay on an annual basis. It is also possible to average an `averaged` year.

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.

INHERITANCE TAX

Family home

The Chancellor introduced an additional nil rate band when passing a family home directly on to a descendant as part of the death estate. The allowance will be phased in starting at £100,000 in 2017-2018, rising to £175,000 in 2020-21. It will then increase in line with the consumer prices index. There will be a tapered withdrawal of the relief for estates worth more than £2 million.

In addition, from 8 July 2015 when a person downsizes or ceases to own their home and assets are passed on death to a direct descendant, the nil rate band will also apply.

This was an expected and welcome change which will enable farming families to pass on their family home to the next generation, hopefully with little or no inheritance tax. We see that this may give Inheritance tax planning opportunities.

We plan to include this in our meetings with clients to review and consider their current wills.

DEED OF VARIATION

As mentioned in last quarters Agricultural spotlight, the Chancellor of the Exchequer announced a review into the use of Deeds of Variation (DOV) in the March 2015 Budget. A Deed of Variation must be made within two years of death.

A report on the findings of the review is expected this autumn. The review will look at cases where people use DOV to change a will just for IHT purposes. DOV allows a will to be changed if all impacted beneficiaries agree. It can also be used to vary the terms of intestacy when no will has been written.

We will watch this development closely whilst this has been abused by some in the past, it is seen as a useful tool when there are unattended consequences and if introduced will in some cases increase the Inheritance tax liability.

PENSIONS

The changes in how pension tax relief is obtained and the choices for those wishing to take benefits from their pension pots appears to be relentless and for those without professional assistance daunting where mistakes can be very costly. Whilst the majority of changes are welcomed we wonder whether pensions will be the next big mis-selling scandal.

Pension relief

The government will consult until 30 September 2015 on radical reform of pensions tax relief, ranging from moving to a system which is taxed like ISAs (individuals pay in from taxed income and it is tax free when taken out) to retaining the current system.

The government will also consult over making the process for transferring pensions from one scheme to another much quicker and smoother, including excessive early exit penalties and potentially capping charges for those aged 55 or over.

From April 2016, tax relief for those earning over £150,000 (income including pension contributions), will be restricted from the current Annual Allowance of £40,000 by

a tapered Annual Allowance. For every £2 over £150,000, the Annual Allowance will be reduced by £1, to a minimum of £10,000. However, those with income excluding pension contributions below a £110,000, will not be subject to a tapered Annual Allowance.

The Annual Allowance taper will be measured over a tax year, with transitional rules introduced from Budget day (8 July 2015) to align pension input periods with the tax year by April 2016 and to protect any savings made before the Budget from retrospective tax charges. Some individuals may have already put in pension savings of more than £40,000 prior to the Budget, on the expectation that these savings would be tested against the Annual Allowance for tax years 2015-16 and 2016-17, but which will now only be tested against the Annual Allowance for 2015-16. Transitional rules ensure pre-Budget savings of up to £80,000, plus any available carry forward, are protected from an Annual Allowance charge.

Anti-avoidance rules apply so that any employment income given up for pension provision as a result of any salary sacrifice made on or after 9 July 2015 will be included in the threshold definition.

The carry forward of unused annual allowance will continue to be available, but based on the unused tapered Annual Allowance.

Given that the Chancellor is reducing opportunities to reduce tax planning and steadily increasing the tax take it is more important than ever to ensure an individual's tax affairs are as arranged as efficient as possible.

This will mean that professional advisors need to be proactive with their clients.

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.

NEW COMBI VAN LIST

Readers may be interested to learn that the Inland Revenue have recently issued a New Combi-Van list which indicates whether a vehicle is classified as a van or a car. This is useful if you are wishing to ensure that the correct input VAT on the vehicle purchase is made.

Full details can be found at :
www.gov.uk/government/publications/hm- revenue- and- customs- car-derived- vans- and- combi- vans

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

ICAEW CHARTERED ACCOUNTANTS

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

Vicky French
Senior
vickyf@whitleystimpson.co.uk