AGRICULTURAL SPOTLIGHT

Whitley Stimpson
PARTNERS IN YOUR PROGRESS

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REAL TIME INFORMATION
DON'T GET CAUGHT OUT

PLUS: THE AUTUMN STATEMENT - CRUCIAL CHANGES

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WELCOME

Welcome to the first Agricultural Spotlight edition of 2013. A new year is now well upon on us and everybody in the agricultural sector is hoping that this one will be better than the last. We certainly are not lacking in developments on the finance side and hope that the articles in this issue give you food for thought.

Our lead article focuses on an important change in the way employers are obliged to deal with PAYE, with subsequent pieces on CAP reform, agricultural wages, and tax matters.

REAL TIME INFORMATION - DON'T GET CAUGHT OUT

HM Revenue and Customs are introducing Real Time Information (RTI), a new way of reporting PAYE. This will commence from April 2013 and will be mandatory from October 2013.

Most employers will be legally required to send PAYE information in real time from April 2013, with the remainder joining by October 2013. It is not possible to adopt the RTI legislation early - employers must wait for HM Revenue and Customs to advise them of the date on which RTI submissions must commence.

Using RTI, employers and pension providers will tell HM Revenue and Customs about Income Tax, National Insurance Contributions (NICs) and other deductions when or before the payments are made, instead of waiting until after the end of the tax year.

It will be the employer's responsibility to ensure that the mandatory employee fields are correct and updated. If employers' records are incomplete, there is an increased possibility of RTI files being rejected and triggering a compliance audit from HM Revenue and Customs. Over 80% of data quality issues are caused by incorrect information, for example, missing, wrong or incomplete National Insurance numbers; first and last names; and dates of birth.

We strongly recommend that you work with your employees to stress the importance of providing you with up-to-date and accurate information. It would be useful to complete a data cleansing exercise well in advance of any introductory dates.

The existing mandatory information fields for employees are full name, date of birth, National Insurance number and address. RTI will introduce a new mandatory field which relates to employees' weekly contracted hours. This does not relate to the actual hours an employee works, but the hours they are contracted to work.

There are four options:

- **A** - Up to 15.99 hours
- **B** - 16 to 29.99 hours
- **C** - 30 hours or more
- **D** - Other

For employers with nine or fewer employees and without existing payroll software, HM Revenue and Customs has a free online service known as Basic PAYE Tools, which can be used to submit the relevant information. For all other employers, payroll software must be used. Those already using payroll software will need to check that their software is compliant and employers not currently using software will need to start doing so.

The benefits of RTI are seen as follows:

- Makes the PAYE process simpler and less burdensome for employers and HM Revenue and Customs. For example, by removing the need for the end of year return (forms P35 and P14), and simplifying the employee starting and leaving processes.
- Enables HM Revenue and Customs to be more accurate when issuing tax codes.
- Reduces over or underpayments of tax and therefore the number of underpayments and repayments sent after the end of the tax year.
- Enables HM Revenue and Customs to pursue late payments more effectively.
- Supports the payment of Universal Credits.
- Reduces Tax Credit errors and fraud.

The payment deadlines for employers and pension providers will also remain the same. Small employers will continue to have the option of paying quarterly rather than each month. However, there will be a need to submit an Employer Payment Summary (EPS) in the following circumstances:

- No monthly payment is due (i.e. this is applicable to quarterly payers);
- Statutory payments are being offset against the monthly payment; or
- CIS deductions suffered are being offset against the monthly payment.

This will enable HMRC to reconcile the information that it has received about employee pay to the payments it receives.

If an employer is not going to have any employees for a specified period, they can submit one EPS to advise HMRC of their 'period of inactivity'. HMRC will not expect any other return, nor any payment, for the period reported.

We can foresee problems with this system for many small companies where payroll payments get 'treated as paid' and credited to directors' loan accounts on either a quarterly or annual basis. This may no longer be an available option.

A consequence of RTI is that a 'mini year end' is being performed throughout the year, i.e. at the end of each pay run. This means that the formal process of producing the P14s and P35s after the end of the tax year will effectively cease. However, P60s will continue to be issued to employees.

The RTI obligations will be reinforced by penalties that are designed to `encourage` compliance. It is essential that employers take these regulations seriously and action needs to be taken to prepare for these changes.

For further information, please contact the payroll team at Whitley Stimpson LLP.

THE AUTUMN STATEMENT

Since the writing of our last issue, the Chancellor delivered his Autumn Statement. We outline below the crucial changes that may affect those in the agricultural sector.

- The personal allowance for those under 65 will rise to £9,440 from 6th April 2013.
- The upper limit for the basic rate band will fall to £32,010 from the same date. This is the amount of income which will be subject to tax at 20% only.
- Income between £32,010 and £150,000 will continue to be taxed at 40%.
- The additional rate for income over £150,000 will fall from 50% to 45%.
- The capital gains tax annual exemption (currently £10,600) will increase in line with inflation.
- The annual allowance for tax relief on pension savings will fall from £50,000 to £40,000 – this is expected to be implemented from April 2014.
- The ISA subscription limit will be increased to £11,520 from 6th April 2013, of which £5,760 can be cash.
- From April 2013, the basic state pension will increase by £2.70 to £110.15 per week.

SINCE THE WRITING OF OUR LAST ISSUE, THE CHANCELLOR DELIVERED HIS AUTUMN STATEMENT. WE OUTLINE THE CRUCIAL CHANGES THAT MAY AFFECT THOSE IN THE AGRICULTURAL SECTOR.

- The fuel duty rise of 3p per litre due on 1st January 2013 has been permanently abandoned. The next fuel duty rise has been postponed from 1st April to 1st September 2013.
- The Annual Residential Property Tax which is levied on companies owning residential property worth over £2m has been confirmed and will commence from **1st April 2013**.
- The Chancellor confirmed that from April 2013, small unincorporated businesses with receipts of up to £77,000 can use a cash basis for calculating their taxable income. This eliminates the requirement to calculate balance sheet items such as debtors, creditors and stock.
- The Annual Investment Allowance (AIA) has been temporarily increased from £25,000 to £250,000 for two years from 1st January 2013. This permits 100% tax relief for the first £250,000 expenditure on plant and machinery for all businesses. For accounting periods that straddle 1st January 2013, the maximum AIA will have to be calculated according to how much falls before and after 1st January 2013. In the subsequent accounting period, the full £250,000 will be available. With careful planning and the right advice, businesses can time their capital expenditure to ensure their purchases are made in the most tax efficient way.

Should you have any queries on how the above will affect you or your business, please contact us for further information. The 2013 Budget will be on **20th March 2013** and will be covered in our next edition.

RPA AND CAP UPDATE

2012 appears to have been the most successful year for the Rural Payments Agency, with 93.4% of landowners having received their SPS payments by the end of December 2012. This represents a marked improvement on 2011, which saw 87.8% of farmers receive their payments by the end of the year.

The Agriculture Committee in the European Parliament has recently voted on the future of the Common Agricultural Policy, moving towards an agreement that will shape UK agriculture, rural areas and the environment for future years. At the time of writing, the full parliament has yet to vote to give consent, however, a number of changes have been made to the original Commission proposal.

Direct Payments

- For the Single Payment Scheme, MEPs supported a slower transition from historic entitlements to the new per hectare system, voting for a 10% movement in the first year. The Commission had demanded a much quicker 40% movement in year one. The reform of this system also had its timescale extended to 2020.
- It was also suggested that an average exchange rate should be used for the translation of the payment from Euros to sterling, rather than an "on the day" rate.
- There was an agreement for a faster rate of convergence for Pillar 1 payments between Member States following pressure from the New Member States.
- Member States could allocate 15% of aid for coupled support and would have the flexibility to choose the products with which they would associate this support.
- The Committee voted in favour of Member States being given the option to shift up to 15% of direct support in Pillar 1 to Rural Development measures under Pillar or the option to move up to 10% from Pillar 2 to Pillar 1.
- Member states will be able to define who

are 'active farmers' eligible for payment. This will also include the power to prepare a list disqualifying some land uses.
- Young Farmers schemes were made compulsory. Member States will have to allocate up to 2% of the national envelope in support of the scheme.

Greening

- There was no removal of the Commission proposal to include greening measures in Pillar 1 as part of the Direct Support Payment.
- However, the Committee voted to permit those in agri-environment schemes, which are at least equivalent to the Pillar 1 greening requirements, to qualify as green. An option has also been included to allow membership of certain certified schemes to qualify for greening.
- The amount of land set as Ecological Focus Areas has been lowered to 3% of eligible land for the first year, with the potential to increase to 7% by 2017.
- The Committee also voted to limit greening non-compliance sanctions to the greening component only.
- There was support of a minimum spend of 25% on organic farming and agri-environment schemes in Pillar 2.

There has not yet been agreement on the budget for the next financial year. If there is a cut to the amount of funding available for the CAP, there may be further amendments. Farmers are advised to keep up to date on the Rural Payment Agency's website or other agricultural publications.

POLYTUNNELS AND GLASSHOUSES – A BRIEF

Historically, capital allowances have been unavailable for business using polytunnels and glasshouses for growing. These structures have always been considered to be buildings, the 'setting' where the growing occurs, and therefore not eligible for any tax relief in the year of purchase. However, HM Revenue and Customs has recently outlined cases where they will not challenge the treatment of polytunnels and glasshouses as plant, therefore attracting capital allowances. A structure is deemed to be plant if it performs a function in the trade, rather than acting as a setting.

HMRC states that it believes most glasshouses to be buildings, but if there is considerable machinery permanently attached that is part of the overall structure, such as a climate control system, then the whole structure will be plant and machinery. Crucially, this machinery and the glasshouse must be inseparable.

The guidance on the allowances available for expenditure on polytunnels is based on whether the structure is 'fixed'. If the polytunnels are to remain in their position indefinitely, then they cannot be considered to be plant. For example, if they merely provide an environment for crops to be grown on raised beds or trestle tables, then there is no need or expectation that the crops will ever need to be grown elsewhere and the polytunnels will be deemed to be 'fixed'.

Alternatively, if the crop is grown directly in the ground within the polytunnel, in many cases the land can only be used for a certain period of time. This is true with crops such as strawberries. After the relevant period of time the crops must be planted elsewhere and the polytunnels will, therefore, be moved to the new location. HMRC will accept that, in such circumstances, the better view is that the polytunnels are not fixed structures, but apparatus or plant used in the trade.

It is clear that there are no definitive answers and each case must be looked at separately. For further information, please contact a member of the agricultural team.

THE DEMISE OF THE AGRICULTURAL WAGES BOARD

The Agricultural Wages Board (AWB), the body protecting agricultural workers' pay and conditions in the UK, has been abolished with effect from 1st October 2013. Farmers will now have to compete with other local employers for labour and must comply with national legislation concerning minimum wage and other employment regulations.

Steve Leniec, chair of Unite's national farm workers, reacted angrily to the abolition, claiming that there would be "a reduction in living standards, sick pay and overtime rates for workers," and "a direct transfer of £273 million from farm workers to farmers over a ten-year period," with no perceptible benefit to the rural economy.

The government has responded to concerns in a speech by Farming Minister David Heath, who stated that "scrapping these outdated and bureaucratic rules will significantly reduce burdens to farmers while keeping workers extremely well protected."

"A DIRECT TRANSFER OF £273 MILLION FROM FARM WORKERS TO FARMERS OVER A TEN-YEAR PERIOD," WITH NO PERCEPTIBLE BENEFIT TO THE RURAL ECONOMY.

DEFRA has recently published a consultation on the abolition, finding that farmers will save significant time, effort and costs in no longer meeting two sets of legislation. However, DEFRA agrees that farm workers pay will fall significantly as a result, although not to the extent that Unite claims.

For further information regarding obligations under both the AWB and National Minimum Wage, please contact our payroll department.

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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