Whitley Stimpson

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Agricultural Spotlight

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PARTNERS IN YOUR PROGRESS

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Contents

Welcome to the latest edition of the Agricultural Spotlight featuring articles designed to keep you up to date on key issues and developments affecting the sector.

We hope you find the newsletter interesting and informative. If you have any feedback about our newsletter or would like advice on any of the topics covered here, please get in touch.

All VAT registered farm businesses must adopt MTD from April

All VAT registered farm businesses must adopt the government's Making Tax Digital (MTD) for VAT agenda from April this year, regardless of annual turnover.

In April 2019, HMRC made it mandatory for all businesses with a turnover above the VAT threshold of £85,000 to submit digital VAT returns as part of its 10-year plan to digitalise the tax system. At the time, businesses with an annual turnover below this figure could still submit their VAT returns in the traditional way.

But this is changing. Unless you are granted an exemption, all VAT registered businesses regardless of revenue will have to transition to a digital system from April this year, and this could mean a big change for many farmers.

The new rules will apply to VAT return periods that begin on or after 1st April 2022. Therefore, if you have a VAT quarter that ends on 31st May 2022, you do not need to be MTD compliant until 1st June 2022, but it is still worth preparing now.

What does it mean for me?

Moving to a digital system involves two significant changes to the way many farms and other rural businesses operate. It will require them to:

- Keep digital VAT records
- Provide VAT return information to HMRC through compatible software.

Businesses will also need to sign up to MTD to do this, prior to their first return. You should speak to your current VAT advisor about this before registering as timing is key.

Keeping digital records

There are two ways of keeping digital VAT records. If you're using Excel sheets to carry out bookkeeping, it will be possible to continue doing this. However, you will need to get what is called bridging software to be able to connect the Excel data sheets to HMRC and submit your VAT returns digitally.

There are numerous types of bridging software available, but like any other software platform, learning how to use them is essential. If you don't know where to start with this, we can advise on the best bridging software for your needs and help you to get to grips with it.

The other option is to adopt an accountancy software package into your business. Lots of farms and rural businesses already use these and all industry standard packages such as Sage, Xero, QuickBooks, and others are compatible with MTD.

Of course, both solutions rely on a reliable broadband connection, which not all farms enjoy. If this is the case, it might be wise to speak to your broadband provider about what you can do to improve this. It may simply be a case of upgrading your internet package or installing boosters to improve the signal around your house.

The biggest change will be for those farmers who still use a paper system. If you fall into this bracket and have no idea where to start when it comes to MTD, contact Ian Parker on IanP@whitleystimpson.co.uk or call (01295) 270200.

Submitting digital tax returns

The second requirement after adopting Making Tax Digital compatible software, is to submit your VAT returns digitally.

Once you have got to grips with your software, whether that is bridging software used in conjunction with Excel or it is dedicated accountancy software, submitting a VAT return through it is fairly straightforward. If the software is kept up to date, most packages will calculate the VAT you owe automatically and enable you to submit your return at the click of a mouse. The software can link with your bank account too, enabling you to pay the outstanding amount online.

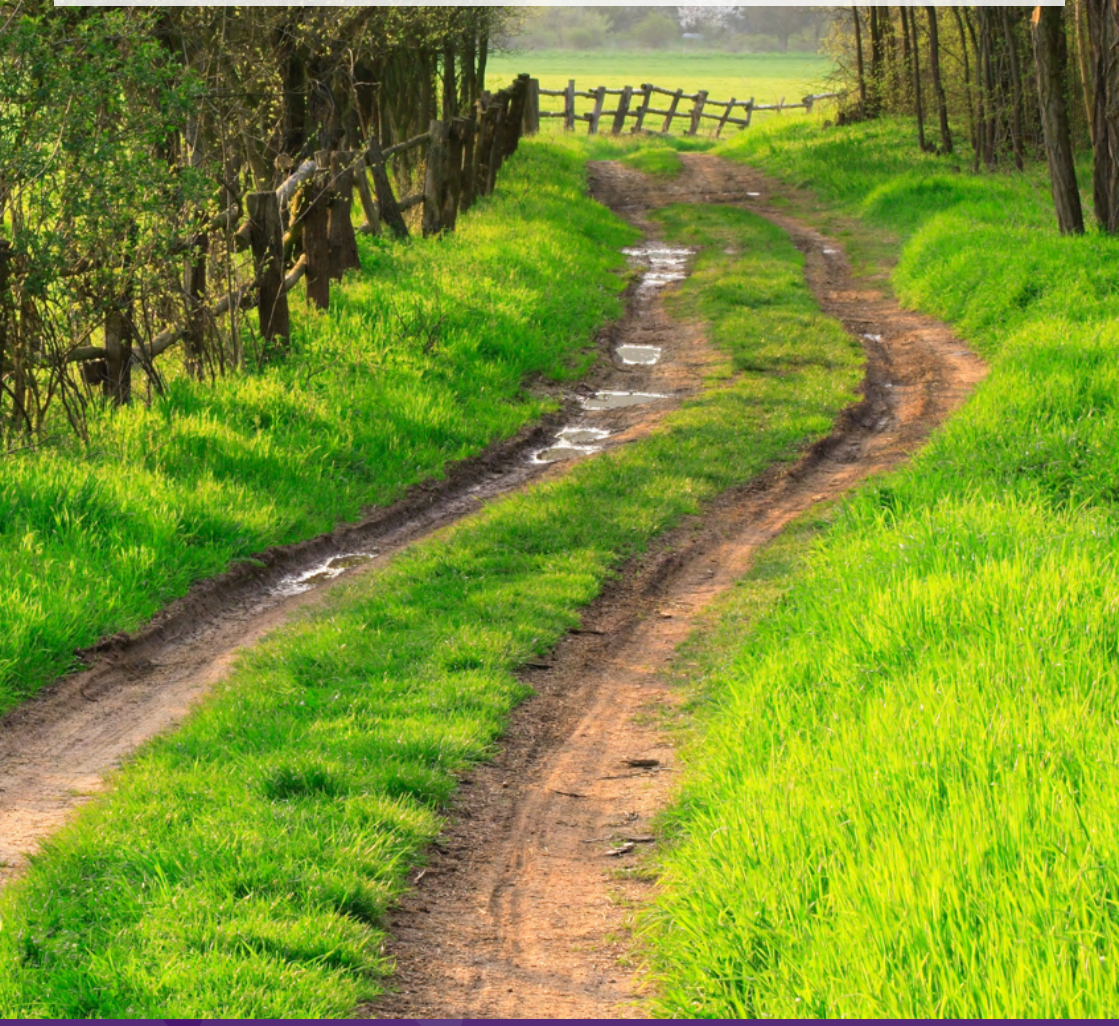
The benefits of submitting VAT online

Although for many farmers, changing to a digital system might seem daunting there are real benefits to doing so.

Once you get the hang of it, the software needed for you to fulfill your obligations to MTD will make reporting and submitting information to HMRC much more efficient, less time consuming and less stressful.

Many farms and rural businesses are on track to meet the upcoming deadline, but some are less confident of what they need to do.

If that is you and you're in need of guidance on how to take the first steps in MTD, or you're on your way but simply want someone to check you're doing everything right, don't hesitate to get in touch with Ian Parker on IanP@whitleystimpson.co.uk or call (01295) 270200.



Agricultural Property Relief explained – all you need to know!

For most farmers, there is no better tool to reduce Inheritance Tax (IHT) than Agricultural Property Relief (APR). Introduced in the Inheritance Act 1984, it is available on gifts of land occupied for the purposes of agriculture, together with buildings and farmhouses (subject to certain conditions) used in conjunction with the land.

APR is usually only discussed on a death when the asset is passed down to the next generation. It doesn't stop all tax being paid but with planning, it can be a great help to reduce the IHT burden.

How does APR work?

The crux of APR is that it works on the basis of agricultural value rather than market value. Agricultural value is lower than market value because it makes certain assumptions about the property on which it is based, namely, that it will continue to be used for agriculture and nothing else.

For example, if a farmer were to own 10 acres on the edge of a town with limited planning opportunities, this might be valued at £25,000 per acre as development land, meaning the total value of the land is £250,000.

But the agricultural value of the land might only be £10,000 per acre, valuing the total plot at £100,000.

The amount eligible for APR is just the agricultural value of £100,000 meaning that the difference, which in this example is £150,000, could potentially be subject to Inheritance tax at 40%.

The same applies with buildings, with farmhouses and cottages which are generally valued at around 30 per cent lower than market values.

What assets qualify for APR?

Agricultural property is defined as land or pasture that is used to grow crops or rear animals, as well as buildings used in conjunction with the land. The full list includes:

- Land used for growing crops
- Stud farms for breeding and rearing horses
- Short rotation coppice
- Land not currently farmed under Habitat Scheme
- Land not currently being farmed under a crop rotation scheme
- Some agricultural shares and securities
- Farm buildings, farm cottages and farmhouses.

Assets that don't qualify for APR include:

- Derelict buildings
- Farm machinery and equipment
- Livestock
- Harvested crops
- Property subject to a binding contract for sale.

To qualify for APR, the property must have been owned or occupied for agricultural purposes for a minimum of two years immediately before its transfer. If the owner does not occupy the property, such as in the case of a Let Farm Tenancy, they need to have owned it for seven years to qualify.

Farm cottages must be occupied by someone who works on the farm, or a retired employee, or spouse/civil partner of a deceased employee. However, the stipulations for farmhouses go further. They must be 'character appropriate' and of a nature and size appropriate to the farming activity taking place.

From this point of view, it is helpful for the farm office to be in the farmhouse rather than elsewhere.

Care must be taken if an older farmer wishes to remain in the farmhouse after retiring as HMRC may no longer consider the house as the centre of farm operations. One way to avoid this is to let the next generation also occupy the farmhouse and run the farming business from there.

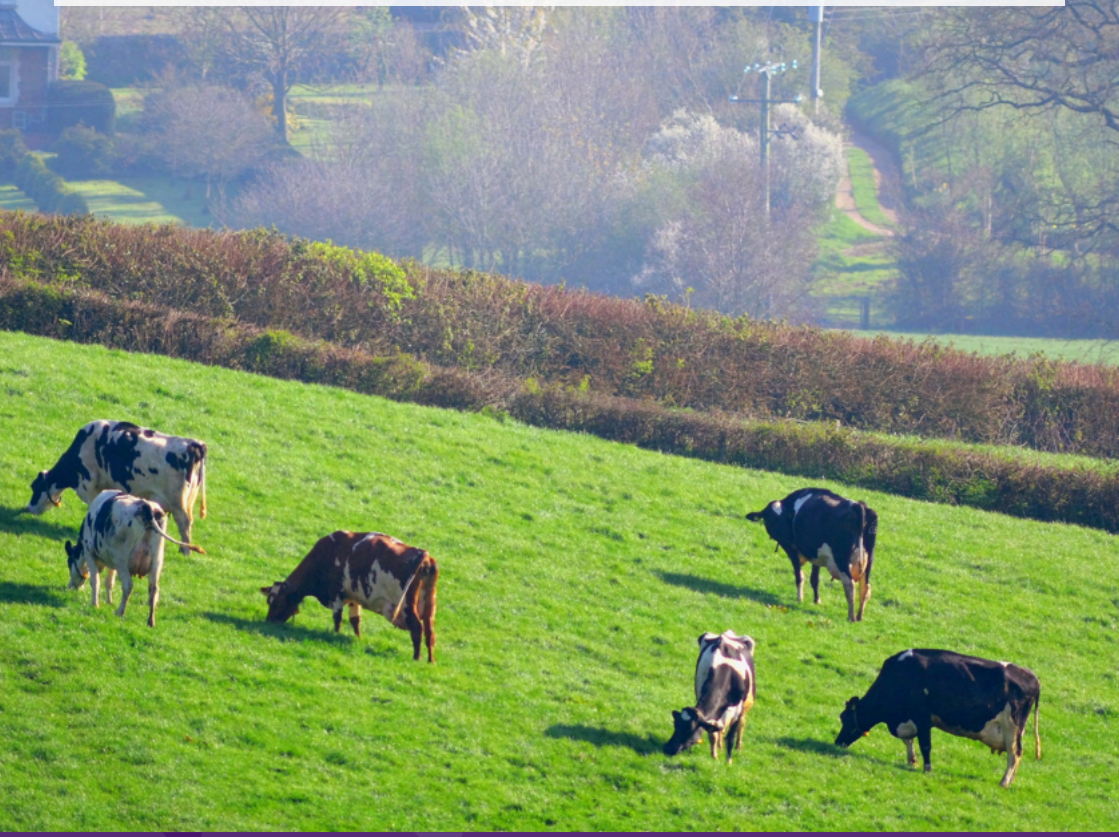
APR rates

APR is due at different rates depending on circumstance. Situations in which it is due at 100 per cent include:

- When the person who owned the land farmed it themselves
- If the land was occupied by someone else on a short-term grazing licence
- If the land was let on a tenancy that began on or after Sept 1, 1995, or there was a surrender and re-grant of an old AHA tenancy after Sept 1, 1995
- A property owned before March 10, 1981, would have qualified under Schedule 8 of the Finance Act 1975 if it had been transferred before that date
- The person had no right to vacant possession between 10 March 1981 and the date of the current transfer (e.g., Company AHAs)

Relief will be due at a lower rate of 50 per cent in any other case including land let on Agricultural Holdings Act 1986 tenancies which commenced after March 10, 1981.

For further advice on APR, inheritance tax or all forms of succession planning, get in touch with Whitley Stimpson director and agricultural accountancy expert Martin Anson on MartinA@whitleystimpson.co.uk or call (01295) 270200.



Cashing in on the staycation boom!

With the COVID pandemic all but obliterating international travel over the past couple of years, no one could have failed to have noticed the rise in staycations – UK holidaymakers choosing to spend their annual two week break in their home country.

With many people discovering for the first time what amazing scenery and places to visit we have in the UK, the trend in staycations looks set to continue into the years ahead.

Many farmers have already benefited from this, particularly in relation to the relaxation of Permitted Development Rights (PDRs) enabling them to run pop up campsites and similar visitor attractions for 56 days per year rather than the normal 28 days.

But with that rule now having reverted back to 28 days, many farmers will be looking for more permanent ways to cash in on the staycation boom.

One tax efficient way of doing this is converting unwanted barns into Furnished Holiday Lets (FHL).

FHL and tax relief

One of the major benefits of owning a FHL is that under certain circumstances, it can qualify for Business Property Relief (BPR), a relief from Inheritance Tax (IHT).

Normally, such relief does not apply to an investment property as most holiday properties are. However, under certain circumstances, it does to FHLs.

According to HMRC's own manual, it all hinges on 'additional services'.

The manual says: "furnished holiday lets will in general not qualify for business property relief. The income derived from such businesses will largely consist of rent in return for the occupation of the property.

"There may, however, be cases where the level of additional services provided is so high that the activity can be considered as a non-investment, and each case needs to be treated on its own facts."

Additional services?

This, of course, begs the question, what constitutes an additional service?

Well, there isn't a clear-cut definition, but in a testcase called the Personal Representatives of Graham vs HMRC, a tribunal found that the FHLs owned by Mrs Graham did qualify for BPR due to the extra amount of work the owners carried out on the property.

The additional services provided by Mrs Graham included:

- The guests could enjoy and use the gardens
- There was a solar-heated outdoor pool
- There were other facilities such as a sauna, barbeque area, games room and laundry facilities
- Fresh flowers were supplied as were toiletries and cleaning materials
- It was possible to hire golf buggies and bikes
- The owner provided help with arranging events such as wedding and other parties
- The communal facilities, including the pool, were cleaned weekly.

The tribunal decided that the extra activity carried out by Mrs Graham amounted to more than just passive investment income, and the property qualified for BPR.

Of course, this could be a risky strategy as there is no precise definition of how many additional services are needed to take the property beyond the threshold, but the results of this case give a good indication. The important point is the FHL must be run as a business with the owners involved in the day to day running of it, so it becomes more than a passive investment income.

Capital allowance

Regardless of whether your FHL qualifies for BPR or not, it will certainly qualify for capital allowances. Capital Allowances are a form of tax relief that can be claimed on items such as furniture and white goods by deducting the cost of them from the pre-tax profit.

What qualifies as an FHL?

To be classed as an FHL, there are certain conditions that the property must be fulfil. These include:

- Be let out for a minimum of 105 days per year
- Be available for let for a minimum of 210 days per year
- Furnished to a standard that allows everyday occupancy
- Used by tourists and holidaymakers, not family and friends
- Located in the UK or another country within the European Economic Area (EEA)
- A short-term rental not rented out for longer than 31 days to any one individual or family.

Given the potential tax incentives around FHLs, converting that old disused barn could well make for a good investment. And even if the most lucrative tax relief isn't available – BPR – with staycations set to become even more popular, the rental income generated by a tastefully converted FHL in a beautiful rural setting would go a long way to making any farm more financially stable in the post-BPS world that we're about to enter.

To find out more about FHL, tax planning, succession planning or business planning for farm diversification projects, get in touch with Whitley Stimpson director and agricultural accountancy expert Martin Anson on (01295) 270200 or email MartinA@whitleystimpson.co.uk.

Rollover relief and farmland

With the government's ambitious housebuilding targets in place, it can be very tempting for farmers to sell off pockets of land for development at a premium price.

But the uplift from agricultural land values to development land is steep, meaning those who do succumb to this temptation could be facing a large capital gains tax burden.

So, how can farmers manage the sale of land for development in the most tax efficient way possible? Is there anything that can be done to reduce the tax bill?

One possible solution might be rollover relief, which could reduce the tax burden significantly, or even remove it altogether.

What is rollover relief?

Rollover relief allows a business or individual to defer the capital gains tax on the disposal of an asset where the proceeds of that disposal are reinvested into a new business asset.

This is achieved by deducting the chargeable gain from the cost of the new asset and it can apply where funds are fully or partially invested.

The assets do not have to be of the same type but to qualify, they must only be used for the sake of business. Rollover relief can be applied to a building or part of a building occupied and used for the purposes of trade, land occupied and used for the purposes of trade, and fixed plant and machinery which does not form part of a building.

There are also certain circumstances when it applies to wasting assets and furnished holiday lets.

Benefits for farmers

Whitley Stimpson director and tax expert, Ian Parker, said rollover relief can help farmers manage capital gains tax efficiently if used correctly.

He said: "If farmers are looking to dispose of land for development, then they really need to consider the capital gains implications of that.

"Rollover relief could be a useful tool to enable them to dispose of the land in a tax efficient way.

"By investing the income from the disposal in another business asset, such as another plot of agricultural land or farm buildings, they can significantly reduce or remove that capital gains burden."

To qualify for rollover relief, the new asset must be purchased a maximum of 12 months before the disposal of the old asset or up to three years after, although we may be able to apply for an extension to this period in certain circumstances.

The new asset must also be brought into use in the trade as soon as it is acquired.

Ian added that any farmers or rural business owners considering selling land for development should take advice on the best way to move forward.

“Our specialist tax advisors are on hand to help you negotiate the tax landscape as efficiently as possible and would be delighted to hear from you,” he said.

To discuss rollover relief or tax planning generally, contact Ian Parker for expert advice on (01295) 270200 or email IanP@whitleystimpson.co.uk.

DEFRA's Lump Sum Exit Scheme 'not enough to make a difference'

Much has been made in the media about DEFRA's Lump Sum Exit Scheme which proposes to pay older farmers to retire.

The scheme, which opens for applications in April, could pay farmers up to £100,000 to give up working to make way for younger entrants coming into the industry who struggle to buy land.

Essentially, it offers farmers a single, lump sum in lieu of any future payments under the Basic Payment Scheme (BPS), currently being phased out in favour of a new scheme based on environmental stewardship.

To be eligible, as well as surrendering all future BPS payments, farmers will have to dispose of almost all of their farmland by sale or gift.

But Ian Parker, director of Whitley Stimpson, said more information needed to be released about the scheme before farmers could decide whether to sign up or not.

He added that even if the confusion surrounding it was cleared up, it was unlikely to be enough to enable farmers to retire.

Ian said: "The average age of a farmer in this country is increasing and there is certainly an issue for younger people wanting to join the industry being able to buy land.

"The Lump Sum Exit Scheme is a laudable attempt at trying to solve that problem, but the issue is that it's due to open for applications in just a few weeks' time, and there is not enough information available for farmers to know if it's worth applying or not.

"For example, it has only just been confirmed that this receipt would be taxed as capital rather than income, which is a big consideration for those who might be interested in standing aside to let the next generation come through, but other uncertainties still remain.

"If DEFRA is serious about wanting farmers to sign up, they need to be a lot more transparent."

Ian added that as a condition of the scheme was that farmers had to dispose of their land, he felt the sums being offered would not be enough of an incentive for many farmers to apply.

"Although £100,000 sounds like a lot of money it is not a huge amount to fund retirement," he said.

"And as many farmers will likely be gifting their land to family, they could be left very short. We would certainly urge caution about applying for this scheme and would recommend speaking to an expert before making a decision."

To speak to expert Ian Parker on any matter relation to planning for retirement, succession planning, or inheritance tax planning, get in touch on (01295) 270200 or email IanP@whitleystimpson.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 90 years, providing the expert advice that is required to help you enhance the potential of your farming business.

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