Agriculture
News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

SUMMER 2017

Preparing for tax payments on account

Tax payments on account due by individuals for 2017/18 tax liabilities are payable by 31 July 2017. Now is therefore the time to discuss with your tax advisor whether or not your 2017/18 taxable income levels have changed materially from 2016/17. If income is expected to be down then there may be an opportunity to reduce tax payments on account.

Ideally, draft accounts on which 2017/18 tax liabilities are based, or at least credible management figures for the year, might be available so that a proper assessment of tax liabilities can be made. Care is required, however, as lowering tax payments on account without evidence of lower taxable income is dangerous, as interest does apply to underpayments.

Late summer can be a time when cash flow is particularly stretched on the farm, so it is important to provide for all outgoings, including tax payments on account.

Related to this, it is still possible that by this time next year all businesses with turnover over the VAT registration threshold (£85k for 2017/18) will have to have up to date financial information available for submission in a suitable format to HMRC on a quarterly basis. The government ran out of time to include their Making Tax Digital proposals in the Finance Bill 2017 before the general election was called. The legislation may still be introduced later this year for implementation in 2018. Watch this space.

Losses are not forever

A recent tax case heard before the Upper Tribunal has confirmed that sideways loss relief cannot be claimed by farmers in the sixth year of loss making, even for commercial trades carried out full time. This ruling reinforces legislation often referred to as the "hobby farming" rules.

Sideways loss relief is useful to taxpayers who have other sources of income, for example, employment earnings or investment income, as losses from a trade can be offset against this income, thus reducing taxable income and tax liabilities.

The tax case of Scambler & Scambler v HMRC [2017] UKUT 001 concerned dairy farmers who had made losses in six consecutive years due to the low price of milk. The volatility of milk prices was not sufficient to demonstrate a specific reason why profits could not be expected in the loss period.

The ruling confirms that sideways loss relief cannot be claimed for more than five years unless the taxpayer can demonstrate that there could be no reasonable expectation from the outset of profits until after a period beyond five years because of the commercial nature of the trade. Projecting more than five years ahead may be difficult, if not impossible, to do!

So, if your farming business has suffered several years of sustained losses, consider what measures can be taken to return to profitability, such as delaying discretionary expenditure or holding stocks for a shorter time before selling. These measures could protect your ability to claim losses for a longer period.

Pension Auto Enrolment – last call

We have highlighted the introduction of Pension Auto Enrolment for employers many times over the past few years in this bulletin. For employers who have yet to hit their staging date, now really is the time to sit up and take notice.

Staging dates for existing employers end on 1 February 2018 and new employers who employ their first worker after 2 April 2017 are immediately obliged to meet their auto enrolment duties.

Our payroll team have advised many clients in respect of their auto enrolment obligations and can advise employers what to do. If you haven't yet addressed this issue, contact them now for advice. Please contact our payroll services manager Jane Black on 01382 312100.

EQ farm visit

At EQ we take training seriously, not only when it comes to accountancy and tax matters, but also in ensuring that all staff involved in advising agricultural clients have a practical appreciation of farming.

We were therefore delighted to be able to visit Peacehill Farm, Wormit in May to view the farming operations and new anaerobic digestion plant in operation, courtesy of T D Forster and Son. We take this opportunity to thank Ross Forster once again for agreeing to host our visit.

Tax free gains on sale of land?

We often have clients who sell off small pockets of land, with the land normally being acquired by someone wishing to expand their garden or improve access to their property for example.

For an individual such a disposal would be subject to capital gains tax (CGT). The gain may be small enough to be covered by the annual CGT allowance, which amounts to £11,300 in the current tax year. However, what happens if you have already used your allowance against other gains in the year or the gain exceeds the annual allowance? Luckily, there is a little known relief available, known as relief for small part disposals of land, that potentially allows such gains to be taken tax free where three conditions are met, namely:

- The consideration does not exceed 20% of the value of the entire holding at date of sale
- Proceeds are less than £20,000
- Total proceeds from all such disposals are less than £20,000 per tax year

If relief is claimed then any proceeds are just deducted from the original base cost of the land, thereby potentially increasing the tax due on future disposals. However, if there is no intention of ever selling the remainder of the land then the tax is effectively postponed indefinitely.

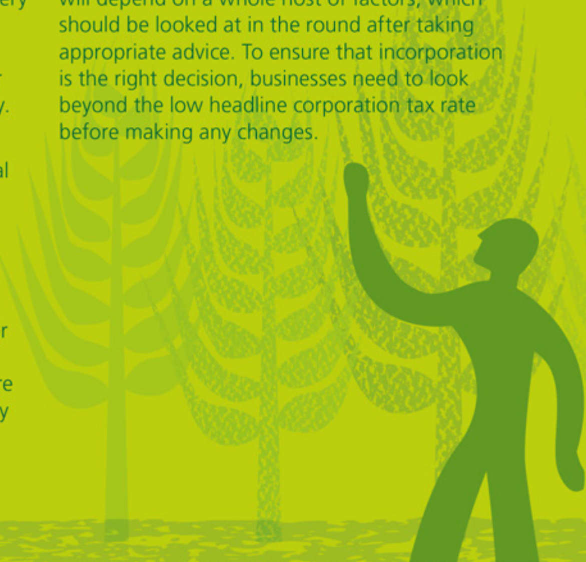
If you are likely to be selling off small pockets of land, speak to your normal EQ contact to see if the proceeds can be received tax free.

Benefits of incorporation

From 1 April this year the rate of corporation tax reduced from 20% to 19%, which compares to a top rate of income tax of 45% (more if you factor in National Insurance and loss of the personal allowance when income exceeds £100,000).

With the widening gap between corporation and income tax rates more clients are taking an interest in incorporating their business or part of their business as a potential way of reducing their tax exposure. But is it the right thing to do in every situation? Not necessarily. Although low rates of corporation tax may appear very seductive, there will likely be a further tax charge in order to extract any profits from the limited company.

Profits are most commonly withdrawn from companies by way of a dividend to the individual shareholders. Any dividends in excess of the personal allowance (£11,500) and dividend allowance (£5,000) are taxed at an individual's marginal dividend tax rate, being 7.5%, 32.5% and 38.1% for basic, higher and additional rate taxpayers respectively. For a higher rate taxpayer this creates an overall tax rate of 45.33%, so if you are planning to extract all the profits that are earned within the company then there is unlikely to be any significant tax saving. If, on the other hand, you can afford to leave the profits within the company, possibly either to fund future business investment or pay down debt, then a limited company structure can be very effective. Whether incorporation is right for your business will depend on a whole host of factors, which should be looked at in the round after taking appropriate advice. To ensure that incorporation is the right decision, businesses need to look beyond the low headline corporation tax rate before making any changes.



New take on farm “diversification”

Farmers are frequently called upon by industry pundits to diversify in order to make their businesses more economically viable and resilient. While some diversifications can prove very successful it may not always be right to focus all your investments in your own business.

We are increasingly seeing clients looking to “diversify” by building up a fund of quoted investments outwith the business, often using either a Self Invested Personal Pension (SIPP) or Individual Savings Account (ISA) as a tax efficient wrapper. Besides the tax advantages, such a strategy can be a very effective form of diversification as it provides exposure to a range of business sectors, currencies and geographic territories. No bad thing perhaps, given the increasing political uncertainty we are seeing within Scotland and the UK. With the recent strong performance of the stock market, such a strategy has also proved to be very lucrative. Past performance is of course no reliable guide to future performance.

Such a strategy also helps families build up a fund separate from the business. This can be extremely valuable in terms of succession planning as it may enable the older generation to take a step back from the business or allow significant wealth to be left to the non farming children without placing an undue burden on those left with the responsibility of running the farm.

When it comes to pension and investment planning EQ work closely with Balmoral Asset Management and can easily facilitate an introduction if appropriate.

We look forward to seeing you at ...

EQ will once again be exhibiting at Potatoes in Practice, the UK’s leading technical potato event, which takes place on Thursday 10 August 2017 at Balruddery Farm, Dundee. We already act for a large number of potato growers and have a unique insight into the challenges and opportunities facing the sector. We look forward to sharing our views with you on the day.

Working with you.

We are always happy to offer free, no obligation, initial consultations, and often act on a consultancy basis only.

For more information on any of the services outlined in this brochure, or to discuss a particular issue with one of our advisers, please contact our Agriculture specialists.

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