Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

SUMMER 2019

It's Show Time

Show season is well underway and at EQ we always look forward to this time of year when there are lots of opportunities to get out and about to meet our clients and contacts in less formal circumstances than our normal business meetings.

The EQ agriculture team was delighted to welcome so many guests for refreshments on our stands at Fife Show and Angus Show, despite both events being cursed by unseasonal wet weather.

Our team was also represented at Scotland's Beef Event 2019, which was held at North Bethelnie Farm, Oldmeldrum. We enjoy attending enterprise focussed events and are looking forward to Arable Scotland (2 July) and Potatoes in Practice (8 August). Look out for our team at these events.

The Royal Highland Show is always a highlight and many of our team are attending over the course of the four day event.

Finally, we are delighted to announce our sponsorship of the new Food and Drink pavilion at Turriff Show on 4 and 5 August. Turriff is Scotland's largest two-day agricultural show and we'll be there to meet clients and contacts on our trade stand, as well as supporting the local Food and Drink exhibitors in the pavilion. Come and see us there.

Five-year farmers averaging

Farmers averaging is a well-established tax planning tool and has been used to smooth out the taxable farming profits over consecutive tax years with great success. In 2016 the ability to average farmers profits over five years was introduced, providing potentially more opportunities to spread profits over several tax years to an individual's advantage.

Assuming an individual meets the qualifying tests, farmers averaging can ensure that personal allowances and basic tax rates are utilised first, and exposure to higher tax rates are minimised.

A recent example saw our client receive a share of farming partnership profit of £100k. Profits had been much lower in the previous tax years due to substantial capital expenditure, as well as losses arising. We therefore had an opportunity to average the year with the previous four years, resulting in nearly all the profits being taxed at basic rates of tax and all personal allowances utilised.

Had five-year averaging not been available and utilised, the tax liability would have been in the region of £41k. However, this was reduced to £27k because of the claim for five-year farmers averaging.

Averaging can also help to reduce tax payments on account for the following year which can have a substantial cash flow benefit to a farming partnership and should not be overlooked. We review all our clients regularly to ensure that opportunities to utilise averaging are not missed.

When to appoint a new partner

Many farming businesses trade as family partnerships and a question that often arises is when to bring in the next generation as partners.

Some may be reluctant to bring in the next generation as partners as they assume that this automatically gives the new partner a share or part ownership of the actual farm. Providing all documentation is in place then this need not be the case and often, initially at least, the new partner is only entitled to a share of trading profits or losses. A well thought out partnership agreement is of course essential to make sure all parties are aware of their rights and obligations from the start. Decisions on actual land ownership can be made at a later stage and, if appropriate, an interest in the farm itself can be gifted in due course.

Bringing in a new partner is often important from a business succession perspective and if the business is looking to borrow money long term then the bank will often review the age profile of the partnership to assess whether there will still likely be someone around in 20 years' time to service the borrowing! Partners are of course jointly liable for any partnership debt and any new partner needs to be comfortable with this after an assessment of the risks involved.

An alternative to appointing a partner is of course to treat the next generation as employees of the business initially and this can be a useful stepping stone to partnership status.

From a tax perspective, being treated as a partner is normally advantageous compared to employee status and will result in savings in national insurance. It will also allow the business to avoid employee related legislation and obligations.

The right approach and timing of events will often depend as much on family dynamics as tax, finance or business succession requirements. As always, it is best to consider these issues at an early stage and discuss with your professional advisers as appropriate.

Land related capital gains tax enquiries

You've done the deal, banked the money and paid any tax due. Job done! Then a few months after your tax return is submitted you receive a letter from HMRC enquiring into your tax return and potential underpayment of tax.

Such a scenario is all too common and unsurprising, since given the amounts involved, an enquiry can present HMRC with a great opportunity to collect significant amounts of additional tax if they can find errors or perceived non-compliance with tax legislation.

The best approach to defending an enquiry is to have taken due care in submission of the original tax return, making sure the calculations are accurate and any assumptions made are just and reasonable, backed up with evidence where appropriate. Even when there is no case to answer we have sometimes found that HMRC persist, often due to a lack of understanding of the tax legislation on their part. Once we have pointed them in the direction of the relevant legislation the enquiry is normally closed.

For those involved in high value land transactions the message is clear, be prepared for an enquiry into your tax return, do your homework to ensure the figures submitted are accurate and finally, be prepared to dispute HMRC's interpretation of the legislation.

Tax payment on account reminder

Second payments on account for the 2018/19 tax year are due on 31 July. If your actual income for tax year ended 5 April 2019 is less than the previous year it may be possible to reduce the amount due. Please speak to your normal EQ contact if you think this may apply.

Making Tax Digital – we're underway

Making Tax Digital (MTD) was introduced by HMRC on 1 April 2019. We have featured the requirements in previous bulletins and spoken extensively with clients who need to comply over the period before its introduction.

The early weeks of MTD and first submissions of VAT returns have, on the whole, gone smoothly for most businesses. We have directly experienced and heard anecdotally of some problems, such as difficulties registering for MTD because of mis-matching postcodes. There have also been periods when HMRC system maintenance has caused difficulty or delays in filing information or getting HMRC assistance.

For some businesses the first VAT return submission deadline under MTD is still to come. Please make sure that you have registered for MTD first, before attempting to make any submission. If you encounter any problems or have any questions please contact us.

Promotions strengthen EQ's Agriculture team

Key senior promotions within our Forfar and Cupar offices have strengthened our agriculture team, helping to ensure that our clients continue to benefit from excellent service and advice.

Robert Young (Forfar) and Scott Greig (Cupar) were both promoted to Principal Manager. Robert and Scott play significant roles within their respective offices working with key clients in the agriculture sector.

Promoted to Assistant Manager were Laura Dorward (Cupar), Anna Coff, Kelly Meiklejohn and Kirsty Sutherland (all Forfar). They all work on predominantly agriculture focussed portfolios and look forward to developing their roles and client relationships further.

These promotions, along with others throughout EQ, demonstrate our commitment to client service through a strong client engagement team approach.

Benefits of hire purchase

We are often asked by clients considering a new machinery purchase whether to buy on hire purchase or buy outright.

As always, the answer depends on individual circumstances and preferences. Firstly, from a tax perspective it makes no difference as tax relief through capital allowances is available on the full cost of the machine, regardless of whether bought on HP or outright.

With 100% capital allowances currently available on up to £1m of expenditure, acquiring an asset on HP can in fact, in the short-term, result in a cash flow boost to the business. If for example, a Scottish higher rate tax payer bought a machine for £100k with a 20% HP deposit, then the tax benefit in year one would be £41,000 (£100k costs x 41% tax) compared to a HP cost of £20,000, resulting in a £21,000 cash advantage to the business initially. In later years of course, the remaining HP payments will still have to be made and no further tax relief is available.

From a finance perspective, the main benefits of each approach are set out below.

Hire Purchase	Outright purchase
Spreads cost of asset over expected life	Overdraft interest rate will often be cheaper
Fixed rate of interest over agreement term	Avoids stacking up commitments for future years
Leaves headroom in overdraft for unexpected events	Good discipline against overspending
Often easier to secure credit compared to overdraft	Advantageous if have money in bank earning little or no interest
Manufacturers may provide subsidised interest	

However you decide to fund your next asset purchase we at EQ are always happy to talk through the tax and finance implications for your own business.

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.

CUPAR
58 Bonnygate, KY15 4LD
01334 654044

Mark Wilken
mark.wilken@eqaccountants.co.uk

FORFAR
Westby, 64 West High Street, DD8 1BJ
01307 474274

Graeme Davidson
graeme.davidson@eqaccountants.co.uk

www.eqaccountants.co.uk