Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

SPRING 2021

Super-deduction – be super careful!

In his Budget on 3 March, Rishi Sunak announced a temporary super-deduction for limited companies only which will allow them to claim 130% first year allowance (FYA) on plant and machinery purchases and 50% FYA on special rate purchases between 1 April 2021 and 31 March 2023.

This relief sits alongside the current Annual Investment Allowance (AIA), which provides 100% relief on plant and machinery and special rate purchases up to 31 December 2021.

The super-deduction appears a very good thing and will undoubtedly encourage some companies to invest in qualifying equipment, however, there are a number of factors to consider when planning for capital expenditure.

Only new equipment will qualify for the super-deduction, second-hand equipment will not qualify.

The rules on disposing of assets covered by a super-deduction claim also need to be considered carefully. Where the 130% is claimed, the value of its future disposal needs to be grossed up by a factor of 1.3 potentially creating a balancing change (the proceeds cannot be offset against any general pool balance). If the disposal is made after 1 April 2023, this will increase the company's taxable profit in a period where the corporation tax rate increases from 19% to 25%. This could lead to larger than expected future tax bills, especially when we are uncertain what will happen to the AIA allowance after 31 December 2021.

So, where assets are replaced every few years, e.g. certain farm equipment, the timing of the next change and the capital allowances to be claimed need to be carefully thought out.

Claiming the super-deduction may still be attractive, especially where the assets will be held for a long time and have a low resale value, however, careful planning will be required.

Speak to your usual EQ contact for advice.

Farming Scotland Conference

We were disappointed that the Farming Scotland Conference could not take place in February but hope to see it back in its usual format next year.

In the meantime, check out the video contributions from the sponsoring firms, delegates and some popular past speakers, including Kit Franklin from the Hands Free Hectare project and Iain Stirling from Arbikie Highland Estate at the conference website – **www.farmingscotlandconference.co.uk**.

Not exactly levelling with you

Many observers will probably rank Rishi Sunak's assertion that he would "level with the public" on the state of the nation's finances as being on a par with Tony Blair's claim that he was "a pretty straight sort of guy". Neither statements were that credible.

UK government borrowing for 2020/21 is expected to come in at £355bn and forecasts for additional borrowing for 2021/22 are currently at £234bn. The additional borrowing is of course being facilitated by quantitative easing, with the Bank of England buying up government debt as soon as it is issued. Also known as the magic money tree or just plain printing money in old fashioned terms.

The only overt tax increase in the budget was the increase in corporation tax from 2023, which is expected to raise an extra £17.2bn per annum by 2025/26. As can be seen we are still some way off from getting the UK's books to balance. So much for levelling with the public!

How this will all play out at the macroeconomic level in terms of taxation, inflation, exchange rates and interest rates etc is of course still highly uncertain.

History would suggest that exercises in money printing seldom have a happy ending. We may well see the return of inflation in years to come as the price we pay for the government's current largesse.

Agriculture could however be a beneficiary of higher inflation if land, like gold, is perceived as a store of value, during uncertain times. On the downside we could see input cost inflation which is not fully matched by increases in output prices.

Higher interest rates have traditionally been used as a tool to control inflation, although, rightly or wrongly, there would appear to be no expectation of significant future increases at present.

Perhaps we are at a point in the economic cycle where it is still possible to borrow cheaply on fixed rates to invest in agricultural land that could be a major beneficiary should we see a return of inflation. Only time will tell.

EQ Cupar office to merge with our Dundee office

We have taken the decision to close our Cupar office and relocate all Cupar staff to our modern purpose built Dundee office, located at City Quay.

The decision is not one we have taken lightly, but in common with many other businesses, the past year has forced us to reconsider our required office footprint going forward. EQ will however retain a physical presence in Fife through our Glenrothes office.

We look forward to continuing to service our Cupar office clients from our Dundee office.

Other budget measures

Despite the budget being a relatively damp squib there were a number of other important announcements, including the following:

- Corporation tax to be increased from 19% to 25% from April 2023. Small companies with profits under £50k will continue to be taxed at 19% and the 25% rate will only fully apply to companies with profits over £250k. Disappointing news for our corporate farming clients, but corporation tax rates still remain competitive relative to higher rates of income tax.
- Loss carry back. Trading losses incurred in either 2020/21 or 2021/22 can be carried back and offset against profits of the three preceding years compared to one at present. This creates the opportunity for large tax repayments if the business has historically made profits, although if tax rates are to rise in future any losses might best be left unclaimed for now and used to offset against future profits.
- Self Employed Income Support Scheme. Three grants have been paid to date under the scheme, with two further grants covering the periods February to April and May to September to come. Given the relatively buoyant commodity markets of late it might be difficult to justify further claims under the scheme within the agricultural sector.

The great escape (for now at least)!

One of the pleasant surprises in this year's Budget was that there were no significant announcements in relation to either Capital Gains Tax (CGT) or Inheritance Tax (IHT), despite much speculation in advance to the contrary.

The only thing that was confirmed was that there would be no change to the CGT annual exempt amount and the IHT nil rate band, which will remain frozen at £12,300 and £325,000 respectively until March 2026.

Both taxes are potentially significant in relation to the agricultural sector given the capital values tied up in farmland.

At present it is still possible to gift farming assets to the next generation without incurring a CGT charge by making what is known as a "holdover election", which defers the tax charge on any gain until the farm is sold by the beneficiary of the gift.

Likewise, the maximum rate of CGT payable on the sale of farmland remains at 20% and it may be possible to achieve a rate of 10% on the first £1m of gains if the disposal qualifies for Business Assets Disposal Relief (formerly known as Entrepreneurs' Relief).

As far as IHT was concerned, although the Nil Rate Band has been frozen, there was no mention of any changes to either Agricultural Property Relief (APR) or Business Property Relief (BPR) meaning that farming and business assets can still be left to the next generation without any exposure to IHT.

Given the state of the nation's finances it would seem unlikely that these taxes will remain unscathed from reform. Indeed, further tax consultations are due to be published on 23 March which may provide clarity on likely future direction of travel.

For now, there would appear to be a window of opportunity in relation to either the gifting or sale of farming assets, which those looking at either succession planning or retirement may wish to take advantage off before any adverse changes take effect.

As always, seek appropriate advice before considering either the gifting or sale of assets as the tax consequences can be significant.

Reduced VAT rate for leisure businesses

The Chancellor's recent Budget extended the current 5% reduced VAT rate for hospitality and leisure businesses for six months to 30 September 2021 followed by an interim rate of 12.5% before reverting to the standard rate of 20% from 1 April 2022.

The extension will be welcomed by all, including rural leisure enterprises, as many businesses have been able to pass on savings to customers whilst retaining a cash flow benefit. The reduced rate does allow for some tax planning opportunities as the tax point for VAT purposes is often substantially different from the actual time of supply. Customers paying now for summer holiday accommodation in 2022 can take advantage of the reduced/interim rates even though the date of the holiday is after 1 April 2022 when the rate is due to revert to 20%.

The interim rate may pose additional complexities for businesses as many bookkeeping systems will not have a default rate of 12.5% so careful planning ahead of the change will be critical. Advice should be sought to ensure your system can cope with a new rate. Please contact us if you need advice.

Staff retiral

Mary Campbell, Admin Manager in our Forfar office, retires from EQ on 31 March 2021, after almost 26 years of dedicated service. Mary has headed up our administrative team in Forfar and her efficient, conscientious, and friendly approach will be missed by all at EQ, as well as by the many clients and contacts with whom she has interacted over the years. Mary was heavily involved in organising various events undertaken by the firm, including our Forfar office BBQ and the annual Farming Scotland Conference, always going the extra mile to ensure these events ran smoothly. We wish Mary a long and happy retirement.

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 bulletin, or to discuss a particular issue with one of our advisers, please contact our Agriculture specialists.

DUNDEE
14 City Quay, DD1 3JA
01382 312100

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