UHY Hacker Young
Chartered Accountants

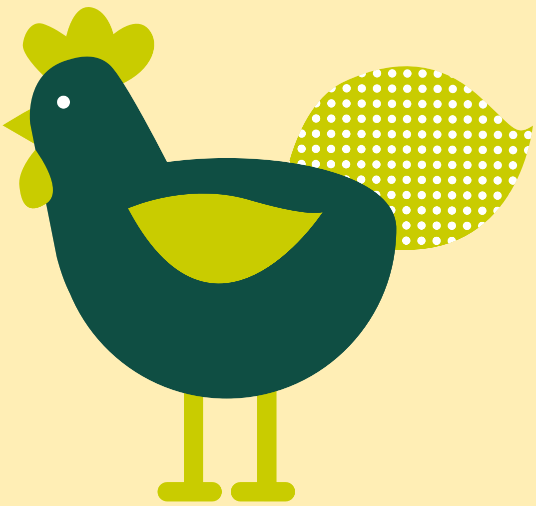
Rural and Agriculture Sector Outlook

2018/19

Predictions for the year ahead plus tax planning and business advice from our specialist rural and agriculture team.

Helping you prosper

Contents



Editor's view of the year ahead

Tim Maris
Head of rural and agriculture
Royston, Cambridge and East Anglia

Brexit has not progressed as fast as I nor the government may have thought; the so-called 'divorce bill' initially being a significant factor in delaying negotiations, followed by lengthy discussions over the Irish border and Customs Union.

When I sat down to put pen to paper this time last year I expected lots to change in the year ahead. Some of those expectations have come to pass but others are still in the wings waiting to reveal themselves.

Brexit has not progressed as fast as I nor the government may have thought; the so-called 'divorce bill' initially being a significant factor in delaying negotiations, followed by lengthy discussions over the Irish border and Customs Union. Maybe it was always going to be a slow process; there is much to sort out and as the 27 remaining states all have to agree, this process was never going to be simple, easy or cheap for the UK. Perhaps the remaining states are trying to send a message to other nations considering their membership of the community. However, negotiations and trade talks do now appear to be underway, although I do not expect these talks to be any easier as there is an awful lot at stake and neither side wants to be seen as losing or giving in too easily.

So where does that leave the businesses that have to both continue in business and invest for the future, while at the same time have very little of substance to help them to know what the future will look like after Brexit? To answer this question and similar ones we have sought out the thoughts of our own specialists and our clients, as well as industry advisers; from land agents, bank managers and solicitors through to agronomists. The summary of their collective thoughts begins on page 6.

One positive point from Mr Gove, made at the Oxford Farming Conference in January, highlighted that the basic payments appear to continue until March 2022. There is a slight caveat, in that the largest landowners may have their payments capped before 2022, but overall it looks as though there is certainty in respect of one aspect of income going forward.

As in previous years, we have included articles on topics that we hope you will find informative; some cover areas that our clients have recently asked us to advise on, so they are definitely topical. In addition to the tax round-up from Brian Carey on page 14 we also cover development pitfalls, common VAT queries and business structures, as well as providing advice on how to prepare for Making Tax Digital.

As always we finish with our topical tips for the year ahead – hopefully one of these points will make it on to your action list for 2018/19.

The aim of the Rural Outlook is not only to be informative but to also stimulate ideas for the year ahead and beyond. If we can be of any assistance at all, please do not hesitate to contact us – we very much look forward to hearing from you.

The pitfalls of developing farmland

Brian Carey
Rural and agriculture specialist
Kent

> You should look to gather specific advice around the financial and taxation side of any potential development deal to ensure that you avoid the typical pitfalls.

Farming the land generally conjures up visions of bright summer days, with tractors ambling across fields either spraying crops, tilling the soil or collecting the harvest. What is not generally seen is the months and months of hard work and preparation that goes on behind the scenes; planning for the next crop, fertilising the soil, making decisions on whether to leave fields fallow, considering the income benefit of what crop to grow and what subsidies are available.

Following the Brexit vote and the uncertainty over future subsidies, and despite the current Government's pledges to maintain the current levels, many farmers and landowners are now giving serious consideration to ceasing to farm the land and instead exploring the option of actually selling some or all of their land for development.

Whilst this may cause problems in other areas of the economy, in that we may have to import more food and export less, it may help to satisfy the government's housing policy of building more homes; especially if the parcel of land is already contained within the local plan for the area or another similar statutory planning framework.

There are a multitude of tax consequences as well as planning and legal considerations to be made in any development and sometimes the financial planning side is not given due consideration early enough in the process to make the most of the tax efficiencies and savings available.

You should look to gather specific advice around the financial and taxation side of the deal to ensure that you avoid the typical pitfalls.

We have listed below the various taxes that may come into play when you are looking to develop farmland, and some important areas to consider in relation to each one.

Income tax and corporation tax

- In selling the land are you ceasing a trade that has losses on it that could be lost?
- Is the rate of income tax versus corporation tax a consideration?
- Are the results of the development an unforeseen income tax charge as opposed to an expected Capital Gains Tax (CGT) charge?

Capital Gains Tax

- Are you intending to sell land with development potential, land with obtained planning permission or developed residential properties? This will affect the rate of tax at which CGT is paid.

- Is Entrepreneurs' Relief a consideration of the sale?
- When are you planning to sell – now to a developer or later via a Promotion Agreement?
- Do you need to consider the ownership of the land now, prior to any development thoughts, to ensure the strategic use of losses and annual allowances?

VAT

- Should the land be opted to tax for VAT purposes?
- What are the VAT consequences of a self-build project versus a main contractor development?
- Do you need to consider the end sale now to ensure no loss of VAT?

Inheritance Tax

- Developing farmland potentially converts land qualifying for Agricultural Property Relief (APR)/Business Property Relief (BPR) at 100% into an asset, cash, with no Inheritance Tax (IHT) reliefs.
- What is the plan for the after sale cash?
- Would the use of a Trust be relevant to ensure any value of the developed properties/cash received from the sale is outside of your, and any other land owners', estate(s)?

Stamp Duty Land Tax

- As the landowner, deciding early on the medium through which you want to effect the sale will impact on whether any Stamp Duty Land Tax is payable, when and how much.

There are many commercial risks and decisions to be made in development and so it is vital that you use a legal team with suitable expertise in this field, as the extremely important planning and legal side of the development is beyond the remit of this article.

On the financial and taxation side, we at UHY have a vast amount of experience advising clients in this area, and you should contact your local UHY adviser as soon as you start to consider development of your land to ensure the right steps are taken straight away.

Developing farmland potentially converts land qualifying for Agricultural Property Relief (APR)/Business Property Relief (BPR) at 100% into an asset, cash, with no IHT reliefs.

Know your figures – the benefits of benchmarking

Andrew Redman
Rural and agriculture specialist
Royston

Benchmarking can be a useful exercise to compare your performance against your farming neighbours and can help to highlight areas where your farm is not performing as well as others.

Farmers and landowners are currently facing a future clouded by political uncertainty, with challenges and potential problems anticipated for many in the industry over the next few years. Individual attitudes as to what the future may hold are explored further in our 'Future of UK agriculture' piece on the following pages. However, where there are challenges there are often many opportunities, and now could be the perfect time to take stock of your farm and assets and assess whether or not they are working hard enough for you.

How can benchmarking help?

Many of our rural accountants come from a farming background and so understand that farmers frequently discuss the latest machinery, input costs, yields and output prices with each other. However, this is most commonly done only on an informal basis whilst in the pub, out shooting or at country shows, so whilst you may have a rough idea of how your fellow farmers are performing, this data is not set out in any formal way.

Benchmarking can be a useful exercise to compare your performance against your farming neighbours in terms of outputs, inputs, gross margins and fixed costs. Daunting as it may seem to pit your figures against your neighbours', it can highlight areas where your farm is not performing as well as others. You may be surprised, as the areas of underperformance are not always in the places you would expect.

The benefit of this data being available is that it can be used to analyse how the business is performing and identify areas for improvement to help drive it forward. Recognising the need for such a service, the Agriculture and Horticulture Development Board (AHDB) have, over the course of the past few years, been developing a new online farm benchmarking program called FARMBENCH.

How does FARMBENCH work?

Currently, the tool is set up to cover cereals, oilseeds, potatoes and beef and lamb enterprises, and allows you to enter all of your cost data in one go. There are three categories of performance indicators:

- Financial (eg. sales, costs and margins)
- Technical (eg. utilisation of fertilisers or animal health products)
- Production (eg. outputs such as crop yields or progeny sold per breeding animal)

All users will be able to access reports on the website at any time, comparing performance against at least 15 other similar businesses using criteria such as GBP per hectare, GBP per kg/tonne and GBP per head. In addition to this, AHDB will continue to publish their annual national sector reports against which producers can compare their figures. If you wish to get further involved, you can become a member of a discussion group or monitor farm group, and take part in focused events and feedback meetings in your region.

What are the benefits of FARMBENCH?

The service aims to help you 'unearth your strengths'. Using FARMBENCH to benchmark your farming business can help you to:

- locate areas of strength and weakness across your local region;
- become more aware of your actual costs so that you can make better decisions;
- take a step back and take a critical perspective, allowing you to consider aspects of the business you would not otherwise have done;
- identify and control production costs, which is increasingly important as our exit from the EU means that the UK is now competing on a global scale; and
- look at the farm as a whole or at field level; the latter will highlight marginal land where it may be beneficial to consider alternative uses.

FARMBENCH is currently free to use and the service is anonymous so there is no risk of data falling into the wrong hands.

For further information on FARMBENCH you can visit the website at: farmbench.ahdb.org.uk

Case studies from farmers who have used benchmarking as a management tool and have spoken about the use of FARMBENCH can be found on the website here: farmbench.ahdb.org.uk/Common/CaseStudies

How can my adviser use this data?

As consultants to farmers, accountants or land agents can be given access to your farm business on the software. From this they can either help collate and enter information or provide you with informed comments on the findings.

Once a farm is operating at its most efficient, you and your professional team can then devise an overall strategy for the future development of the business. Ensuring the core farming enterprises are performing well gives a stable platform to build a business strong enough for future diversification, expansion or succession planning.

Our rural advisers at UHY are focused on helping farming businesses to recognise their strengths and weaknesses and, in doing so adapt, change and grow. As individual farming businesses prosper, this will drive the prosperity of UK agriculture as a whole – a preferential outcome for all!

If you would like advice regarding your benchmarking and budgeting needs please contact one of our advisers. You will find contact details for specialists in your area on the back page.

Ensuring the core farming enterprises are operating at their most efficient gives a stable platform to build a business strong enough for future diversification, expansion or succession planning.

The future of UK agriculture – farmers' and advisers' perspectives

Tim Maris
Head of rural and agriculture
Royston, Cambridge and East Anglia

What does the future of UK agriculture look like? Some people think the future looks bright, some think the future looks bleak. How many people in the agricultural sector are really even sure? Uncertainty has been pervading the industry, indeed the whole country, regardless of what business you operate in, ever since the UK voted to leave the European Union (EU) on 23 June 2016. It goes without saying that the word 'Brexit' has firmly entered the national lexicon, but we still seem no closer to understanding what this actually means and what the consequences, both in the short and long term, are going to be.

Speaking at the Oxford Farming Conference in January, the Secretary of State Michael Gove confirmed that the government has guaranteed they will protect the current amount allocated to farming support until the end of Parliament in 2022. They will also continue paying the 2019 BPS scheme, but will be transitioning to new arrangements after a consultation period – the length of which was not made clear.

Payments and subsidies aside, the government's full strategy post-Brexit is still uncertain. So what do those working in the heart of the industry think? The variation across the sector is clear to see – some are expressing huge concern over the future of farming whilst others are viewing Brexit as an opportunity. We asked a selection of our farming clients and also a range of our contacts in the agricultural advisory sector for their opinions on what the future may hold, and discuss the findings of our survey here.

What do farmers think?

The farmers who completed our survey span a variety of sectors. Half were in arable, with another fifth in arable and mixed farming. The rest comprised beef, pig and mixed farming.

Percentage of farmers who felt pessimistic towards their business' future over the next five years **45%**

1/4 think that Brexit will give the UK an opportunity to promote its high quality, ethical produce to countries outside the EU

SHOP

14% believe diversification is the biggest opportunity from Brexit

>50% stated that Brexit and government policy are the biggest threats to UK agriculture

20% are concerned about the threat of competition from cheap, low quality imports from the EU and non-EEA countries

What do advisers think?

The advisers who answered our survey work across a variety of agricultural industries; half are in land management, the other half are divided equally between agricultural finance and farm suppliers.

3/4 think change is the biggest opportunity prompted by Brexit

>50% think a reduction or loss of subsidies is the biggest threat to their farming clients

Percentage of advisers who are pessimistic about the future profitability of UK agriculture over the next five years **27%**

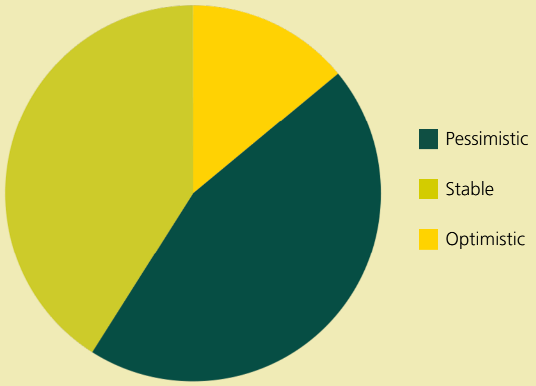
60% stated Brexit and government policy as the biggest threats to UK agriculture

55% are optimistic about the future profitability of UK agriculture

Only 5% of advisers think that seasonal labour issues will be Brexit's biggest threat to their clients

Farmers

What are your overall expectations for the future profitability of your business over the next five years?

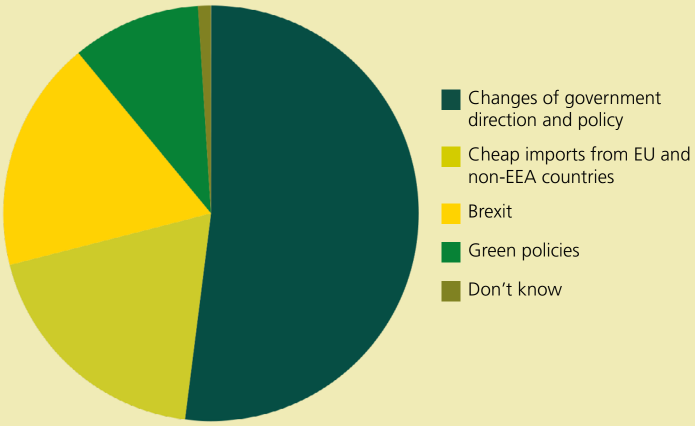


What are the influential factors driving these expectations?

With two thirds of respondents stating Brexit or government policy as the influential factors on their levels of optimism, perhaps this is a reflection of farmers feeling at the mercy of the government's negotiations with the EU and changes of direction over regulations.

18% cited 'changes I am making to my business' as the most influential factor. All the farmers who gave this answer had said they were either optimistic or felt stable about the future – a theme explored further later on.

Threats – can our government deliver what UK farmers need?



The importance of the government's ability to handle Brexit was made clearer still when later in the questionnaire we asked farmers what they perceive to be the biggest threat to UK agriculture.

52% cited changes of government direction and policy, including pre and post-Brexit, as the biggest threat. This included the risk of change to or removal altogether of subsidies, and cost rises due to a possible hike in interest rates, trade tariffs and inputs.

19% of respondents expressed unease that the UK market would suffer as a result of cheap imports from EU and non-European Economic Area (EEA) countries undercutting prices of home produce, especially meat produced to lower ethical standards than are practiced in the UK.

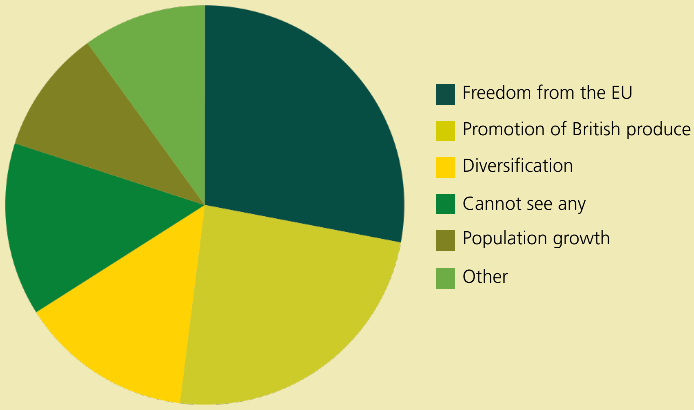
The responsibility of our government for the overall fate of farmers was summed up by one respondent who expressed dismay at the government's "short termism and lack of understanding" of the agricultural industry; a feeling possibly held by many.

Diversify to survive?

14% of farmers stated that diversification is the biggest opportunity for UK agriculture.

A sentiment echoed by those who answered earlier that they felt optimistic about the future because of changes they are making to their business. The need to diversify is well known already in the industry, as farms look to find new ways to generate income – whether that be through housing development, tourism, or diversifying to niche crops so as to not directly compete with bulk supply. It could be that those who are already making diversification plans for their farms are better placed to greet the future with more optimism.

Opportunities – is Brexit a blessing in disguise?



28% see freedom from the EU as an opportunity – converse to Brexit being the threat most stated. Brexit would allow the UK to set its own regulations that are logical and relevant, and to access new markets by opening up export and free trade agreements with countries outside the EU.

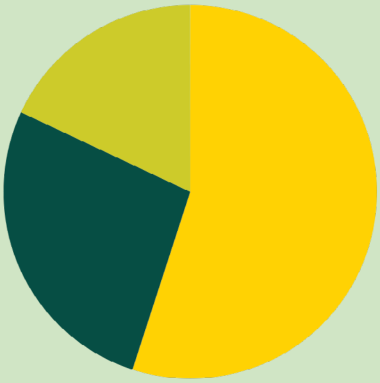
24% echoed this sentiment by stating the biggest opportunity lies in strong promotion of British meat produced to high quality and ethical standards to other countries. It seems confidence and pride in the quality of UK produce is high amongst our farmers, which is a result you would hope to hear!

14% of our farmers cited population growth to be another opportunity as, whatever happens with Brexit, we still have a growing world population that will need to be fed and limited land supply with which to produce this food.

Although many feared the demise of unsustainable farms failing as they lose their subsidies, many still cited optimism for the opportunities now open to British farmers who wish to innovate and take advantage of scientific advances not hampered by EU directives.

Advisers

Overall expectations for the future profitability of UK agriculture over the next five years?

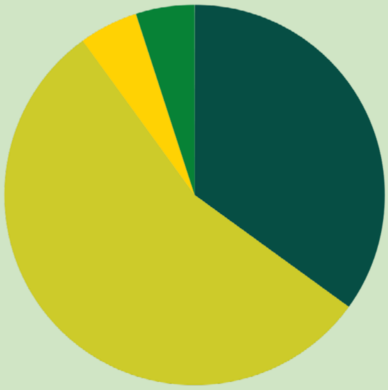


What are the influential factors driving these expectations?

60% of advisers identified Brexit, government policy on farm support and government policy on farm regulation as drivers in their outlook for the future.

It seems that neither farmers nor advisers are placing much faith in the government truly knowing and fighting for what is best for UK agriculture – we received identical results regarding their overall expectations.

Threats – again, the government holds the key



35% of advisers cited uncertainty as the biggest threat to their clients, with "heel dragging while new regulations are set up" stated by one respondent.

55% saw a reduction in subsidies as the biggest threat, with the impact being "massive" when factored into farm budgets and "a great deal of attention needed to overcome this."

The balance comprised an even split between seasonal labour issues and a fall in rents and capital values.

Opportunities – change for good?

73% gave change itself as the biggest opportunity.

This answer emerged in various ways – the majority of respondents wrote that changes to the support given to farms could be the catalyst that prompts farmers to explore more well diversified income streams, and for opening eyes to the potential of new opportunities hidden within existing assets to unlock this income.

Many also cited more active management of farms and a willingness to review business performance as a positive result of this change – benchmarking can play a part in this process as we've explored on pages 4-5.

Our respondents who answered in this way also alluded to the generational changes that will come about, as older farm owners put succession plans in place and younger families take over, or older tenants retire opening up opportunities to gain possession of holdings.

The key takeaways

Importing and exporting – cheap imports from both EU and non-EEA countries are considered to be a threat that could potentially undercut UK business. But we have an opportunity to export our high quality meat, produced to higher welfare standards, and should make the most of the chance to promote this to other world markets.

Change to survive – whether that be exploring new income streams through developing land, tourism projects, or embracing new technology, both farmers and advisers see diversification as key to survival in the face of reduced subsidies. Technological change and diversification of businesses were themes that repeatedly emerged in both sets of survey answers. It seems both farmers and advisers see change as an important contributor to the industry's future prosperity.

Brexit both a blessing and a curse – the prevailing uncertainty cannot be denied, and there is continuing mistrust in the government's handling of the Brexit negotiations and overall understanding of UK agriculture. However, both farmers and advisers believe that there is great opportunity for those willing to embrace it.

Ensuring the best structure for your business

Nick Jenkins
Rural and agriculture specialist
Chester

There are four basic structures through which a farm might trade and each has its own advantages and disadvantages from a commercial and from a taxation point of view.

There are four basic structures through which a farm might trade and this article will explain some of the advantages and disadvantages of each from a commercial and from a taxation point of view.

Sole trader

Many farms will start up using this method of trading. All income and expenditure is recorded and taxed in the year that it is earned, regardless of the drawings taken from the business by the farmer. The tax rate is anywhere between 20% and 45% depending on earnings with a further uplift for NIC Class 4 beginning at 8%.

This structure has a number of advantages – its simplicity, its cheapness to administer and the freedom to claim certain personal expenses for tax purposes that would be restricted in other structures.

The main disadvantages are that the farmer has completely unlimited liability and the taxation bill may become large in ratio to the drawings, particularly when profits are retained in the farm for investment.

Partnership

A partnership has many of the flexibilities of a sole trader and the added advantage that profits can be divided amongst two or more individuals. We would normally advise this structure when a sole trader farmer finds himself regularly being taxed at more than 40% so that his profits can be subdivided to reduce the tax bill.

Limited Liability Partnership

A Limited Liability Partnership (LLP) is a partnership that, as the name suggests, permits the liability of the partners to be limited. This is clearly an advantage if the farm partnership perceives that there are risks in the business that the partners would like to control. This protection comes at a cost because the accounts are typically more expensive to prepare than a basic partnership and also parts of the accounts have to be displayed publicly at Companies House.

Limited company

If a farmer wants to either limit their liability or is concerned at high taxation levels, we would often advise that some or all of the business is transferred into a limited company.

The advantage is that company profits are taxed at 19%, certainly lower than 40% or 45%, if a sole trader or a partnership. But to extract the profits, further tax has to be paid. Normally dividends are the most effective route. For a basic rate tax payer, dividends over £2,000 are taxed at 7.5%, and for higher rate tax payers at 32.5% or 38.1% for a top rate tax payer.

Farmers' averaging is not available to limited companies, so profits cannot be smoothed over a five year period and as in the case of an LLP, the annual accounts have to be sent to Companies House.

In addition, certain personal expenses that can be claimed if trading as an unincorporated business cannot be claimed in a limited company and assets such as cars may need to be kept out of the limited company.

In setting up a limited company, particularly for farmers using the herd basis, it is possible to achieve a tax-free uplift on the value of the herd. The farmer can then draw down on this from the limited company without paying tax.

The scope of this article is only intended as an introduction to what is a very complicated topic. If you would like some further advice, please speak to your usual UHY adviser or find details of your local office agriculture specialist in the back of the Outlook.

"As well as providing annual farm accounts and tax computations efficiently and ahead of schedule, the team have alerted us to money saving possibilities."

High Down House Farm

Are you prepared for Making Tax Digital?

Margot Madin
Rural and agriculture specialist
Nottingham

From April 2019, all VAT-registered businesses with a turnover exceeding £85,000 must use digital software to submit their quarterly VAT returns. It is planned that property landlords and small businesses will join MTD from April 2020.

The way that you report your business profits is going to change in 2019. Making Tax Digital (MTD) is part of the government's drive towards increased digitalisation, with the overall aim being to modernise the tax system, making it easier for businesses and individuals to comply with HMRC's requirements. MTD is to be rolled out over a two-year period and requires businesses to keep digital records and provide HMRC with quarterly updates from their approved software. In this article we have answered some common questions regarding MTD and the subsequent changes to VAT reporting.

What are digital records?

All businesses are required to keep records under current legislation, but MTD will require them to keep a digital record of every business transaction. Paper-based cashbooks, for instance, will become a thing of the past and will need to be replaced by software that is capable of summarising and uploading a quarterly summary to HMRC. In practice, this will almost certainly mean using accounting software rather than spreadsheets. Spreadsheets may be an option, initially at least, subject to them taking the correct format and appropriate conversion software being available. Either way, significant changes may be required.

Changes to VAT reporting under MTD

From April 2019, all VAT-registered businesses with a turnover exceeding £85,000 must use digital software to submit their quarterly VAT returns. This is the first stage of the new MTD for Business requirements. So if you are VAT-registered, you are unlikely to be able to do your bookkeeping on a spreadsheet and then just enter the figures onto an online VAT return, you will now need to use accounting software or an app.

What if I'm not VAT-registered?

It is planned that property landlords and small businesses will join MTD from April 2020, although they can opt to join earlier if they wish to. HMRC have said that they will monitor the MTD system from April 2019 and make sure that it is working well, before it is extended to cover property landlords and smaller businesses.

What will HMRC want from me every quarter?

There will now be five returns per year. You will be required to use approved software to record all business transactions, and submit a quarterly return of the total income and expenses of the business. This will be followed by an annual 'End of Period Statement', similar to the annual accounts prepared by your accountant.

More than just VAT?

From April 2020, sole traders and partnerships (including LLPs) will have to upload their transactions onto quarterly returns. These will then be used to complete the self-assessment tax returns, the fifth return being the one used as your tax return. Limited companies will probably be expected to complete their company tax returns in a similar way from 2020, but this has not yet been confirmed.

Can I opt out?

Currently it appears that you can only opt out of MTD if you are unable to handle digital record-keeping due to age, disability or location (eg. where broadband does not exist) or if it is against your religion.

When should I make the change?

It makes sense to change your business accounting systems at or close to the start of a financial year end. We would encourage early adoption and suggest you consider this now rather than waiting for the deadline to be upon us. This allows time to ensure systems are set up in the most appropriate way and, most importantly, are MTD compliant in good time.

How will this affect retail sales?

It is recognised that recording and uploading every single sale in a farm shop, for instance, could be a burden, so HMRC will accept a total single figure for sales per day.

What are the penalties for late filing?

In 2020, HMRC plan to introduce penalties for late filing of VAT returns under MTD. Taxpayers will receive a 'point' for each late submission, with penalties charged once they reach a defined threshold of a yet-to-be announced number of points. Points will be reset to zero after a period of good compliance. Time-to-pay agreements will still be available to negotiate.

Your thoughts

An HMRC survey of 2,900 taxpayers revealed that, although 96% had internet access, 20% said that internet speed or reliability was poor in their area. They were mainly in rural areas, and it is hoped that the government is taking steps to tackle this access problem. A third of those surveyed thought that meeting MTD requirements would be difficult, with more than 50% using spreadsheets or paper records.

UHY can help

We have experts in every office who can help with the registration required for MTD, and with the software you will need to use. You need to review your record-keeping now – we are urging our clients to move over to digital record keeping as soon as possible, so that everything is ready before **April 2019**. Contact your local UHY office for assistance with this.

You will need to keep a digital record of every business transaction and replace any paper-based methods with software capable of summarising and uploading a quarterly summary to HMRC.

Our key tax planning tips for the rural sector

Brian Carey
Rural and agriculture specialist
Kent

Tax is a consideration in almost everything that we do. For farmers and people involved in the farming and agricultural sector this is no exception as, businesses within this field are generally asset rich but cash poor, ie. most of their personal value and wealth is tied up in assets, be that the land they farm or assets they use in the activity.

Advisers are always therefore looking at tax efficient ways to assist those farmers in order to mitigate their tax exposure. The last couple of Budget announcements, whilst being packed with new legislation and anti-avoidance clauses, have been light on provisions aimed directly at the agricultural sector.

What follows is therefore a reminder of some key tax planning points that any farmer should always bear in mind:

Pension contributions continue to be an effective method for mitigating tax liabilities. With the level of contributions restricted for high income farmers, it is important to make use of allowances where available.

Use your personal allowances effectively

Personal allowances these days have been tinkered with such that they start to be lost if an individual earns over £100,000; they can be augmented by the dividend allowance and savings income allowance; they can also be transferable between spouses where neither pay tax above the basic rate. Therefore the interaction between sources of income, splits of income and the managing of income becomes very important.

Consider the interaction of your income with certain benefits

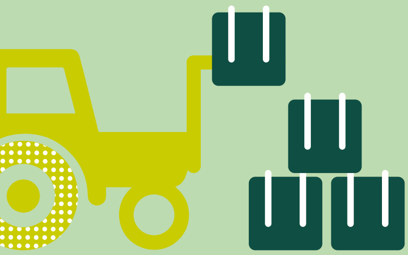
Whilst the point above considers the interaction with personal allowances, the adviser needs to consider the level of income of individual farmers and their entitlement to child benefit and its claw back through the High Income Child Benefit tax charge; the interaction with family tax credits and working family tax credits can become especially important in a loss making year.

Reassess your reliefs and subsidies

A farmer may have taken the view a number of years ago to turn over a field for grazing and the creation of a wind farm or solar field to benefit from feed in tariff reliefs and subsidies that were available. These reliefs may now have changed, however, which could lead to the need to have alternative discussions about funding or the use of the fields. There are potential opportunities and the possibility of other European or Government subsidies.

Are you using the basic rate tax band effectively?

Consider whether there is any opportunity for the equalising of incomes. If this has not been done before, ensure that all partners are fully utilising their basic rate band of income and no one person is paying higher rate tax, with others only paying basic rate tax.



Consider the timing of your capital expenditure to obtain the most advantageous capital allowances

The constant changing of the Annual Investment Allowance did make the timing of capital purchases an important consideration for the landowner/farmer to ensure that allowances were not lost. Now that a more stable allowance has been set, it should be under constant review to ensure that it is being utilised in the best way possible.

Review the tax relief on personal pension contributions

Pension contributions continue to be an effective method for mitigating tax liabilities. With the level of contributions restricted for high income farmers (income in excess of £150,000) it is important to make use of allowances where available. Additionally, as contributions interact with the reduction in personal allowances, with high income child benefit charges and also with farmers averaging claims, tax relief can be obtained at rates of 60% or even higher.

Use farmers' averaging claims to create tax savings

Given that farming results can fluctuate year on year, there is a special relief available to allow the results to be averaged in order to obtain a tax saving. Historically, it was the results of two consecutive years which were able to be averaged. However, from 2016/17 this was extended to provide farmers with the alternative option of averaging the results for five consecutive years.

The last couple of Budget announcements, whilst being packed with new legislation and anti-avoidance clauses, have been light on provisions aimed directly at the agricultural sector.

Consider the use of the farmhouse for tax reliefs

We have seen cases where an 'aged' farmer, who has farmed the land throughout their life and has lived in the farmhouse has, in their later years due to ill health, been moved out of the farmhouse into residential care. The unintended consequence of such an action could lead to the loss of tax reliefs on the farmhouse when the farmer dies.

The next step

These are just some of the ways that you can mitigate your tax liabilities. It is essential that you discuss these key planning points with your adviser to ensure that you are getting the appropriate assistance to explore tax efficient ways to mitigate your tax exposure. To find details of your local UHY rural and agriculture specialist, please see the back page of this publication.

Our answers to some common VAT queries

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York

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For most farmers, the majority of their income comes from the sale of crops or livestock produced and sold as a foodstuff. This results in the well-established position that the sales are Zero-Rated for VAT purposes; no VAT is charged on the sales but VAT is recoverable on expenses incurred.

These basics may seem simple and are well understood, but there are some areas within the VAT rules that merit further consideration.

"I was unaware that I had to charge VAT on….."

Most readers will be familiar with the requirement to charge standard rated VAT (currently 20%) on contracting work and the hiring out of plant and machinery, but there are additional sources of income upon which VAT should also be charged:

- the sale of crops for use as a fuel source, for example crops sold to an anaerobic digestion plant;
- the leasing of gaming or fishing rights;
- the hiring out of camping and caravan pitches;
- furnished holiday letting activities;
- the charging for storage space;
- in some instances, VAT is charged on the sale of entitlements.

Should I account for VAT on a barter arrangement?

Perhaps commonplace within the sector are arrangements where goods or services are exchanged in return for one another. If the items being exchanged would both otherwise carry VAT at the same rate then the VAT effect would arguably be neutral, albeit with inaccuracies on the VAT returns. However, what about an arrangement where, for example, hay is traded in return for a repair to a tractor. In that scenario, a zero rated supply (hay) is being swapped against a standard rated supply (repair) and that will result in VAT not being accounted for correctly. It is important that your VAT records are updated to include any such arrangements.

Is it a car or commercial vehicle?

VAT cannot be reclaimed on the purchase of a car but it can be claimed on a commercial vehicle. The distinction between the two is sometimes not clear. HMRC has previously issued guidance in an attempt to clarify which vehicles it views to be commercial and those which are cars, though this is not exhaustive. It is worth checking the VAT position of the vehicle prior to making the purchase. Generally, Land Rover Defender type vehicles will qualify as commercial but the more the vehicle moves towards being a car the more doubtful the claim.

Double cab pickups are also considered to be commercial vehicles as long as they have a payload of at least one tonne.

In both cases, the level of private use and the appropriateness of a restriction to the VAT reclaim should be considered.

Can I recover VAT on farmhouse repairs?

HMRC accept that the farmhouse is an integral part of a farming business. However, the farmhouse also provides domestic accommodation for the farmer and so an apportionment has to be made to reflect this personal benefit. This apportionment is then applied to the Input VAT claimed on farmhouse repairs.

In the case of a typical working farmhouse, from where a full time farming operation is being conducted, the amount that can be claimed will be higher than in the situation where the farmhouse is predominantly the family home and/or the farming operation is on a part-time basis. You should discuss the appropriate proportions for your business with your usual UHY adviser.

Am I partially exempt?

It is not uncommon for farmers to find themselves partially exempt for VAT purposes, with particular prominence for those farmers who have converted outbuildings into residential accommodation with the properties being subsequently let. This rental income is exempt for VAT purposes and therefore it results in the farmer having a mix of VATable and exempt supplies, so making it subject to the partial exemption rules.

These rules operate to prohibit the recovery of VAT in relation to exempt supplies unless it falls below set de-minimis levels of £1,875 per VAT quarter or £7,500 per annum. However, the calculation of this exempt VAT extends beyond the VAT incurred on expenditure directly relating to the exempt activity. Indeed, an allocation of VAT on certain overheads also enters the calculation and can potentially be restricted.

The calculation is undertaken for each VAT quarter with restrictions applying in the year as required. At the VAT year end, the full annual position is recalculated and an adjustment may be required at that point to either restrict VAT at the year-end, or to reclaim VAT restricted over the course of the year which is actually recoverable for the year as a whole.

Careful planning should be undertaken for those businesses with exempt VAT within de-minimis levels. If significant expenditure is planned in relation to exempt activities then the timing of the expenditure could be the difference between VAT recovery or restriction in a particular VAT year.

Should I charge VAT on livery income?

A common question with perhaps a less clear-cut answer; it depends.

It depends on the level of services that a livery provides. Unless the building from which the livery is operated is subject to a VAT option to tax, the position is broadly that:

- the letting of stabling alone is VAT exempt.
- the provision of DIY livery services may also be exempt providing the stabling element is the main part of the supply. However, the more services you provide in relation to animal care the more likely it is that the standard rate of VAT would apply.
- a livery which provides full services, such as mucking out, feeding and grooming, would be a standard rated supply for VAT purposes.

This is a complex area and each business should be looked at individually to ensure the VAT position is correctly established.

If significant expenditure is planned in relation to exempt activities then the timing of the expenditure could be the difference between VAT recovery or restriction in a particular VAT year.

Topical tips for the year ahead

Account for enterprise gross margins and subsidies

Review your accounts and prepare gross margin analysis so you can consider the contributions to profits made by each enterprise. Strip out the subsidies and see what the farm's profitability looks like if these payments are not received. Consider the implications on how and what you do and take steps now to make any necessary adjustments to secure the commerciality of your business going forward.

Review your business structure

Assess whether your present business structure is the most suitable for the future of your business, its development, the changing operating climate and its future succession.

Keep up-to-date with Brexit negotiations

As we move to discuss and agree terms of trade with the EU and other nations following Brexit, it is important that we all stay up-to-date so that we can factor in the changes that will undoubtedly affect the agricultural and rural sector and our individual businesses.

Audit your assets

Consider carrying out an asset audit, whereby you list all your capital assets, land and buildings and plant and machinery. Assess their value and the income they generate for the business and evaluate whether they could be better utilised either to provide a better return or improve efficiencies within the business. If they are considered to be under-performing are there better alternative uses?

Consider the new five year farmers' averaging rules

The new five year averaging rules are proving beneficial in a limited number of cases and so the application of this new tax rule should not be overlooked. Make sure your accountant is considering this when they complete your tax return.

Look to reduce your Inheritance Tax exposure

Do you know what your Inheritance Tax (IHT) exposure is? It might be worth finding out and seeing what can be done to reduce it, as there are a number of important IHT reliefs available to farming businesses, such as agricultural property relief and business property relief. Also consider whether or not your business interests are structured in such a way that will enable you to maximise these reliefs. If they are not, or you do not know, then it is time to find out.

Prepare for Making Tax Digital

With the introduction of Making Tax Digital for VAT coming in April 2019, now is the time to review the software packages available to assess which one best suits your business and can provide you with the necessary information required to run your business effectively.

Communicate

It is important when dealing with any business decisions that you gather thoughts and opinions from others; whether that be business colleagues, professional advisers or family and friends. This will help you structure your own thoughts and hopefully reach a balanced decision on the matter at hand.

Ensure you have agreements in place

Whether Wills, lasting Powers of Attorney, partnership or shareholders' agreements, you should have them in place and up-to-date. If they are not, you could be at risk of your assets not being dealt with as you would wish and at worst not going to the correct benefactor.

Consider a VAT review

Is your business a mix of different enterprises with different rates of VATable income? If so, when was the last time you had a VAT review to find out if you are accounting correctly for input and output VAT? (See our VAT common queries article on pages 16-17.)

…and finally

We wish all our clients and contacts well in the year ahead. If a particular article in this Outlook raises additional questions please call one of our specialists to talk it through in greater detail; they would appreciate hearing your thoughts on the subject and would be happy to assist you.

Combining national expertise with a tailored local service

We understand the practicalities of farming and are at home speaking with, advising and acting for our clients, tailoring our approach to meet individual circumstances.

Our sector experience

We act for a range of farming, horticultural and rural businesses, as well as landed estates and renewable energy clients, advising them on a range of issues affecting their businesses. Whether it is tax, business structuring, succession planning or diversification – we can help.

We understand that the rural and agriculture sector is a specialist sector, having unique practices and conventions, making rural enterprises unlike other commercial enterprises. Our approach to each client is therefore tailored to recognise your unique circumstances. We always build an in-depth knowledge of your business so that we can tailor our services accordingly and add value wherever possible.

Our national rural and agriculture team have a genuine knowledge of the sector and the relevant experience to help. We have a thorough understanding of the business structures under which rural and agriculture businesses operate, whether that is company, partnership, sole trader or a trust structure. We understand the practicalities of farming and are at home speaking with, advising and acting for our clients.

Our services

We provide a comprehensive range of agricultural accounting and taxation services that will give you the confidence to develop your business.

Our services include:

- Technical and taxation advice
- Bookkeeping and payroll
- Raising finance
- Changes in business structures
- Property transactions
- Passing on the family farm
- Business management
- Software advice and cloud accounting
- Cashflow planning

Farming enterprises and their related businesses are often in need of proactive advice in relation to business structures, succession and/or tax planning. We will spend time discussing your needs and future plans for you and the other generations in your family. We can advise you on tax incentives and will unravel, explain and plan for the convoluted scenarios that can arise with Capital Gains Tax and Inheritance Taxes.

We can also provide planning advice to clients looking to diversify into new business areas such as wind, solar and anaerobic digestion.

Follow our dedicated rural and agriculture blog

Our rural and agriculture blog covers the latest tax issues that may affect you and your business. From Making Tax Digital updates and the latest Brexit news to VAT issues and diversification suggestions, our blog will keep you up-to-date with everything you need to know.

www.uhy-uk.com/rural-and-agriculture-blog

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