ON THE RIGHT TRACK

Spring/Summer 2021

- Income Tax Relief for new building
- Making Tax Digital... The next chapter
- Pension Tax Relief
- Who should own the farm

DY

dykeyaxley

CHARTERED ACCOUNTANTS

WELCOME

WELCOME TO OUR NEWSLETTER FOR OUR RURAL AND AGRICULTURAL CLIENTS. SADLY WE STILL FIND OURSELVES IN THE MIDST OF THE PANDEMIC, AND I WOULD LIKE TO TAKE THIS OPPORTUNITY TO WISH EVERYONE WELL AND WHEN WE ARE FINALLY ABLE TO MEET UP, IT WILL BE GOOD TO SEE YOU ALL AGAIN.

We find our reliance on video conferencing growing and whilst we all recognise that it is not the same as being able to meet face-to-face, the health and wellbeing of our clients, staff and fellow professionals is paramount in these times. We hope that you are all finding the use of the video conferences useful to keep in touch, and I have to say I have managed to avoid turning myself into a cat using the Zoom filters, as recently seen in the Texas Courtroom.

We are facing a period of uncertainty going forward, not only in the general economy, but agriculture and taxation.

In the wider economy the pandemic will certainly have a large impact on retail, hospitality, leisure and tourism, whether this will be for good or bad will take some time in finding out, as will its impact on the wider economy.

Looking at agriculture, we have changes in the subsidy system announced and Wales and England have both produced their Agriculture White Papers. We are starting to see the impact of Brexit on the industry with exports being affected to certain markets and the rules becoming more stringent in the near future. However, the positive impacts in terms of internal prices may help, but the current COVID impact is difficult to differentiate from the Brexit impact.

In taxation, we are seeing more discussion about both capital and income taxes. Everyone is aware that we will be paying for the cost of the pandemic for many years to come, and with suggestions about Inheritance Tax and Capital Gains Tax already in the public domain, the Chancellor will certainly need to raise money. However, speculation around how is wide and varied, but expect some changes, possibly to pensions and corporation tax as well.

With so much change happening, it is always good to talk to our clients. Please do not hesitate to give us a ring if there is anything you would like to discuss. Please take care, stay well and we hope to see you soon.

Kind Regards
Mark Griffiths

DO YOU RENT OUT PROPERTY? REMEMBER THE VAT IMPLICATIONS

MOST FARM OUTPUTS ARE ZERO-RATED FOR VAT, WHICH MEANS YOU DO NOT CHARGE VAT ON THE SALES.

Some outputs are standard-rated, which means VAT has to be charged on the sales; e.g. machinery sales, contracting income (including livestock, bed and breakfasting), holiday accommodation (if part of the same business) and storage.

Input VAT is generally reclaimable on all business costs incurred for the purpose of producing zero rated and standard-rated outputs.

By contrast, input VAT is not reclaimable on business costs that are incurred to produce exempt outputs, unless the exempt input VAT is both under £1,875 per quarter and less than half the total input VAT.

The major exempt output is property letting (other than for storage or short term holiday accommodation). Many farms have diversified into lettings for office accommodation or industrial units and some are considering doing so. Input VAT incurred for those activities (e.g. building a new letting unit, maintaining existing letting units, and even a share of general mixed business overheads) is exempt and is normally only reclaimable where it falls within the above limits. Please contact us for advice if you believe your exempt input VAT is greater.

Where major exempt expenditure is contemplated (e.g. the construction of a new letting unit), it may be advantageous to make a formal election to HMRC to waive the VAT exemption on the site, before the first rent (and ideally before the building is constructed). The effects of an election to waive exemption (commonly called a VAT Option to Tax) are:

- Subsequent income from the elected land is standard-rated. This includes both rents and any sale proceeds.
- Therefore, input VAT is reclaimable on the associated expenditure.
- The election is irrevocable for 20 years.

Whether the election is advantageous depends on both the level of input VAT and the capacity of future tenants (and any purchaser of the property) to reclaim the VAT you would have to charge them. We would be glad to advise you.

INCOME TAX RELIEF FOR NEW BUILDING

OVER THE LAST FEW YEARS, WITH SOME FARMS SECURING MID TIER CAPITAL GRANTS FOR BUILDING PROJECTS AND OTHERS MOVING MORE INTO INDUSTRIAL LETTINGS, WE HAVE SEEN INCREASING EXPENDITURE ON NEW BUILDING PROJECTS.

Over the last few years, with some farms securing Mid Tier Capital Grants for building projects and others moving more into industrial lettings, we have seen increasing expenditure on new building projects.

The income tax relief for the structural elements of new farm buildings is poor – just a Structures and Buildings Allowance, which provides relief at (from 1 April 2020) 3% per annum on a straight line basis from the date a new building comes into use.

A new building must be distinguished from a repair. Over the years, there have been many tax cases about the slightly grey line between capital expenditure and a repair. However, where an old building is demolished and completely replaced, there is no argument – that cannot be a repair because the old asset has ceased to exist. Planning applications for new sheds (which can be viewed online by anyone, including HMRC) usually also provide clear evidence of capital expenditure.

Having identified that a project is capital, the next step is to identify as much of the expenditure as possible as plant and machinery (instead of building). Functional elements, including electrics, plumbing and other systems (such as livestock handling metalwork, feeders and scrapers) qualify as plant and machinery, which in most cases achieves 100% annual investment allowance – the current limit for annual investment allowance is £1m (recently extended to 31 December 2021). Particularly helpful is HMRC brief 03/10 which contains guidance released several years ago to help the pig industry. In it, HMRC acknowledged that capital expenditure on the following can qualify for plant and machinery capital allowances:

- Slurry storage systems, including slurry tanks (whether above or below ground) and any reception pit and/or effluent tank and/or channels and pipes used in connection with the slurry storage tank
- Small scale slurry and sludge dewatering equipment
- Rainwater harvesting and filtration equipment
- Gutters and associated piping for carrying rain water harvested for business uses
- Sewerage systems designed to meet the particular requirements of the business
- Silos for temporary storage
- Concrete pad surrounded by low-level barriers for temporary storage of manure Storage tanks
- Feed systems (whether or not automated)
- Slatted flooring areas (as internal parts of a slurry system)
- Moveable, adjustable pen dividers

In practice, many building projects include substantial expenditure eligible for plant and machinery capital allowances. Please try to have that expenditure identified separately in job specification, tender and invoice documents, and its nature recorded clearly in the accounting records. Please contact us if you are unsure of the qualifying elements.

Finally, please bear in mind that the cost eligible for capital allowances is reduced by any capital grant on the expenditure.

MAKING TAX DIGITAL... THE NEXT CHAPTER

IF YOU ARE ABOUT TO TURN THE PAGE BECAUSE YOU ARE EXEMPT FROM MAKING TAX DIGITAL AS YOUR TURNOVER IS UNDER £85,000 OR YOU ARE NOT VAT REGISTERED, **PLEASE READ THIS ARTICLE!**

The Government has recently announced that:

- The Making Tax Digital regime will be extended to all VAT-registered businesses from April 2022.
- Making Tax Digital will be introduced for income tax with effect from the first accounting period commencing on/after 6 April 2023. It will apply to all self employed businesses and landlords with aggregate turnover and property rents of £10,000 or more.

The Making Tax Digital regime requires affected businesses to maintain up to date accounting records using an electronic system that is capable of linking directly to HMRC via the internet. Typically this is QuickBooks Online, Xero, Sage Cloud or some other cloud-based accounting software, but spreadsheets may alternatively be used in conjunction with a special linking app.

In practice, we believe that the extension of Making Tax Digital to income tax will increase the shift to accounting software and away from spreadsheets. The MTD income tax regime will require quarterly returns of business accounts information similar to what is presently included in annual tax returns. In order to deal with these new quarterly returns cost-effectively and within the short time allowed, we will have to develop new systems that will rely on standardised recordkeeping on the major accounting software platforms.

Businesses can apply to HMRC for exemption from the Making Tax Digital regime because the location or a disability makes digital record-keeping impractical. However, a successful exemption application might just require the figures to be telephoned through to HMRC instead.

Farming families sometimes have multiple businesses; e.g. the farm partnership, a holiday letting activity undertaken by one family member, and perhaps property letting by other family members. In the future, MTD-compliant records will need to be kept separately for each of those businesses if its turnover and/or rents exceed £10,000.

We strongly recommend that businesses with turnover over £10,000 start making arrangements to move onto accounting software. Larger farms have shown that it can be done and early action will help you get up to speed in time. Please contact us if you would like help updating your book-keeping system.

IN THE SPOTLIGHT

MEET LAURA HENDERSON – SHE'S A MEMBER OF OUR GROWING FARMING TEAM AND IS ONE OF THE FIRST VOICES YOU'LL HEAR IF YOU CALL FOR ADVICE.

LAURA HENDERSON

Laura is currently an Accounts Senior who works with our agriculture and landed estates clients, and her aim is to qualify as a Client Manager.

After graduating from Oxford Brookes University with a degree in economics, politics and international relations, Laura joined Dyke Yaxley in 2015.

She qualified as a Chartered Accountant at the end of 2019, and is now working towards her Chartered Tax Advisor qualification.

"I'm responsible for managing a wide range of businesses – from sole traders and partnerships, to companies and estates, helping them to prepare their accounts, income tax and VAT returns, as well as assisting with audits," said Laura.

"I actually wanted to become a farmer as a child, so to be working with the agriculture team at Dyke Yaxley is a great opportunity and I'm enjoying dealing with the firm's diverse range of farming clients right across the county."

In her spare time, Laura enjoys running in the south Shropshire hills and baking, and says her greatest achievement is graduating from university.

PENSION TAX RELIEF

REDUCING YOUR TAX BILL NOW AND BENEFITTING YOU IN FUTURE!

TRADITIONALLY SPEAKING, THERE'S BEEN A BIT OF A NEGATIVE PERCEPTION OF PERSONAL PENSIONS WITHIN THE FARMING COMMUNITY AND THESE CAN INCLUDE:

- You may prefer to keep any cash reserves for land or development opportunities;
- when you do come to retire, the guaranteed pension income for life is low and;
- the fund is lost on death.

This can lead to missing out on the major benefits of using a personal pension:

- The income tax saving on the amount invested and most of us want to save income tax where possible;
- There is no longer a requirement to buy a guaranteed income for life and once you are over the minimum retirement age (currently 55), you have the option to take what you want, when you want. 25% of your pension fund is available tax free;
- The fund isn't lost on death and can be passed to your beneficiaries free of Inheritance Tax (IHT).

A personal pension can be a great way to reduce your tax bill now and provide a flexible tax efficient income stream in the future. If you do not need the money built up in a pension, you can pass the benefits to those you love without any liability to inheritance tax.

With all this in mind, a personal pension offers an opportunity for you. Think about the income you receive and the tax you pay:

- If your income is between £50,000 and £60,000 and you receive child benefit, this can be impacted. At the £60,000 marker, you have to pay back any child benefit your family has received. Making a pension contribution reduces your taxable income.

KINGSLAND
Financial plans for life

- If your income is between £100,000 and £125,000, your £12,500 personal allowance for income tax will be impacted. At £125,000 your personal allowance is lost completely so in effect becomes a 60% tax!
- If you sell something subject to Capital Gains Tax (CGT), the rate of tax above the annual exempt allowance can create a marginal higher rate of tax payable.

The more tax you pay now, the potential for greater saving in retirement. This is demonstrated by the effective rate of tax paid now on a gross £10,000 sum versus an assumed 20% income tax rate in retirement, assuming no investment return or charges:

Income tax rate		Investment		Withdrawal				Financial return
At investment	In retirement	Net amount invested	Tax relief	Tax free sum withdrawn	Income tax on balance	Balance withdrawn	Total net withdrawn	
20%	20%	£8,000	£2,000	£2,500	£1,500	£6,000	£8,500	6.25%
30%	20%	£7,000	£3,000	£2,500	£1,500	£6,000	£8,500	21.43%
40%	20%	£6,000	£4,000	£2,500	£1,500	£6,000	£8,500	41.67%
60%	20%	£4,000	£6,000	£2,500	£1,500	£6,000	£8,500	112.5%

Of the many lessons we are learning from the global pandemic, we should have multiple avenues from which we receive an income where possible.

So, if you have funds available for pension investment, and especially if you are a higher rate taxpayer or are likely to have a raised effective tax rate in 2020/21 due to a land sale (without entrepreneurs' relief) or for some other reason, please speak in good time to your account manager and our trusted independent chartered financial planners, Kingsland Wealth Management Ltd.

This article should not be viewed as personal advice. The value of investments can fall as well as rise in value, so it is possible you could get back less than you put in. The above is based on our understanding of current tax legislation which may change in the future. The Financial Conduct Authority does not regulate Tax Advice or Estate Planning. Kingsland Wealth Management Ltd are appointed representatives of Pi Financial Ltd, who are authorised and regulated by the Financial Conduct Authority. FCA Register Number 211899 and 186419 respectively.

WHO SHOULD OWN THE FARM?

FAMILIES HAVE DIFFERENT VIEWS ON WHETHER THEIR FARMLAND SHOULD BE OWNED BY THE FAMILY PARTNERSHIP BUSINESS OR PERSONALLY BY INDIVIDUAL PARTNERS.

Land ownership by individual partners has the advantages that:

- Older family members owning the land have security and the knowledge that the land is protected from a son or daughter's divorce or wayward behaviour.
- With detailed planning and sufficient lead time, it is sometimes possible to achieve entrepreneurs' relief on a sale of part of the farm.
- Leaving selected property to non-farming children is accomplished more easily and with less risk of dispute.

On the other hand, land ownership by the partnership has the advantages that:

- The rate of Inheritance Tax Business Property Relief (BPR) is 100% instead of 50%.
- On a new land purchase, any borrowing within the partnership is matched by the addition of the land to the business balance sheet.
- There is less risk of dispute following improvement works (e.g. new buildings) paid for by the partnership.

Both routes have pros and cons for VAT; usually only the partnership is VAT registered, so input VAT can only be reclaimed on business expenditure by the partnership (regardless of who owns the land). But keeping the land outside the partnership may make it easier for a new diversification activity to be run by a particular family member and kept outside VAT.

There are good arguments both ways and different families will still rightly make different decisions about land ownerships. However, some recent developments mean that land ownership within the partnership may be a better route in more situations in future:

- The designation of land capital accounts in partnership agreements has become established as a means of enabling land to be owned by a partnership, while still retaining its value in the hands of particular (usually older) partners.
- The entrepreneurs' relief limit has been reduced to £1m of lifetime gains per person.
- Over the last year or so, there has been much speculation about possible future IHT and CGT changes. Arguably, land owned by a partnership might be less impacted by possible IHT changes.

For most of us, an entrepreneur's relief limit of £1m is still high. And it is wrong to pay too much speculation to IHT changes that might not happen. Nevertheless, families needing to get a new partnership agreement for other reasons (e.g. because a son or daughter is joining the business) should consider whether this is the time to move ownership of the farmland onto the balance sheet. We would be glad to discuss the tax implications of this for you.

Mark Griffiths
mark.griffiths@dykeyaxley.co.uk
07967 571043
DIRECTOR

Ian Walsh
ian.walsh@dykeyaxley.co.uk
07768 952378
DIRECTOR

Sean Gorman
sean.gorman@dykeyaxley.co.uk
07762 368370
DIRECTOR

Lynda Lee
lynda.lee@dykeyaxley.co.uk
CLIENT MANAGER

Hayley Price
hayley.price@dykeyaxley.co.uk
CLIENT MANAGER

Andrew Thomas
andrew.thomas@dykeyaxley.co.uk
CLIENT MANAGER

Carol Wright
carol.wright@dykeyaxley.co.uk
CLIENT MANAGER

Jenna Woolley
jenna.woolley@dykeyaxley.co.uk
CLIENT MANAGER

Les Cox
les.cox@dykeyaxley.co.uk
TAX CONSULTANT

1 Brassey Road
Old Potts Way, Shrewsbury
Shropshire SY3 7FA

Telephone 01743 241281
Fax 01743 235794

8 Hollinswood Court
Stafford Park 1, Telford
Shropshire TF3 3DE

Telephone 01952 216100
Fax 01743 235794

www.dykeyaxley.co.uk
info@dykeyaxley.co.uk

Follow us on:
@dyke_yaxley
/dykeyaxley

dykeyaxley
CHARTERED ACCOUNTANTS