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Agriculture Matters

Sowing the seeds for future prosperity

Tax Tips for Agribusinesses

Generous tax reliefs mean that now could be a good time for farming businesses to invest in new equipment. However, as we explain below, timing is everything. Also in this issue, we update you on the implications of the 2011 Budget on business tax rates and Entrepreneurs Relief.

Agricultural industry climate

Recent years have seen a significant increase in profits in many farming businesses, as a result of rising commodity prices. However, many businesses have also experienced a substantial growth in the price of their inputs, for example fertiliser. Individuals and businesses holding land have also seen sustained growth in the value of land. The expectation that commodity prices will remain relatively high for the foreseeable future, together with the increase in the value of land assets has given many businesses the confidence to invest for the future and purchase replacement/ additional machinery and plant.

Capital Allowances

Plant and machinery acquired by a business for use in its trade qualifies for a tax deduction in the form of Capital Allowances. Businesses need to be aware of the relevant legislation relating to available allowances to ensure that the tax relief is maximised at the earliest possible opportunity on qualifying assets.

For example, a company with a year ending on 31 March 2012 can claim a tax deduction of up to £100,000 for expenditure on qualifying plant and machinery (5 April 2012 for unincorporated businesses). However, after those dates, this Annual Investment Allowance is reduced to £25,000. Expenditure exceeding the limits is only available as a tax deduction over a number of years.

Therefore, businesses planning expenditure on assets that will qualify for Capital Allowances in the near future should consider accelerating the expenditure to before the end of March 2012 to maximise the available tax allowances, as this will accelerate tax relief and may reduce the overall tax burden by moving profits to a lower tax band.

A company with a 31 March year end, planning to purchase a tractor costing £50,000 will obtain a full tax deduction in the year of purchase if acquired before 31 March 2012, but not if acquired on 1 April 2012. However, any businesses with a year end other than 31 March need to make their purchase in the financial year end prior to 31 March 2012 to maximise the allowances available.

Timing is critical

Businesses need to be aware of the relevant rules that determine the date that an acquisition is made for tax purposes, to ensure that tax relief is obtained at the earliest opportunity. If an asset is being purchased outright, with no finance, the acqusition date for tax purposes is the date that the invoice is issued. However, extended payment terms cannot be available. If there is a gap of more than four months between the invoice date and the date on which payment is required to be made, the expenditure is not incurred until the date on which payment is required to be made.

If an asset is being acquired with hire purchase, the acquisition date for tax purposes is the date that the asset is brought into use. Therefore, for agricultural

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machinery, the machinery must have been delivered before the year end for a tax deduction to be obtained. Additionally, the hire purchase must be on "normal" payment terms. If the machinery is a tractor which needs to travel on public roads to move around the farm, to be brought into use, the tractor would have to be issued with road tax.

Business tax rates

This year's March Budget included some good news for businesses and their owners. With effect from 1 April 2011, the main rate of Corporation Tax was reduced from 28% to 26%. While the small companies rate was reduced to 20% from 21%. This rate is applicable where taxable profits do not exceed £300,000. The limit is reduced where a company is controlled by individuals who also control other companies. Going forward, the intention is to further reduce the main rate by 1% for the next three years. Therefore, with effect from 1 April 2014, the main rate should be 23%.

With the top rate of Income Tax now effectively 52% (when Employees National Insurance is taken into account), the reductions in the rates of Corporation Tax are likely to mean that the tax savings that can be obtained by unincorporated businesses (sole traders and partnerships) trading through a limited company are likely to increase. The decision is not a "one size fits all" choice, and can depend on the shareholding structure and the profits to be extracted by the owners of the business. However, any businesses currently operating as a sole trader or partnership should review the tax efficiency of their business structure, and whether trading through a limited company would reduce the overall tax burden for the business and its owners.

Entrepreneurs relief

Entrepreneurs relief can reduce the rate of Capital Gains Tax on the sale of a business, from a likely rate of 28% to a rate of 10%, if the qualifying conditions are met. The sale of a business would include shares in a limited company, a sole trade business, or a share in a partnership. In certain circumstances, a property held outside of a company or partnership can also qualify for the relief.

In the Budget, the lifetime limit for an individual to claim the relief increased from £5 million to £10 million. Therefore this is a very valuable relief and potentially worth a tax saving of £1.8 million. However, the qualifying conditions are very stringent, and "all or nothing", with a qualifying period of 12 months. Therefore, any individuals contemplating a future sale of a business, or assets used in the business, should take advice at least 12 months before a possible sale to confirm whether the relief would be available. This timescale may allow planning to be put in place to maximise the relief available.

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