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Agricultural Focus

Sowing the seeds for future prosperity

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HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Solar Farm developments

Consider the implications

Many landowners are looking at leasing land for a solar farm. Rents of around £1,000 per acre, increasing with RPI for the next 21 years, are on offer depending on when a project will be commissioned. This level of return can be very attractive but, with changes expected to the Government incentives this level of return may not be available for very long.

Many landowners are currently talking to planning consultants and potential solar park developers to assess whether such a project is right for them. However, it is essential to consider the tax implications of letting land to a solar developer at an early stage, certainly before signing up to an option with the developer or before a planning application is submitted.

The main implications are that with planning, the value of the land will go up considerably and when agricultural use ceases then valuable Inheritance Tax (IHT) and Capital Gains Tax (CGT) reliefs may be lost. It is a good idea to ensure that the property is owned by the right individual(s) or trading entity prior to any increase in value to minimise any increased exposure to significant tax liabilities.

It may be possible for the landowner to retain the right to graze sheep around the solar panels and to claim Single Farm Payment. However, the developer may look to reduce the rent paid where these rights are retained. This is a complex area and specialist advice should be sought at an early stage to see whether this is feasible and to test the attitude of possible developers.

Even more important than the tax position, is ensuring that the income stream is available to the right family members.

If the solar park rental is likely to be an important part of overall income then it would be wise to think twice before giving it away.

The following planning points should also be considered:

Planning Points

- Consider who should benefit from the solar park rental income
- Consider how likely the project is to go ahead and when might be the right time to start incurring potentially expensive professional fees
- Consider whether it is worth trying to preserve some IHT and CGT benefits by grazing sheep under the panels
- Consider transferring the freehold of the solar park land down a generation before planning is obtained
- Consider retaining the freehold reversion of the solar park land within an overall trading partnership or company so that Business Property Relief is preserved and there is some flexibility as to the allocation of income
- Consider the need for a written partnership agreement when dealing with these valuable assets
- Consider leasing the land to a company and allowing that company to sub-let to the solar developer to keep income out of the highest rates of income tax

2015 pension freedom gets the green light

The proposed changes to personal pension plans have now been confirmed, which allow an individual more flexibility in accessing their pension fund. The following is a summary of the important changes:

Defined contribution pension flexibility will go ahead from April 2015

- The headline income flexibility will go ahead. Individuals of pension age will be able to take what they want from their defined contribution pension pot, when they want it, and be taxed as income.
- For instance if you are a member of a defined contribution scheme you will be able to access your pension fund in full without the need to purchase an annuity. The tax free lump sum of up to 25% of the fund will remain available with any balance withdrawn taxed as income.

A £10k annual pension contribution allowance will apply after you access flexibility, to counter abuse of the new freedom

- Once pension flexibility has been accessed, the annual pension contribution allowance will drop to £10k. The trigger for this drop in annual allowance will be when an individual first starts taking drawdown income.
- Taking a secure income, or solely taking tax-free cash, will not trigger the annual allowance cut. Neither will accessing a defined contribution pot worth less than £10k under the 'small pot' rules.

Tax-free cash will stay at 25%

- July's announcement included welcome reassurance that the Government won't tamper with the right to take 25% of a defined contribution pension pot tax-free.

Death benefit tax will come down from 55%

- The tax rate on lump sum death benefits paid from crystallised pots will be cut from the existing 55%. From April 2015 this will be taxed as income when withdrawn.

Normal minimum pension age is going up to 57 from 2028

- For those wanting to access their private pension, the normal minimum pension age will increase to 57 in 2028, when the State pension age goes up to 67. This will affect anyone born after March 1973.

Please contact Gary Cook at Hazlewoods Financial Planning on 01242 680000 or gary.cook@hazlewoods.co.uk if you have any questions about these announcements on pension planning.

Cessation of milk quotas - Ensure tax relief is maximised

Milk quotas will cease from March 2015. The tax position is outlined below.

What will the tax effect be for individuals and businesses holding milk quota?

If the milk quota was acquired on introduction, and therefore nothing was actually paid for the quota, this will have no tax implications. Where the milk quota has been acquired in the market, and an amount actually paid for it, a capital loss will arise in March 2015. The amount of the loss will generally be the amount that was paid for the quota, as the quota will be regarded as having a nil value.

How can this loss be utilised?

Where the quota is owned by a partnership, or a sole trader, the loss will be available to set against capital gains of the business, and also against capital gains made by individual partners or a sole trader on non-business assets.

Possible planning

A capital loss brought forward is only set against capital gains after the annual exemption (currently £11,000) has been utilised. If capital gains are to be crystallised by individuals to utilise the capital loss, it may be tax efficient to crystallise the gains after 5 April 2015, as the loss will arise in the tax year ended 5 April 2015.

As any milk quota held is already likely to be regarded as worthless, it should be possible to make what is known as a negligible value claim in order to accelerate the use of the loss. It may be possible to claim the loss as arising two years earlier, if it can be proved that the quota was regarded as having a negligible value two years ago. Whether this is tax efficient to do so will depend on what capital gains have been made, or are to be made, and what rate of Capital Gains Tax will be paid on the gains.

Employment allowance
- Should you be claiming?

Many businesses are still not claiming the Employment Allowance which was introduced in April 2014 which allows a business to reduce their annual PAYE liabilities by up to an amount of £2,000.

Therefore businesses that have not yet claimed the allowance should consider doing so. For businesses with minimal staffing costs and employer's National Insurance of less than £2,000 per tax year, the unused allowance will automatically be carried forward to be available in future tax years.

Entrepreneurs' Relief
- Sale of land for development

Entrepreneurs' Relief (ER) is a valuable tax relief which can reduce the rate of Capital Gains Tax (CGT) payable on a sale of land from the current maximum rate of 28%, to a rate of 10%. Each individual has a lifetime limit of £10 million for the relief.

We are seeing a lot of interest from developers in acquiring land for housing, particularly on the edge of existing towns and villages.

Even where a farming business is to continue, this can offer an opportunity to obtain a large amount of funds which, for example, may be required to pay down debt or sort out future succession/inheritance issues.

Hence rollover relief will not be claimed, and ER will significantly reduce any CGT payable.

The qualifying requirements for ER mean that a straight sale of land with no change in a farming business will not qualify for the relief. However, it may be possible to structure a business change so that a sale of land for development qualifies for ER and significantly reduces the CGT payable.

Please contact Peter Griffiths on 01242 680000 or peter.griffiths@hazlewoods.co.uk if you would like to discuss ER planning opportunities.

Maximising tax relief on repair costs in residential let property

Make sure the white goods are integrated within the kitchen

Prior to April 2013 landlords of unfurnished or part furnished property could claim a tax deduction for the cost of like-for-like replacement of moveable items within the property. The renewals basis has now been withdrawn meaning landlords should consider how to make sure they do not miss out on valuable tax relief.

Capital items such as crockery, rugs, cushions and bed linen which are of a relatively low value and have a short useful economic life will continue to qualify for renewals basis. Where items are replaced regularly in the ordinary course of the letting landlords can continue to claim the tax deduction.

Larger capital items will only qualify for renewals if they are integrated within the entirety of the property and as such their replacement would qualify as a repair. No deduction will be given for freestanding white goods, curtains and carpets and so landlords should ensure that where possible white goods are integrated within the kitchen facilities.

Landlords of furnished accommodation (let with sufficient furniture, furnishings and equipment for normal residential use) have the ability to claim wear and tear allowances.

The wear and tear allowance is 10% of net rent, i.e. rent less any expenses the tenant would usually be responsible for. Landlords might therefore want to consider whether to upgrade the property to be fully furnished so that they can make this claim.

If the property qualifies as a furnished holiday let then capital allowances for the cost of purchasing and replacing furniture and fittings used in the property can be claimed.

Accordingly annual investment allowance of 100% of the capital cost can be claimed for furnished holiday let costs of this nature.

It is well worth discussing with your adviser how you maximise the tax relief available, whether through claiming expenditure as repairs, claiming wear and tear allowance or claiming capital allowances where available.

For further information on any of the articles included in this briefing or for general agriculturally related queries please contact:

Nick Dee Partner
t: 01242 680000
e: nick.dee@hazlewoods.co.uk

Peter Griffiths Tax Director
t: 01242 680000
e: peter.griffiths@hazlewoods.co.uk

Nicholas Smail Tax Director
t: 01452 634800
e: nicholas.smail@hazlewoods.co.uk

Staverton Office:
Staverton Court, Staverton, Cheltenham, GL51 0UX Tel: 01242 680000 Fax: 01242 680857

www.hazlewoods.co.uk