Agricultural Focus

SOWING THE SEEDS FOR FUTURE PROSPERITY

Autumn 2015

WELCOME TO THE AUTUMN 2015 AGRICULTURAL FOCUS

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

Reduced Annual Investment Allowance – check the calculation

The Annual Investment Allowance (AIA), which allows a 100% tax deduction in the year of expenditure for qualifying expenditure on plant and machinery, such as a tractor, reduces from the current level of £500,000 to £200,000 from 1 January 2016.

AVAILABLE RELIEF

The manner in which the reduction is implemented is likely to mean that businesses may not obtain the expected tax relief on expenditure. This can be illustrated with an example. A business with a year end of 31 March 2016 will potentially have available AIA of £425,000 ((£500,000 x 9/12) + (£200,000 x 3/12)).

However, despite the limit never having been below an amount of £200,000 for the whole year, if the business has no qualifying expenditure prior to 31 December 2015 and then spends £200,000 in February 2016, the available AIA is only £50,000 (£200,000 x 3/12).

A business with any 2016 year end with a similar pattern of qualifying expenditure will only qualify for the full £200,000 limit if it has a 31 December 2016 year end. Therefore, to maximise the available AIA, it is likely that any planned expenditure in an accounting period ending in 2016 should be made prior to 31 December 2015.

ACTION REQUIRED

Farming businesses planning to acquire plant and machinery in 2016 that will qualify for capital allowances should check the AIA position to confirm if all of the expenditure will be covered by the available AIA. If not, they should consider bringing expenditure forward so that it occurs before 31 December 2015, in order to maximise the available AIA.

When planning the date of expenditure to maximise the AIA, a farming business will need to consider:

- their accounting year end;
- the amount that has been spent;
- the amount to be spent; and
- and the date of expenditure

The Annual Tax on Enveloped Dwellings – 2016 reduced threshold

The Annual Tax on Enveloped Dwellings (ATED) was introduced from 1 April 2013 and affected companies and partnerships with corporate partners, that hold residential property with a value over £2 million. This limit was reduced to £1 million from 1 April 2015 and will be further reduced to £500,000 from 1 April 2016.

The deadline for submission of the 2015 return, where the property was in the value band between £1million and £2 million was extended to 1 October 2015. Therefore all 2015 returns should now have been submitted.

However, for 2016, all returns will need to be submitted by 30 April 2016 and any tax charge paid by 30 April 2016. Therefore, businesses affected should check if they will need to submit a 2016 return well before April 2016.

AVAILABLE RELIEFS

Reliefs are available from the annual charge, subject to certain conditions, but these need to be claimed on the relevant form as relief is not automatic. Therefore a form will still need to be submitted by the due date. Examples where relief might be available for farming businesses are:

a) farmhouses;

b) rental property; or

c) if occupied by employees (who have no more than a 10% interest in the company).

ACTION REQUIRED

Businesses should consider whether the reduced thresholds will mean they need to submit an ATED form or claim relief to avoid the annual charge for 2015 or 2016. ATED chargeable periods are for the 12 months from 1 April to 31 March.

Please contact Lyn Morey on 01242 680000 or lyn.morey@hazlewoods.co.uk if you have any ATED questions.

CHECK THE TAX POSITION BEFORE TRANSFERRING ASSETS BETWEEN DIFFERENT FARMING BUSINESSES

Many farming enterprises will now consist of different businesses, and often this will be a partnership and a company alongside each other. Assets that are eligible for capital allowances, such as machinery, are often transferred between these different businesses. The tax position of such a transfer needs to be confirmed before it occurs, to avoid unexpected tax liabilities arising.

The recent high level of Annual Investment Allowance for capital allowances is likely to mean that any machinery being transferred will have a tax written down value of nil. However, the market value may be significantly higher.

Where different businesses are owned by what are known as "connected persons", which in broad terms are close family members, and the businesses are controlled by those close family members, there is usually no tax implications from a transfer.

However, where machinery is being transferred between businesses that are not controlled by connected persons, a tax liability could arise on a transfer. Therefore, before transferring assets between different businesses, the tax position needs to be confirmed to avoid an unexpected tax liability arising.

ENTREPRENEURS' RELIEF ON THE SALE OF LAND-CHANGES IN THE LEGISLATION

Entrepreneurs' Relief (ER) is potentially available to reduce the rate of capital gains tax on a sale of farmland from a rate of 28% to 10%. The relief is available where the sale is part of the disposal of a farming business together with a reduction in an individual's partnership share or shareholding in a company.

Land used in a farming business, whether this is a partnership or a company, is often held outside of the company and owned by the individual partners or shareholders in the company. Where land is held in this manner, this can allow more flexibility for farmland to be sold, ER claimed, and the farming business to continue in existence.

Anti-avoidance legislation was introduced in the March 2015 Budget to restrict the availability of ER where land is held outside the business. HM Revenue & Customs have admitted that the extent of the legislation has gone beyond what was intended by the legislators. This means that the relief will be unavailable in certain situations which were not intended to be caught by the legislation and most existing farming partnership agreements will need amending.

Therefore, when selling land that is held outside of a farming business, ensure that advice is taken in advance of the disposal to ensure that it will not be caught by the anti-avoidance legislation and ER will be available.

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

SALES OF CROPS FOR RENEWABLE ENERGY

If a farming business sells what would normally be zero rated VAT animal feed stuffs for use in an Anaerobic Digester, this will become a standard rated VAT supply. Therefore, VAT will need to be charged at a rate of 20% on the sale.

This should not be overlooked where transfers are made between connected businesses.

Please contact Julian Millinchamp on 01242 237661 or julian.millinchamp@hazlewoods.co.uk if you have any VAT questions.

RESIDENTIAL PROPERTY INTEREST RELIEF RESTRICTIONS

The Summer Budget introduced a restriction to the tax relief available for the interest charged on loans used to acquire residential properties that are let out. The restriction will not affect loans used to acquire farmland, furnished holiday lets or commercial property.

THE RESTRICTION

The restriction will be introduced over four tax years commencing in April 2017, and will restrict the tax relief available on the interest to a deduction at a tax rate of 20%.

Currently tax relief for the interest is available to an individual at their top rate of tax which could be 20%, 40% or 45%. For the 2017/18 tax year, only 75% of the interest will receive tax relief on rates higher than 20%. This proportion will decrease by 25% each tax year until 2020/21 when 100% of a landlord's mortgage interest will only receive base rate tax relief.

WHO WILL BE AFFECTED

Not only will this create an increased tax liability for individuals who pay 40% or 45% tax on their rental income, but will create a tax liability for individuals who have rental income that is currently "covered" by related mortgage interest with no tax liability.

ACTION

Individuals with mortgage interest should ensure that borrowings are "matched" against the correct income source for maximum efficiency.

For example, if a mortgage is taken out on a residential letting to obtain funds for use in a farming business, then tax relief should be claimed against the business income, rather than the rental income, which will obtain a higher rate of tax relief.

Tax on dividends

SUMMER BUDGET CHANGES

The rate of tax paid by individuals on dividend income will increase from 6 April 2016. The tax credit “attaching” to a dividend will be abolished but all individuals will be able to receive £5,000 worth of dividend income tax free.

The tax rate on dividends received above the tax free amount of £5,000 will be 7.5% for basic rate (20%) taxpayers, 32.5% for higher rate (40%) taxpayers and 38.1% for additional rate (45%) taxpayers.

This compares to the current effective tax rates on dividends of 0% for basic rate taxpayers, 25% for higher rate taxpayers and 30.5% for additional rate taxpayers.

The changes are likely to mean that individuals receiving the majority of their income in the form of dividends will see an increase in their income tax liability for the tax year ended 5 April 2017 onwards. However, the reduction in corporation tax rates also announced may mean that the overall tax burden for company owners may not increase. There are also other advantages of running a business through a company, both financial and commercial, that remain.

ACTION

Before 5 April 2016 you may be wise to consider accelerating dividend payments into the current tax year, but be careful of any other implications e.g. eligibility for child benefits.

Residential lettings

NO MORE WEAR AND TEAR ALLOWANCE

Individuals letting out furnished residential property can currently claim a tax deduction of 10% of their rental receipts to cover the replacement of “furnishings”. Furnishings include such items as furniture, bedding and white goods. This is irrespective of whether any replacement expenditure has been incurred in a particular year.

From 6 April 2016, landlords can only claim the costs they actually incur on replacements. This could mean that landlords who regularly incur large amounts of expenditure will be better off, but those who do not incur regular costs will lose out.

ACTION

Consider delaying expenditure on furniture until after 5 April 2016 so that it qualifies for a tax deduction in 2016/17.

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