Summer 2015

Agricultural Focus

Sowing the seeds for future prosperity

Contents:

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

The Worshipful **Company of Farmers**

Challenges of Rural Leadership Course

Most of the Hazlewoods agricultural team have farming backgrounds, which gives them the required insight into farming businesses to help them to be more successful.

In January 2015 Lisa Oliver, a manager in the team, was selected to attend the 19th Challenge of Rural Leadership Course along with 15 other delegates from across the UK all working within the agricultural industry and all offering different visions and perspectives.

The intensive fortnight focused on the range of challenges that all Hazlewoods agricultural clients face today, being political, financial and environmental issues. The main objectives of the course were:

1. To develop an understanding and awareness of the strategic issues likely to occur in the next five years.
2. To critically evaluate the alternative approaches to management and leadership in rural businesses.
3. To increase the ability to motivate and communicate.
4. To increase the influence of the agricultural community, both nationally and internationally.

With the increasing world population, food security issues and climate change, producing quality food at affordable prices has become increasingly important.

Controversial topics such as GM and sustainable intensification were covered, with Professor Allan Buckwell, President of the British Agricultural Economics Society, and Philip Lymbery, the Chief Executive of Compassion in World Farming, offering two very different opinions, which prompted further discussion.

The course involved a detailed case study on a large dairy farm and its agri-food business, with the group working together and presenting ideas on future marketing and diversification plans, something that is paramount today in order for agricultural businesses to thrive and prosper. The group was supported during this project by a management consultant offering workshops on creative thinking and different problem solving techniques.

The course has provided further relevant skills to the Hazlewoods team, which will benefit our clients in the future.

Farmers' averaging - we await final details on the new measure

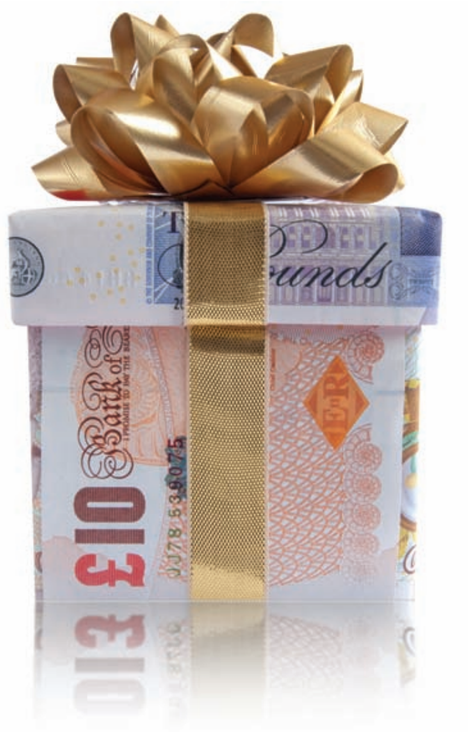
It was a welcome announcement in the March 2015 budget that farmers' averaging for profits is to be extended to a period of five years.

The relief, which comes into effect from 6 April 2016, will apply to individuals and members of a partnership (not farming companies). It is aimed to give farmers additional security by offering help to manage the impact of income volatility.

The government has not provided final details on the mechanics of the measure yet but a consultation is now in place regarding how the extension will be implemented. It is likely to benefit sole traders who have less scope to allocate profits among other family members; individuals with other sources of income, i.e. those where total taxable income puts them into higher or additional rates of tax; and also those who may not fully utilise their personal allowance each year.

If the measure is to be retrospective from "day one" then this could allow farmers to go back to earlier years. Those who have made significant capital investment over the last five years and claimed annual investment allowances but are now seeing improved profits may well be able to average back over the less profitable years.

If profits have yo-yoed in recent years and higher rate tax has been paid then a review of the position is vital once details of the final measure are available.



Please contact Shirley Roberts on 01242 680000 or shirley.roberts@hazlewoods.co.uk if you have any questions about famers' averaging of profits.

Annual **Tax** on Enveloped Dwellings

Be aware of the changes

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 £1m from 1 April 2015 and will be further reduced to £500k from 1 April 2016. Businesses therefore need to check if they will be "caught" by the reduced thresholds and need to submit a return.

If a partnership has a corporate partner then the whole value of the property is included in ATED. If a company owns, say, only 10% of a property then the whole value of the property is included in ATED.

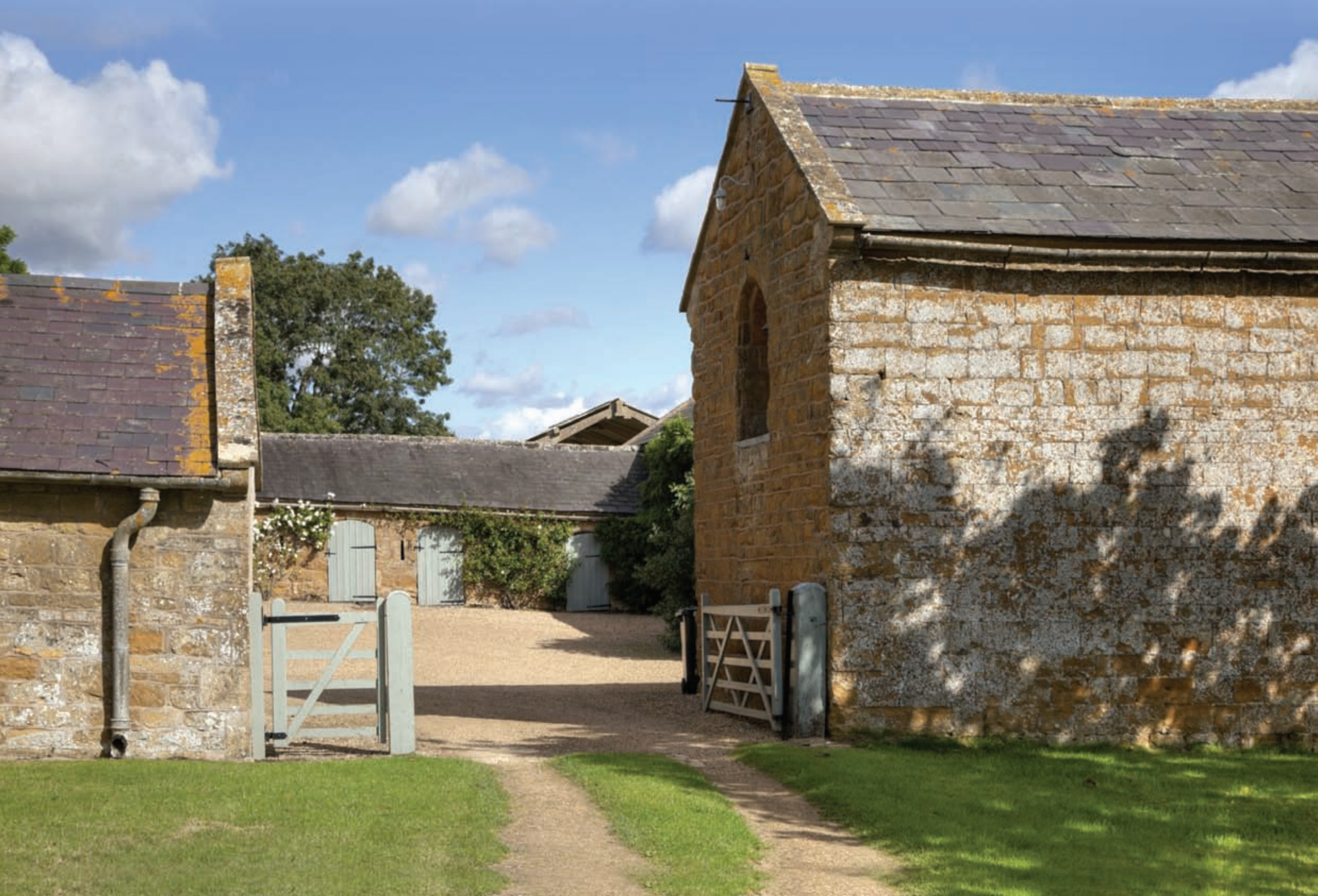
If a company and a connected person own different interests, i.e. the company owns a lease and the connected person the freehold or vice versa, the value of the aggregated interests will be the relevant value for ATED. This only applies if the value of the company's interest is in excess of £500k for dwellings valued at over £2m and £250k for properties valued at under £2m. Therefore, if any companies have a tenancy over or leasehold interest in a dwelling this should be reviewed.

Reliefs are available from the annual charge, subject to certain conditions, but need to be claimed on the ATED form as relief is not automatic. Examples where relief might be available for farming businesses are:

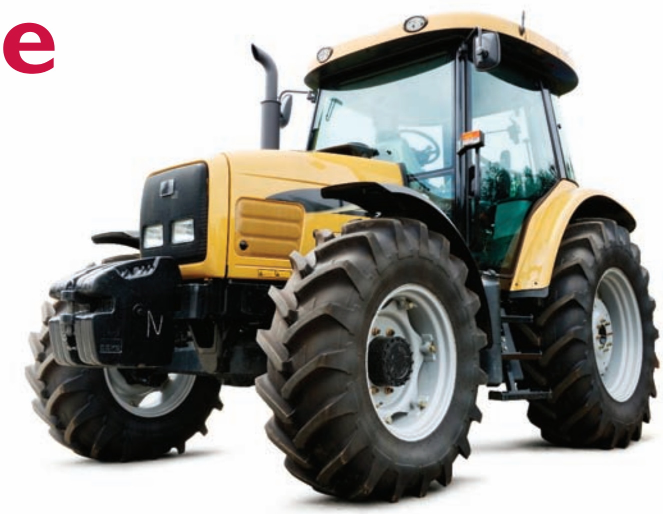
a) farmhouses;
b) rental property;
c) if occupied by employees (who have no more than a 10% interest in the company).

Businesses should consider whether the reduced threshold will mean they need to submit an ATED form and claim relief to avoid the annual charge. ATED chargeable periods are 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 questions about ATED.



Annual Investment Allowance



Ensure you maximise the available relief

The Annual Investment Allowance (AIA) allows a 100% tax deduction for expenditure on eligible plant and machinery up to a current level of £500,000 in any 12 month period.

The government announced in July that this limit will reduce to £200,000 with effect from 1 January 2016. Therefore, any businesses planning significant expenditure on equipment in the near future should ensure that they incur expenditure before 31 December 2015 if they wish to maximise the current limit.

This will be the case for businesses that have a year end of 31 December or any other date. If expenditure is made after 31 December 2015 and the AIA limit has been reduced, no part of the current annual limit of £500,000 will be available to determine the proportion of this expenditure that will be available for 100% tax relief.

The sale of land held outside a farming business

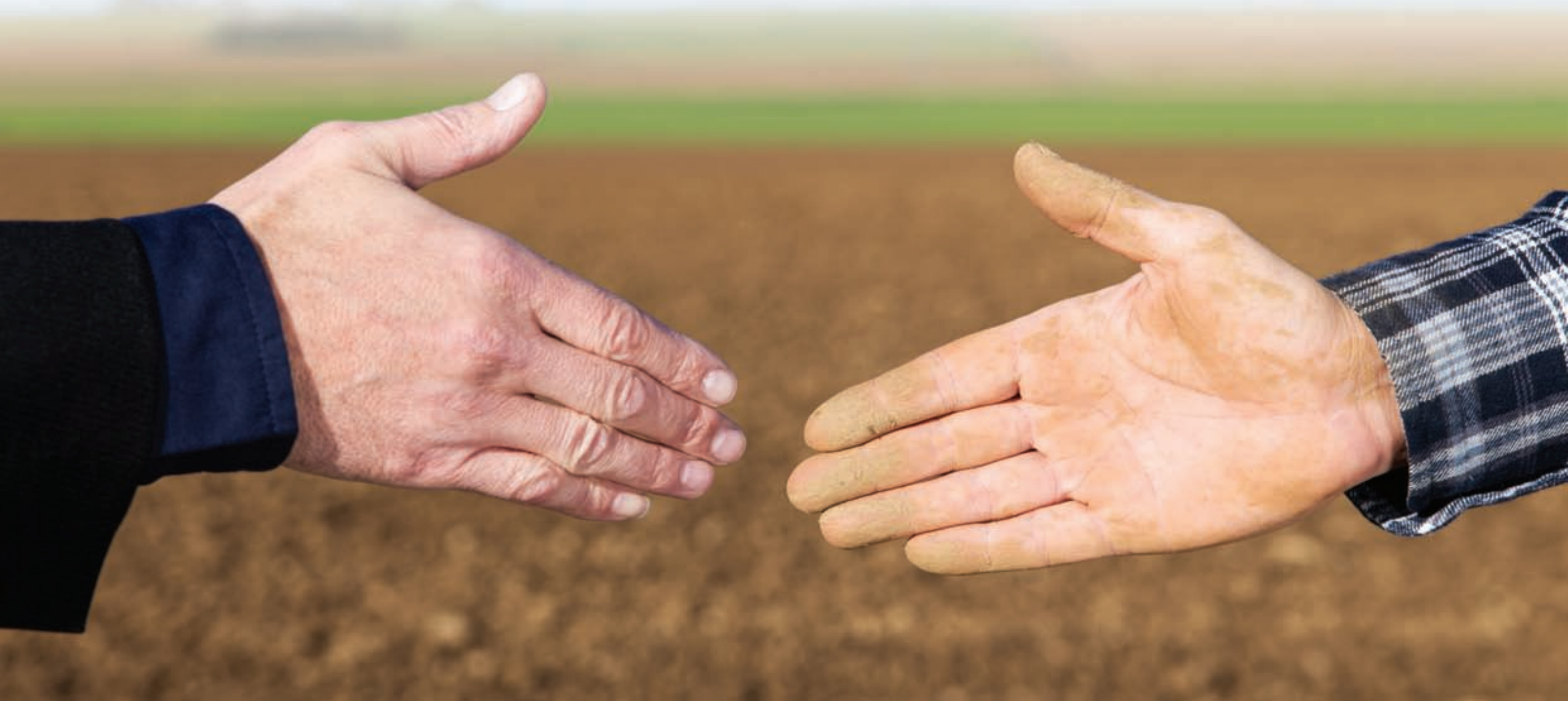
Entrepreneurs' Relief (ER) is available to reduce the rate of capital gains tax on a sale of farmland from a rate of 28% to 10%. The relief is only available where the sale is part of the disposal of a farming business or together with a reduction in an individual's partnership share or shareholding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

However, anti-avoidance legislation was introduced in the March 2015 budget to restrict the availability of ER where land is held outside the business. Unfortunately, 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.

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

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



Total income tax reliefs

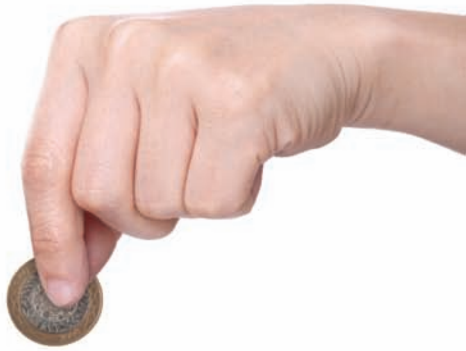
With effect from the tax year ended 5 April 2014 and for the subsequent tax years, a limit of £50,000, or 25% of total income if greater, is in place for certain tax reliefs.

The limit is not available for each individual relief but for the total of all the relevant reliefs in each tax year. The reliefs most relevant to farming businesses that are likely to be subject to this limit are where farming losses are set against "other income" and where tax relief is claimed for interest that is paid on trading loans that are held outside of a partnership or company.

The relief where losses from farming businesses are set against profits from the same trade for a different tax year is generally not subject to the limit.

The relief for interest on loans held outside of a partnership or company is only available in the tax year that the interest is charged. Therefore, if a tax deduction for the interest cannot be obtained in the relevant tax year no tax relief will be available on this interest.

This needs to be considered when considering the most tax efficient use of losses and whether it is tax efficient to claim relief for a loss if that would mean that tax relief on interest incurred is lost.



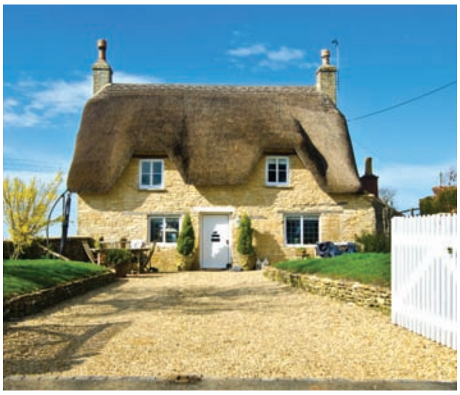
Increased **Inheritance Tax relief**

Summer Budget

The July Budget introduced the previously promised increase in Inheritance Tax (IHT) relief for houses that are passed to the next generation.

The relief is not simple and is introduced over a number of years. However, in its simplest form, the effect of the relief would allow a married couple to pass a house they have lived in to their children, on the second death, worth up to £1 million when they own no other assets.

This should allow farming families to reduce their IHT liability where older generations are not living in homes that qualify for Agricultural Property relief.



Use of a company

Summer Budget

The changes announced relating to the taxation of dividends should still mean that the use of a company in the right circumstances could be efficient for farming enterprises.

The July Budget also included the announcement that the rate of corporate tax will be reduced further to 18%.

Therefore where large capital investment is required for a new project, it could be tax efficient to structure this as a stand alone enterprise in a company, as funding can be repaid from profits taxed at 18% rather than from profits which have suffered much higher rates of income tax. The approach of using a company may be particularly attractive where a large part of the cost of the project will not qualify for tax relief through capital allowances.

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

Julian Millinchamp
Senior VAT Manager
t: 01242 237661
e: julian.millinchamp@hazlewoods.co.uk

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

www.hazlewoods.co.uk