

Summer 2014

Agricultural Focus

Sowing the seeds for future prosperity

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Increased Annual Investment Allowance

Ensure the tax benefit is maximised



The Annual Investment Allowance (AIA) available for capital allowances increased in the Budget to £500,000 until 31 December 2015, when it will return to £25,000. This means that the amount spent on new machinery which will obtain a 100% tax deduction in the year of expenditure has potentially increased.

However, when planning the timing of expenditure, a farming business needs to consider its accounting year end date and what other expenditure it has incurred in its financial year. As the manner in which the increased AIA will become available means that it is not available to all businesses spending £500,000 on new machinery. The full £500,000 allowance will initially be available in the first 12 month accounting period commencing after 1 April 2014 for a company and after 6 April 2014 for other businesses.

How much of the increased allowance will be available?

If a business has a 30 April year end, and incurs £500,000 of eligible expenditure in May 2014, a 100% tax deduction can be claimed for this expenditure in the year ending 30 April 2015.

However, a business with a September year end that incurs £500,000 of eligible expenditure before 30 September 2014 will only be eligible for a maximum AIA of £375,000, even if it has incurred no other eligible expenditure during

the year ending 30 September 2014. This is because for six months of the year the AIA was only available at a rate of £250,000. Therefore, the AIA available will be $6/12 \times £250,000$ plus $6/12 \times £500,000$.

A business may consider delaying expenditure until the start of its new financial year in order to obtain the full £500,000 AIA. It may be possible to change the accounting year end of a business in order to accelerate the increased AIA available.

Relevant date of purchase of equipment for capital allowances

If an asset is being purchased outright, with no finance, the acquisition 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 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.

What entities do not qualify for AIA?

AIA is not available to a partnership where non-individuals are members. Therefore, a partnership that has a corporate partner or includes a trust as a partner, will not qualify for AIA. Such partnerships are not uncommon, as corporate partners have been used for income tax planning and trustees included as partners in order to maximise Inheritance Tax reliefs under Balfour type principles.

However, if capital expenditure is incurred in a corporate partner or a trust that is a partner, these entities may qualify for AIA.

For further information please contact Peter Griffiths on 01242 680000.



Making your Pension Fund work for the Business

Do you have an insurance company pension scheme which is just parked waiting for retirement?

Did you make a contribution to a pension because you were told it was tax-efficient to do so, but now have a modest fund which is not growing particularly well?

Sometimes there are penalties or guarantees which are important not to lose but in many cases it is possible to switch these funds into a self-invested type arrangement.

That Self-Invested Pension Plan (SIPP) or Small Self Administered Scheme (SSAS) then has the

option to buy commercial property, land or some types of agricultural buildings. The building or land is leased back to the company, or indeed a third party, and the rent finds itself tax-free back into the pension fund boosting it for the future. It is also possible for the pension fund to borrow up to 50% of the total value of the fund secured on the asset and so gear up the size of the pension fund pot available for purchase.

So, for example we were dealing with a partnership where husband and wife had pension funds with various insurance companies totalling £40,000 each. The business wanted to buy a barn for conversion to office space above

and equestrian below. The pension funds were transferred into a self invested arrangement of £80,000 and then they were able to borrow a further £40,000, totalling £120,000, to fund the purchase and the conversion. The top floor was leased back to the farming business which used its office space and paid a rent to the pension scheme. The downstairs was leased to a livery business for storage and stabling, again with the rent going into the pension scheme.

If you would like a quick sense check as to whether this type of planning might work for you and your business, then please contact Beverley Lavin at Hazlewoods Financial Planning on 01242 680000.

Stamp Duty Land Tax on leases

Ensure this is not overlooked

Stamp Duty Land Tax (SDLT) is payable by the tenant when a lease is entered into, depending on the length of the lease and the amount of rent payable under the lease. This is often overlooked when leases of land are entered into between a farming business, and individuals who own the business and the land that is leased to the business.

SDLT is payable when the current value of rent to be received under the lease (the "net present value") exceeds £150,000. Often, the current value falls within this limit when the

lease is first entered into and SDLT is not payable. However, it is not unusual for the lease to be informally renewed when the initial lease term has expired. If this is the case, the SDLT position needs to be reassessed on an annual basis.

For example, if the lease is initially entered into for a five year term, and is then informally renewed following the expiry of the initial five year period, the SDLT position needs to be reassessed after the expiry of the initial five year period on the basis that a six year lease was

entered into initially. A similar review needs to take place at the end of "year six" and so on to confirm if any SDLT liability has become due. Failure to do this can result in penalties being incurred.

Therefore, farming businesses need to regularly review their leases to ensure that an SDLT liability has not been overlooked.

Please contact Nick Haines on 01242 237661 if you have any SDLT questions.



Renewable Heat Generators

Business and non-business use

Many farms have considered installing heating systems powered by renewable fuels. Coupled with the potential to claim Renewable Heat Incentive income, valuable tax relief will be available on the cost of the capital equipment and its installation.

Installing a biomass boiler to heat a variety of different properties (i.e. the farmhouse, farmworker's cottage, workshop and let property) means the supply of heat will be for both business and non-business purposes. Consideration should therefore be given as to how to maximise the recovery of VAT and any claim for capital allowances.

VAT

Provided the purchase is made by a VAT registered business then there are two choices:

1. Charge for the supply of heat in respect of non-business use and recover all VAT on purchase and installation costs

By charging a commercial rate for the supply of heat to the non-business properties this ensures the business eradicates any non-business use. It is then possible to recover all VAT on purchase and installation costs.

Output VAT would be charged on the supply of heat to non-business properties (5% to any domestic properties and 20% to non-domestic).

2. Recover VAT attributed to the business use only i.e. the farm worker's cottage, workshop and business element of farmhouse

A reasonable apportionment should be made between the business and non-business use of the



biomass boiler. This could be based on metered supply, or floor area of properties supplied with heat. It is then appropriate to recover VAT relating to the business use of the boiler:

VAT recovery is determined on the intention of how much business use there will be at the outset.

Option 2 would be favourable where there is high business use from the outset so a high proportion of the input VAT can be recovered. Option 1 may be favourable where the business usage is slow to come on stream.

Capital allowances

The 100% Annual Investment Allowance (AIA) can be claimed on renewable energy equipment and its installation, so it is important to get the timing of the purchase of the equipment right.

If AIA is not available, or has already been used for the purchase of other qualifying equipment, then 18% writing down allowance is available.

Where the equipment has some private use it would be necessary to restrict the claim accordingly. Again, this should be based on a reasonable apportionment of business and non-business use. It would be possible to revise the apportionment annually where there is a change in use.

Business use/cashflow/payback

There are clearly cashflow advantages of arguing a high business use at the outset in order to maximise recovery of input VAT, and to maximise the tax deduction for capital allowances. However, if the project has a quick pay-back period and is highly profitable, then it may be better to accept a lower business use so that in the long-run a lower proportion of the profits are taxable.



Pension drawdown

Is it right for you?

The Budget 2014 announced a significant reduction in the guaranteed pension income that is required to allow an individual to have unlimited access to their pension fund. Therefore, flexible drawdown has become a possibility for many more individuals.

To qualify for flexible drawdown, an individual must have a guaranteed pension income of £12,000 per annum. This can come from a state pension, an occupational pension or an annuity, or a combination of these. If the individual has this level of guaranteed income, they can have unlimited access to their pension fund and the amounts received will be taxed at their top rate of income tax in the relevant tax year.

This can allow the individual an opportunity to withdraw their pension and invest in other assets, for example residential property, which are not available for investment in a pension fund.

In some cases, with careful planning pensions can allow an individual to obtain 40% tax relief on contributions, but withdraw the amounts and be taxed at only 20%.

Please contact Gary Cook at Hazlewoods Financial Planning on 01242 680000 if you have any questions about pension drawdown.



Interest rate swap compensation

Some farming businesses will receive significant amounts of compensation from their banks because they have been mis-sold interest rate hedging products.

The compensation could typically be made up of three parts:

- a. **The basic redress.** The difference between the amount paid and the interest payable if the product had not been mis-sold.
- b. **Interest.** A guideline of 8% per annum is suggested on the basic redress amount.

c. Consequential loss. This element includes loss of profits, professional costs, bank charges, etc.

It is important when claiming to consider whether there has been consequential loss as a direct result of the interest rate arrangements. The rules surrounding the taxation of the compensation can be complicated. However, where tax is paid at a higher rate on the compensation than would have been the case if the profits had been generated in the normal course of events, then this extra tax can be the subject of a consequential loss claim.

Sales of crops for renewable energy

Consider the VAT

If a farming business sells normally zero rated VAT animal feed stuffs, for example maize for use in an Anaerobic Digester, this will be 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 if you have any VAT questions.





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