Agricultural Focus

DRIVING LIFELONG PROSPERITY

Winter 2021

SPOTLIGHT ON YEAR-END TAX PLANNING

SIGN UP TO RECEIVE OUR BUSINESS UPDATES

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

SIGN UP/UPDATE ONLINE: **http://bit.ly/hazlewoods**

INSIDE

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

Year-end tax planning – our top tips

As another tax year end is on the horizon now is a good time to ensure full use is made of annual tax allowances and reliefs for the year to 5 April 2021.

Below are our top tips to consider in advance of the new tax year.

1. As the personal allowance is reduced by £1 for every £2 of net income over £100,000, those with income of between £100,000 and £125,000 could end up paying tax at an effective rate of 60%. If your income is close to the threshold **it may be worth considering ways to reduce your taxable income.** This could be achieved by making pension contributions, charitable donations, deferring income into 2021/22 or transferring income producing assets to your spouse. Bringing forward repairs or equipment purchase will also reduce taxable business profits.

2. Taxable income exceeding £50,000 for the year could lead to a claw back of child benefit under the high income child benefit charge. Once taxable income reaches £60,000 the benefit will be lost in full. **Reducing, deferring or transferring taxable income** as described above could help to preserve this benefit.

3. Up to £1,250 of your personal allowance can be transferred to a spouse or civil partner, if neither of you are higher rate taxpayers, by virtue of the marriage allowance. This is **of benefit where one spouse has income of less than the personal allowance (£12,500 for 2020/21), with a tax saving of up to £250 per annum.**

4. If possible, you should make full use of your ISA allowance, which is £20,000 for the 2020/21 tax year and up to £9,000 in a junior ISA for children under 18. Although the investment itself does not attract any tax relief, any income generated from it will be tax free.

5. f you have any surplus cash, you could look to **make a tax efficient investment**. There are various options which typically **offer income tax relief at 30% (but can be as high as 50%) and with tax free capital gains on disposal**. It may also be possible to carry back an investment made in 2020/21 to 2019/20 to accelerate tax relief.

6. Owner managed businesses should review their remuneration package in advance of the new tax year and look to utilise their tax bands as far as possible. **A combination of low salary, high interest and dividends could result in tax free income of up to £20,500** (and double that for couples) in 2020/21 if structured appropriately and depending on the individual's circumstances.

7. **The capital gains tax annual exemption for all individuals for 2020/21 is £12,300,** which you should try and use, if possible. Consideration should be given to the transfer of assets between spouses such that both utilise their annual exemptions on a subsequent disposal or deferral into 2021/22 where the allowance has already been used.

8. Consider **utilising your pensions allowance, which enables you to contribute up to £40,000 for 2020/21, plus any unused allowance for the previous three tax years**. Note, however, that if your adjusted income is more than £240,000, the allowance reduces by £1 for every £2 above this threshold down to a limit of £4,000.

9. **Gifts of up to £3,000 per year can be made free of inheritance tax**. Any unused allowance from the previous year can also be gift. This means a couple can make a gift of up to £12,000 with a potential inheritance tax saving of £4,800.

If you would like to find out more, please get in touch with your usual tax contact or call **01242 680000**.

SUE BIRCH
01242 680000
sue.birch@hazlewoods.co.uk

Start planning for the reduction in the basic payment scheme

Defra's announcement at the end of November provided full details of the planned reduction of direct payments between 2021 and 2024. The reduction of the basic payment scheme (BPS) from 2021 will see the introduction of the new environmental land management scheme (ELMS) from the start of 2022.

The BPS will be reduced gradually over the four year period, with larger reductions for those receiving larger amounts. Those receiving under £30,000 will see a reduction of 5%. A table summarising the position is set out below.

Payment band	Scheme Year			
	2021	2022	2023	2024
Up to £30,000	5%	20%	35%	50%
£30,000 to £50,000	10%	25%	40%	55%
£50,000 to £150,000	20%	35%	50%	65%
Over £150,000	25%	40%	55%	70%

Please visit our website where you can use our online calculator to see what your payments will be going forward.

From 2024, the direct payments will become 'delinked' from the land, with an option of a lump sum payment being available. Those looking to retire soon may benefit from taking this lump sum payment. Further consultation is due to take place later this year, in particular with regards the tax treatment of these payments.

Now full details of the future reductions in income have been published, farmers and landowners can factor these into their plans, by updating forecasts, budgets and cashflows. It is never too late to plan, farmers who have not already considered and taken steps to replace the drop in revenue should now do so.

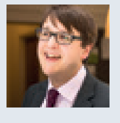
Some may address ways of cutting costs or consider ways to increase profits. However, many have reduced overheads and maximised efficiencies over the last 10 years due to other pressures affecting business performance.

The new ELMS will focus on the environment, animal health and welfare, and carbon emissions. Full details are not yet known, and further announcements are expected during 2021. Due to the lack of information available, it is difficult to make extensive plans. It is worth reviewing your business model to see where you might be able to make changes which have a positive impact on the focus areas.

Some see ELMS as a new opportunity to diversify, whilst others may feel the time is right to let the younger generation undertake new projects which qualify for the new government support. Prior to embarking on any new diversification project, the income, capital gains tax implications and business structure should be reviewed.

Now confirmation of the reduction has been received, there is no hiding from the fact that income will drop and unless steps are taken to find ways of replacing the lost income or reducing costs, so will the profits.

For further information please contact **Daniel Webb** or your usual Hazlewoods contact.



DANIEL WEBB
01242 680000
daniel.webb@hazlewoods.co.uk

Spouses splitting income and gains from rental properties

It is worth reviewing how rental properties are owned between married couples. With property sales taking place now there might be tax savings to be had on disposals, or it might just be worth reviewing how the rental profits are taxed.

INCOME TAX

The renting out of property by individuals produces rental income which is subject to income tax on the part of the beneficial owner of the property (less relevant tax-deductible expenses, for example, management fees; repairs; maintenance and loan interest etc.).

Where a property is owned jointly by spouses, each spouse is subject to income tax on 50% of the rental profit irrespective of the underlying percentage ownership of the property.

Thus, for example, if one spouse owns 80% and the other spouse owns 20% of the property any rental profit is still treated as arising 50/50 to each spouse for income tax purposes.

Where both spouses are liable to income tax at the same marginal rate, there is no downside to the 50/50 split. However if, for example, one spouse is liable at the 45% marginal rate and the other spouse has no taxable income, it would be more tax-efficient if, say, 99% of the rental income was subject to income tax on the spouse who has no other taxable income.

This is achievable, but it requires that the underlying ownership of the property is in line with the desired rental profit split, i.e. 99%/1%. It is also necessary to submit an election to HMRC (Form 17 'Declaration of beneficial interest in joint property and income') to record the allocation. HMRC must be notified of the change within 60 days for it to be fully effective for income tax.

CAPITAL GAINS TAX

Property can be transferred between spouses without triggering a capital gains tax (CGT) charge. Transfers between spouses are made at nil gain/nil loss.

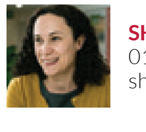
If there is a planned sale of the property, there could be advantages of putting the property into joint names prior to the disposal so that both spouses benefit from the use of their CGT annual exemption (currently £12,300) and utilise their basic rate tax bands for any part of the gain that falls within the basic rate.

CGT rules changed on 6 April 2020 and now, if property is transferred into a spouse's name, the acquirer will 'inherit' their spouse's period of ownership and occupation history of the property. This means that if the disposing spouse had lived in the property at some point in the past, by putting the property into the other spouse's name, there will be no loss of principal private residence (PPR) relief on a future sale.

OTHER CONSIDERATIONS

As always, when considering any tax planning always be mindful of other issues. If the property has debt secured on it then transferring this to a spouse could trigger a stamp duty land tax (SDLT) charge if the value of any debt transferred between spouses exceeds £40,000. Also bear in mind that when property is put into joint names this puts value in the other spouse's estate for inheritance tax purposes and might cause complications in the event of death, divorce or dispute.

Careful planning is essential and full consideration of the facts needs to be undertaken before any planning is implemented.



SHIRLEY ROBERTS
01242 680000
shirley.roberts@hazlewoods.co.uk

Capital gains tax on asset sales

There has been much recent speculation about future tax increases and that capital gains tax (CGT) may be the subject of an increase.

The current rate of CGT of 20% for individuals, for assets other than residential property, is the lowest CGT rate we have seen. If individuals are planning to sell assets in the near future, in order to pay tax at the current CGT rate they need to ensure that the effective date for tax purposes occurs before any increase in the rate.

EFFECTIVE DATE FOR TAX PURPOSES

For all unconditional contracts, the effective date is the date of exchange of contracts. For land sales, completion can often take place at a much later date. However, provided the contract is completed, the effective date for tax purposes will remain the date of exchange of contracts and CGT will be charged at the rate in place at that date.

CONDITIONAL CONTRACTS

Where a contract stipulates certain conditions must be met or events must take place before completion, which is often the case when land is sold for development, the effective date for tax purposes is the date when all conditions are fulfilled. Therefore, even though a 'physical' exchange of contracts may have occurred at a much earlier date, CGT will be charged at the rate in place when all the conditions have been met.

CGT DUE DATE

Generally, the CGT payment date for individuals is 31 January following the year ended 5 April in which the effective disposal date occurs. The exception is tax due on residential property, where the tax now must be paid within 30 days of completion.

The tax is due on 31 January following the tax year of disposal, even if all the proceeds have not been received by that date. However, where the proceeds are being received by instalments over 18 months or more, the taxpayer can elect to pay the tax by instalments. Instalments can be for a period of up to eight years, or until the final instalment of the sale price is received if this is sooner. Interest is only charged on any instalment paid late.

If you have any questions about asset sales and the CGT position, contact Peter Griffiths at peter.griffiths@hazlewoods.co.uk or 01242 680000.

PETER GRIFFITHS
01242 680000
peter.griffiths@hazlewoods.co.uk

The impact of divorce and separation in farming families

Divorce is often a stressful time and tax is unlikely to be at the forefront of the couple's minds. Often the farmhouse is the family home and the centre of the farming operations which adds further complication to an already difficult time.

In this article we look at the capital gains tax (CGT) implications of divorce and the areas to look out for.

CGT IMPLICATIONS OF DIVORCE AND SEPARATION

A married couple living together can transfer assets between themselves without a charge to CGT. This tax benefit stops at the end of the tax year in which permanent separation occurs. After this, disposals take place at market value until the decree absolute is granted.

For example, if a couple decide to separate and have a break from each other on 1 January and then decide on 1 April to divorce, by that stage they may have already lost their ability to transfer assets free of CGT, as this will end on 5 April. Therefore, from a purely tax point of view, the best time to separate would be very early in the tax year.

Once the decree absolute is granted, transfers are treated as being on an arm's length basis, so actual proceeds and not market value are used.

CGT IMPLICATIONS FOR THE FAMILY HOME

If the family home has been both spouse's main residence for the whole time they have owned it, they will be able to transfer it free of CGT. This is due to principal private residence (PPR) relief.

For the spouse who leaves the family home, the house will no longer be their main residence. Therefore, their share of any capital gain will be chargeable to the extent that it relates to the period of non-occupation.

As long as the property was occupied as the main residence at some point during ownership, the last nine months are normally treated as a period of occupation, even if they are not.

Provided certain conditions are met, there is a possible extension to PPR relief on divorce, enabling no CGT to be paid where the family home is transferred after moving out.

CGT RELIEF FOR FARMING BUSINESSES AND ASSETS

If there is a CGT liability on the division of the business, it may be possible to transfer an interest in the business without a CGT charge by claiming gift (holdover) relief for business or agricultural assets.

This means that the recipient spouse would pick up the original cost of the assets when they come to sell them, but there will be no CGT charge at the time of transfer.

Business assets include:

- a sole trader business
- an interest in a trading partnership
- shares in an unquoted trading company (subject to certain conditions)
- Agricultural assets include land and buildings qualifying for agricultural property relief (APR)

THE FARMING PARTNERSHIP

Farming businesses are generally run as partnerships and are often multi-generational with a split ownership of the underlying land and buildings. In most instances, gift relief will be available to reduce any CGT liabilities. Where there is a CGT liability which cannot be covered by relief, the partnership may be able to overcome this by borrowing money to provide a capital sum to the departing spouse, removing the CGT liability.

A family breakdown is an extremely difficult time, and the complication of a farming partnership can make the divorce process even more protracted. A clear and concise partnership agreement which sets out how valuations are undertaken, how and when payments are to be made to a departing partner, should help when agreeing a divorce settlement.

LUCIE HAMMOND
01242 680000
lucie.hammond@hazlewoods.co.uk

MEET THE TEAM

NICK DEE
01242 680000
nick.dee@hazlewoods.co.uk

NICHOLAS SMAIL
01242 680000
nicholas.smail@hazlewoods.co.uk

LUCIE HAMMOND
01242 680000
lucie.hammond@hazlewoods.co.uk

PETER GRIFFITHS
01242 680000
peter.griffiths@hazlewoods.co.uk

SUE BIRCH
01242 680000
sue.birch@hazlewoods.co.uk

SHIRLEY ROBERTS
01242 680000
shirley.roberts@hazlewoods.co.uk

DANIEL WEBB
01242 680000
daniel.webb@hazlewoods.co.uk

CHERRELLE FORD
01242 680000
cherrelle.ford@hazlewoods.co.uk

PIP CUSACK
01242 680000
pip.cusack@hazlewoods.co.uk

ELLIE HAILE
01242 680000
ellie.haile@hazlewoods.co.uk

CLAIRE BRIESE
01242 680000
claire.briese@hazlewoods.co.uk

LYN MOREY
01242 680000
lyn.morey@hazlewoods.co.uk

HANNAH REASON
01242 680000
hannah.reason@hazlewoods.co.uk

HEIDI BRADLEY
01242 680000
heidi.bradley@hazlewoods.co.uk

SIGN UP TO RECEIVE OUR BUSINESS UPDATES

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

SIGN UP/UPDATE ONLINE: **http://bit.ly/hazlewoods**

Staverton Court, Staverton, Cheltenham, GL51 0UX
Tel. 01242 680000

www.hazlewoods.co.uk / @HazlewoodsAgri

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

HLB
WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY AND ACCOUNTING NETWORK