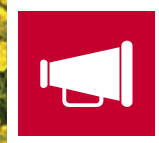
Agricultural Focus

DRIVING LIFELONG PROSPERITY

Summer 2020

SPOTLIGHT ON FUNDING



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DRIVING LIFELONG PROSPERITY

Summer Statement 2020 announcements

On 8 July the Chancellor of the Exchequer delivered his summer statement, announcing a package of measures all focused around 'a plan for jobs'.

The Chancellor confirmed that, in addition to the £160 billion support package already pledged during the COVID-19 pandemic, further support of up to £30 billion would be made available to help the UK economy bounce back.

The main points announced include:

- The furlough scheme would continue to wind down as planned, ending in October. However, with the aim of ensuring that after this time those furloughed employees are retained by their employers, a new 'coronavirus job retention bonus' scheme will be created.
- Under the scheme, employers will receive a one-off £1,000 bonus for each furloughed employee that is continuously employed by the business until at least 31 January 2021. To qualify, the employee must earn at least £520 per month on average from when the furlough scheme ends up until the end of January 2021. The employees must also have been included on a furlough claim submitted by 5 July 2020.
- The introduction of a Kickstart Scheme where employers will be funded by the Government to create jobs for younger people (aged 16-24) who are at the highest risk of long-term unemployment. A £2,000 payment for each new apprentice that an employer hires, aged under 25, and £1,500 for those over 25, running from 1 August 2020 to 31 January 2021.
- A temporary cut to stamp duty land tax (SDLT) by announcing an increase to the threshold above which SDLT is paid from £125,000 to £500,000. This cut will apply with immediate effect, until 31 March 2021.
- With effect from 15 July 2020 and running until 12 January 2021, the VAT rate will be reduced from 20% to 5% for supplies of food and non-alcoholic drinks from restaurants, pubs, cafes and bars, as well as on accommodation and admission to attractions within the UK.
- An 'eat out to help out' scheme was also announced during August 2020, where diners will be entitled to a 50% discount on their meals up to £10 per head from Monday to Wednesday. Food establishments will need to register to be part of the scheme and will be reimbursed by the Government for the discount given.

If you run a VAT registered holiday letting business or venue hire then the measures will be a welcome boost, even allowing for the headache of accounting for a temporary change in VAT rate. It will be essential to make sure your VAT accounting software is set correctly, if you need any assistance please contact one of our team.

State aid for the agriculture sector and temporary support measures

The last four months have brought many challenges to businesses and an unprecedented amount of Government support. Although UK agriculture is one of the sectors least affected by the lockdown, it is certainly not untouched and the additional support available has been a lifeline to many businesses.

Our website article of 25 March 2020 set out the changes made to the eligibility criteria for employment allowance (EA) from April 2020. Not only is it now restricted to small employers (with class 1 Employer NI in previous year of less than £100,000) but it is also classed as state aid.

This means EA will contribute to the total amount of state aid businesses can receive under the relevant de minimis state aid cap in the relevant three-year period:

BUSINESS SECTOR	CEILING
Primary production of agriculture products	€20,000
Fisheries and aquaculture	€20,000
Road freight transport	€100,000
Other, industrial (everyone else)	€200,000

Businesses must have room for the full amount of EA (previously £3,000 per annum, increased to £4,000 from 6 April 2020) in their threshold.

As the maximum threshold for the agricultural sector is only €20,000 for a three year period, if you are receiving the full EA of £4,000 per annum then, depending on the exchange rate, you may only have a balance of circa £8,000 to cover any other funding which is considered state aid. DEFRA's State Aid Unit has confirmed that the following grants do not count towards the de-minimis limit:

- Water environment grant (WEG)
- Basic payment scheme
- Countryside stewardship
- Countryside productivity
- RDP LEADER grants
- EU/RDP growth program grants

Most forestry grants tend to fall under Countryside Stewardship, but these should be checked.

Since the outbreak of COVID-19, the UK has agreed a 'temporary framework' for state aid to allow an increase in the ceiling amounts to allow for inclusion of direct grants, tax and payment advantages or other forms of support such as repayable advances, guarantees and loans. The period covered by the temporary framework is 19 March 2020 to 31 December 2020. However, any non-notified aid granted after 1 February 2020 is also covered. The increased amounts are:

BUSINESS SECTOR	CEILING
Primary production of agriculture products	€100,000
Fisheries and aquaculture	€120,000
Other, industrial (everyone else)	€200,000

If you have been in receipt of funding that is considered state aid, you should have received a formal letter by the granting authority that confirms the funding is state aid and counts towards the de minimis limit.

Farming Recovery Fund open for applications

The British love to talk about the weather and rain was a very topical point this winter. Based on a series dating back to 1862, February 2020 was the UK's wettest February on record. Storm Dennis and weeks of heavy rainfall led to some record breaking peak river levels as rain fell on already saturated land. A £6 million fund is available to support farmers impacted and assist their recovery.

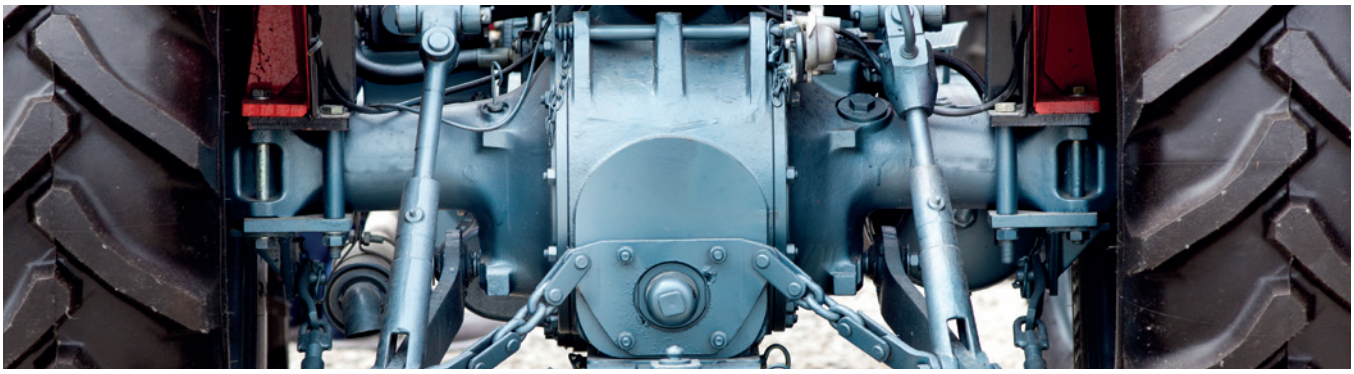
Affected landowners in parts of Herefordshire, Shropshire, Worcestershire, Gloucestershire, Staffordshire, Nottinghamshire and North and East Yorkshire can apply for between £500 and £25,000 under the Farming Recovery Fund.

This fund will cover some uninsurable repair costs such as the re-cultivation of farmland, including re-seeding, replanting cover crops and alleviating soil compaction. Reinstating boundaries and removing debris from agricultural land are also eligible. Nutrient application, livestock and lost income cannot be claimed.

The Rural Payments Agency has introduced a new and simplified online portal for the applications to make it easier for farmers to apply. The portal will confirm affected land parcels on the basis of satellite data from the floods.

Applications can now be made and the final deadline for applications is 1 September 2020. If you were impacted by flooding, make sure you check if you have qualifying land parcels and qualifying expenditure in time to submit a claim before the closing date.

Grants made under this scheme do count as state aid so you will need to ensure you do not breach the maximum state aid allowed, please refer to our previous article 'State aid for the agriculture sector and temporary support measures'.



Annual investment allowance: Ensure the tax benefit is maximised

The annual investment allowance (AIA) available for capital allowances is currently at a level of £1 million until 31 December 2020, when it will decrease to £200,000. This is the amount that can be spent on plant and machinery qualifying for a 100% tax deduction in the year of expenditure.

Businesses looking to take advantage of the current increased allowance need to invest before 31 December 2020 and may look to take advantage of the various attractive government loan schemes currently available to do so.

However, when planning the timing of expenditure, a farming business needs to consider its accounting year end date and the timing and amount of other expenditure it has incurred in the financial year.

HOW MUCH OF THE INCREASED ALLOWANCE WILL BE AVAILABLE?

The year end of the business incurring the expenditure needs to be considered to establish the maximum amount available.

- A qualifying business with a year-end of 31 December will be entitled to the full £1 million allowance in the year ended 31 December 2020.
- Qualifying businesses with any other year-end date will only be entitled to a pro rata amount of the increased allowance, depending on their year-end.
- For example, a business with a 31 March 2021 year-end will only be entitled to £750,000 of the increased allowance.

The timing of the expenditure during the period is also important, as the increased allowance will only be available for a March 2021 year end if the expenditure is incurred during the period between1 April 2020 to 31 December 2020. If the expenditure is incurred after in the three months to 31 March 2021, the maximum AIA is only £50,000.

The increased allowance may allow a business to create a tax loss which can be carried back to set against prior year profits and result in a tax refund.

Additionally, for a farming sole trader or partnership, the availability of five year averaging of profits could mean that further tax refunds are available in respect of earlier years.

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 with a company or 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 within 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 or email: peter.griffiths@hazlewoods.co.uk

Succession planning: is now the time to think about it?

As the cost of Government support for those affected by the coronavirus continues to increase, talk inevitably turns to how it will be funded. Tax rises are an option but with Boris Johnson pledging not to increase income tax, national insurance and VAT there is perhaps limited opportunity. Inheritance tax (IHT) has been in the spotlight recently and this may be an area that changes.

In July 2019 the Office for tax Simplification (OTS) published its second report into IHT. The report made several recommendations including:

- Shortening the period before a lifetime gift becomes exempt from IHT from seven years to five years and abolishing taper relief.
- Review of lifetime gift exemptions, including gifts out of surplus income which are exempt when made.
- Remove the capital gains tax (CGT) base cost uplift that arises on death where an asset passes under an exemption e.g. inter spouse or subject to a relief e.g. business property relief (BPR) or agricultural property relief (APR).
- Aligning the trading test for BPR, currently wholly or mainly i.e. more than 50%, with CGT which is substantially, widely seen as 80:20.
- Treat furnished holiday lets as trading for IHT as well as for CGT and income tax.

In January 2020 the all-party parliamentary group for Inheritance and Intergenerational Fairness published its report, The Reform of Inheritance Tax. The main recommendation from this report was to replace the current IHT regime with a tax on lifetime and death transfers of wealth, with very few reliefs and a low flat rate, likely between 10% and 20%. The CGT tax-free death uplift would be abolished.

The common theme from both is the removal of the CGT rebasing on death and at best reform and worst abolishing APR and BPR. For many, knowing that the farm can pass free of IHT and with the benefit of CGT rebasing on death, is a reason to hold on to it rather than passing it down a generation sooner. Who knows how much longer this will be the case?

While both these reports are a long way from becoming law, they highlight the potential direction of travel if IHT is reformed. For landowners and farming businesses the position would undoubtably be worse if these changes were implemented so now may be the time to act.

Succession planning is a process that takes time and needs buy in from all the family so the sooner that process begins the better. Do get in touch if you would like to discuss the potential implications for you and options for succession planning.

Understanding your cashflow position

Many farming businesses have been adversely affected by the wet winter and hot spring. These conditions are expected to have a significant impact on harvest yields; pushing up feed and bedding costs for those farmers whose barns and silage pits are half empty due to the lack of spring grass.

Farms that have diversified into leisure and tourism may have been less affected by the weather but have suffered a reduction in income due to the coronavirus lockdown restrictions imposed.

Farmers are used to fluctuations in income and profits and the events of late 2019 and 2020 will mean monitoring cashflow over the next 12-18 months is essential. Especially if grant income has been received and advantage has been taken of the Government schemes to defer tax and VAT payments.

July is generally the time for paying an on account payment of any self-assessment tax due; all taxpayers have been given the option to defer this tax payment until 31 January 2021. If this option is taken, and your business has already deferred a VAT payment until March 2021, you may feel you are currently in a strong cash position, but beware!

Tax payable in January 2021 will be based on the trading profits for the accounting year ending within the 12 months to 5 April 2020; for most, the 2019 harvest year. In general, the 2019 harvest was successful and the 'profit' banked before the bad weather and coronavirus hit. Therefore, the tax due January 2021 could be more than some businesses are anticipating. Some may also have a VAT liability in March which is twice the normal level.

Many farming businesses have opted to take out the Small Business Bounce Back Loan (SBBBL) which is a significant cash injection for any business. As no repayments are required for the first 12 months this could again lull some businesses into a false sense of security, as monthly payments do not start until month 13.

MONITORING CASH FLOW

The Chancellor's support helping businesses with their cash flow has been greatly appreciated; businesses now need to look ahead and make sure cash is available to cover expenditure and pay any deferred tax liabilities or loan repayments as they fall due.

Ongoing monitoring of your cash flow position and projecting into the future will enable you to plan the timing of your annual spend and any expected large costs to ensure you have cash available when required. If the cash flow position does not look promising, it may be time to explore possible diversification projects or changes to the existing business.

With the phasing out of the Basic Payment Scheme from next year and the unknown level of support being offered from the Environmental Land Management scheme (ELMs), continuing to monitor cash flow and profitability is likely to be an ongoing necessity.

If you would like any help with cash flow monitoring or projections, please contact Daniel Webb on 01242 680000 or email: daniel.webb@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

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

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

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

www.hazlewoods.co.uk / @Hazlewoods

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