Agricultural Focus

DRIVING LIFELONG PROSPERITY

Autumn 2023

SPOTLIGHT ON THE CHANGING LANDSCAPE

INSIDE

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Limited companies: tax changes

Many farming businesses are carried out in a limited company. With effect from 1 April 2023, there were two tax changes relevant to trading farming companies.

1. TAX RELIEF ON PLANT AND MACHINERY PURCHASED BY LIMITED COMPANIES.

The 'super deduction' for main rate capital allowances came to an end on 31 March 2023. In its place, from 1 April 2023 to 31 March 2026, companies will be able to claim a 100% in-year relief for any capital expenditure on plant and machinery known as 'full expensing'. To qualify for this relief, the plant and machinery additions must be new and unused. The relief will not be available on cars, or assets purchased to lease to someone else.

In addition, companies investing in special rate assets (including long life assets and fixtures in buildings but excluding leases, second-hand assets, and cars) will also benefit from a 50% first-year allowance during this three-year period.

The £1 million per year annual investment allowance remains in place for expenditure on plant and machinery which is not brand new.

When an asset that has been 'fully expensed' is subsequently sold, this will crystalise a tax charge based on the proceeds, as the tax base cost will be zero.

2. ASSOCIATED COMPANIES

The rate of corporation tax remains at 19% where taxable profits do not exceed £50,000. The rate is 25% for taxable profits above £250,000. The marginal rate between £50,000 and £250,000 is 26.5%; higher if the company has dividend income.

These limits are reduced where there are associated companies. Two companies are associated if at any time within the preceding 12 months:

- one company has control of the other, or
- both companies are under the control of the same person or group of persons.

Therefore, companies not in the same group need to be looked at for common control. If, for example, one individual owns 100% of the share capital of two companies then the limits of £50,000 and £250,000 will be divided by two.

In addition, associated companies also need to be considered when deciding if a company must pay its corporation tax liability in quarterly instalments, and not nine months and one day after the year end.

For most companies, the instalments commence six months and 14 days after the beginning of the relevant year and continue for three subsequent quarters. A company with a December year end will pay instalments on 14 July, 14 October, 14 January and 14 April.

For a single company with no associated companies the relevant limit is £1.5 million of taxable profits. But if one individual controls five companies, the limit will reduce to £300,000 for each company.

Companies under the control of connected individuals, such as spouses and siblings, also need to be considered if there is interdependence between the companies. This could be financial, economic, or organisational.

To ensure your business remains compliant and makes the most of the tax incentives please speak to your usual Hazlewoods contact.

Limited companies: changes to information disclosed to the public

One of the consequences of trading as a limited company, rather than a partnership or sole trader is that certain company information must be filed at Companies House and is publicly available.

Most small and micro companies (where turnover is below £10.2 million) take advantage of being able to file filleted or abridged accounts. These accounts include a balance sheet but no profit and loss account or directors' report. External parties, such as creditors, interested in the company can access the accounts, but without a profit and loss account, cannot tell how profitable a company has been. For example, a company which has merely broken even, would show a similar accounts position to a very profitable company where the shareholders have drawn all the profits as a dividend.

The Government is implementing a reform to increase the financial information available to the public. A profit and loss account will be required in the annual accounts filed at Companies House for all companies. In addition, a statement from the directors confirming the company meets the qualifying criteria to claim the audit exemption will be required.

The rationale behind the changes is to improve transparency, allow third parties, such as creditors and consumers to make better informed decisions, and make it easier to spot fraud. It will, of course, also allow competitors and nosy neighbours to access financial information such as turnover, gross margin percentage and profitability.

The reform is within the Economic Crime and Corporate Transparency Bill which is in the final stages of making its way through Parliament; though the exact timeframe of assent and implementation is unclear at present, there is little doubt this change is coming.

Farming and rural businesses currently run through limited companies should review the impact of the above changes and decide whether now is the right time to make a change to their trading structure.

Individuals: tax changes

The 2023 Spring Budget announced two important tax changes impacting farming families. Below we explore the positives in these.

PENSIONS

The maximum amount contributable into a pension in any tax year increased from £40,000 to £60,000 in April 2023.

The annual allowance continues to be tapered for high-income individuals; however, the minimum allowance is now £10,000. The adjusted income threshold for treatment as a high-income individual has increased from £240,000 to £260,000.

The lifetime pension allowance has been removed and will be abolished in April 2024. The tax-free lump sum drawdown remains at the previous rate of 25% of £1.073 million, or, where a pension has previously been protected, 25% of the protected amount.

The Labour Party has already stated they would reverse this change, so the benefit could disappear with a change of Government. There is, therefore, a window of opportunity to make additional pension contributions.

CAPITAL GAINS TAX (CGT)

The CGT annual exemption for individuals and personal representatives reduced to £6,000 from April 2023. This will further reduce to £3,000 from April 2024. Trusts continue to have an annual exemption of 50% of an individual.

Separated married couples will now be allowed to continue to gift between each other without incurring a CGT liability for the three tax years following the year of their separation. Transfers that take place as part of a divorce settlement will also receive this treatment.

Full principle private residence (PPR) relief is now available where a spouse departing the family home has elected the property as their only or main residence. Individuals may only have one property elected as their PPR; therefore, a claim for PPR on a former property will mean a claim cannot also be made on a new PPR for the same period.

In circumstances of separation where one spouse transfers their share of the family home to another spouse, with the transferring spouse later receiving a percentage of proceeds on any future sale, gains arising on that sale will now receive the same tax treatment that would have applied at the time the property was transferred.

PPR relief is a valuable tax break, it is important to take tax advice when deciding if a formal election should be made.

Basis period reform update

Our spring 2023 edition covered the basics of the basis period reform. We are now able to clarify further details on how the taxable profits will be calculated.

A RECAP

H M Revenue & Customs is changing the way unincorporated businesses report and pay tax on their profits; this will affect all businesses with a non-31 March – 5th April year end.

From 6 April 2024 onwards, instead of paying tax on their share of business profits arising in the accounting period which ends in the tax year, individuals will instead have to pay tax on their share of business profits arising in the tax year.

For example:

- An arable farming partnership has a year end of 30 September. If the business chooses to retain its current year-end, then, from 6 April 2024 onwards, the business will have to take 6/12ths of profits from one accounting period and combine them with 6/12ths of profits from a second accounting period to calculate the total taxable profits for the tax year.

THE TRANSITIONAL YEAR 2023/24

Taking the same arable business example above:

- In 2023/2024 the partners will report profits arising from 1 October 2022 to 31 March 2024; this will be an 18-month period. As the taxable amount is greater than 12 months, 6/18ths of the trading profits can be spread evenly across the following five years to prevent a bumper year of tax in 2023/24. This is known as 'spreading'.

There are a couple of different ways the 6/18ths spreadable trading profits can be calculated. The most appropriate way will depend on any seasonal variations within the business, and the timing of capital purchases.

To understand if you should be changing your business year-end, and whether you should be preparing a long period of account or a 12 month and a shorter period, please speak to your usual Hazlewoods contact.

SPREADING

Trading profits which have been 'spread' evenly across five years can later be 'accelerated' if you wish to.

It is important to note that only trading profits can be spread. Other taxable income, such as rental profits cannot be spread, this will result in a higher than usual taxable amount, and tax liability, in the 2023/24 tax year.

Leases

Farm diversification is now common practice; we often see a property or piece of land owned in a personal capacity, or by a farming partnership, being used by the owner's personal company.

For example, a scenario we frequently see is a farm partnership diversifying into solar generation on part of the farm and the solar business being run through a separate limited company.

One question which needs to be considered is, should a formal lease be put in place?

From a tax perspective, there are many factors to consider, and we have summarised some of the key points below.

CAPITAL GAINS TAX (CGT)

- Business asset disposal relief (BADR) may apply on the sale of the land used by the trading company if there is no rent charged (assuming all other relevant conditions are met).
- However, if market rent is charged for the use of the land, BADR on the disposal of the asset would not be available.

INCOME TAX

- Charging rent for use of personally owned land/buildings can be a beneficial way of extracting profits from a company as the rent will not incur national insurance costs in the same way a salary or bonus would.

CAPITAL ALLOWANCES

- Special rules allow lessees or lessors to claim capital allowances on the costs of installing fixtures.
- Broadly, it allows for allowances to be claimed by the entity incurring the costs, providing they have a relevant interest in land (either freehold or leasehold interest). If there is no lease in place, the lessee can not claim capital allowances on fixtures.

BENEFIT IN KIND

- If the company incurs expenditure on improving land or buildings owned personally by a shareholder/director, the amount incurred may be classed as a benefit in kind (BIK) for the owner. This is because the company has spent funds on improving a personal asset.
- A lease between the company and landowner, with suitable provisions for returning the building to its original state, or reimbursing the company for any improvements could mitigate the tax exposure.

VAT

- Opting to tax the land/building and leasing to the company creates a taxable supply for VAT purposes.
- The owner could reclaim all/some of the VAT on any expenditure in relation to the asset (e.g. renovation/ building costs).

INHERITANCE TAX

- The broad criteria for business property relief (BPR) to apply to the farm business (sole trade or partnership), is that the business must be wholly or mainly trading (i.e. more than 50% trading).
- If this test is met then BPR would apply to all assets used in the business, not just the trading assets. This means that land leased to a company would qualify for BPR providing the business is more than 50% trading.
- If no rent is charged, it could be argued the asset is not a business asset at all and would not, therefore, be covered by the exemption.

POINT TO NOTE

When dealing with transactions between connected parties, (a partnership and a limited company owned by the same family members is likely to be connected), it is important to consider whether a market rate rent should be charged. For example, if a long lease is put in place between the company and the landowner, then if the rent charged is at under value, a deemed lease premium may arise under transfer pricing principles, which would be chargeable to CGT on the landowner.

If you would like to discuss any of the points in this article, please speak to your usual Hazlewoods contact.

Meet our team

A Q&A with Partner in the Farms and Estates team, Ursula Bryars.

TELL US A BIT ABOUT YOUR CAREER SO FAR?

I studied finance, accounting and management at the University of Nottingham and completed an internship with EY during the summer before my final year. I was lucky enough to secure a training contract with EY following that and, as I was leaving university at the peak of a recession, I decided to take the job, sadly missing out on my planned gap year!

Following a stint gaining commercial experience with Experian plc in Nottingham, I returned to practice in 2016 when I joined Saffery Champness in Peterborough. Soon after joining, I started working with estates and agribusinesses on their accounts, audit and strategic planning. I really enjoyed the farms and estates sector, and to enhance my ability to support the clients and provide more rounded advice, I qualified as a chartered tax advisor in 2019.

At the end of the first lockdown in 2020 my husband, an equine vet, joined a practice in the Cotswolds, and we relocated into the area. I transferred to the Safferys Bristol office where I continued working in the rural sector and gaining more experience advising on inheritance tax planning, business structures for farming entities and bringing together the consolidated view for clients.

The last few years have been a bit of a whirlwind, having relocated, had a baby shortly afterwards and now moving to Hazlewoods, but all very exciting!

HOW DID YOU BECOME AN ACCOUNTANT?

By the time I had worked five seasons for a small national hunt trainer, whilst also point to pointing, I came to the realisation that I wanted horses to be my hobby, not my career. I had always enjoyed numbers and how businesses operated, therefore, accounting seemed the logical choice.

WHAT IS IT LIKE BEING AN ACCOUNTANT IN THE AGRICULTURAL SECTOR RIGHT NOW?

The agricultural sector has seen some turbulent times recently with squeezed margins from fluctuation in prices, wage rate growth and interest rate increases. As a result of tightened margins greater attention is needed on the financials, to avoid or minimise the pinch points during the harvest season.

Having grown up in a farming family, I have the benefit of having seen the farming environment from both the personal and professional side. Succession discussions and anything that involves change can be delicate topics, but I find it extremely rewarding to be able to assist families to start the conversation and hopefully work together in a joined up way.

WHAT DREW YOU TO WORKING IN THE AGRICULTURAL SECTOR?

As with most people in our team, I have a family background in farming. My Dad was a beef farmer and my Mum's family are arable farmers, so there was not really any getting away from it. My first job was milking on the neighbour's farm.

I think most people in farming would say it is a great community, and this is evident from the number of people who stay in the sector, even if they do not take on the family farm. We all think we are so lucky to work in a sector that is so close to our hearts.

WHY HAZLEWOODS?

Hazlewoods has a fantastic reputation within the agricultural and estates sector and is a positive progression for me. Since arriving I have been able to attend a number of events and it's great to be working with such a well-respected firm. The team is strong and full of supportive people that I am already loving working with.

Since my move in 2020, I have started to get to know the Stroud and Cirencester areas and I am looking to branching out more in this direction.

TELL US SOMETHING THAT WE MIGHT NOT KNOW ABOUT YOU?

It might not be much of a surprise for someone working in and around the farming industry, but I passed my HGV driving test when I was 18. It was partly funded by LANTRA via an initiative through Young Farmers. The main reason I wanted an HGV licence was to allow me to transport our horses and moving cattle, but it seemed like a valuable skill and a backup if accountancy had not worked out!

MEET THE TEAM

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