

Farming Update

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BREXIT

Do you know
what to expect?



- Farm Mediation
- Property Review
- Making Tax Digital
- What is ATED?
- Growth Program Grants
- Residence Nil Rate Band

FARM MEDIATION

Many people will have come across or experienced “mediation” but what is “farm mediation”?

Pressure Points

Mediators have recognised that in farm businesses and family life, two pressure points cause problems again and again – strain between married couples over shared farmhouses and the lack of a stake in the farm business which soaks up all their energies and tensions, and lack of communication between farming fathers and sons.

Stress

Add the regular stresses and problems of running a farm business and the result can be sad and final, but it doesn't have to be.

With some outside perspective and facilitating, the opening up of such problems in a secure, unthreatening and supported way, can be really beneficial. The family members can meet in neutral territory and listen properly to each other's concerns, anxieties and irritations.

Resolving Issues

The service aims to bring out the problems into the daylight, and then start to explore how issues, one by one, might be resolved.

The process may fail and stop there if the problems have become deep rooted or the personalities cannot find the capacity to concede some of their own views, for the greater goal.

If that happens, all will at least part, knowing why, and possibly with years of repressed emotions and frustration aired, broken up and blown away.

The hope, however, will be that listening and talking may re-establish common ground, revive respect and remind people of the good origins of their relationships, business and personal.

Holistic Approach

The process may take more than one session. A follow on could well involve the family's accountants, bankers and

lawyers, and valuers or tax specialists – getting them round a table to cut down on long weeks of expensive correspondence.

The service is discreet, private, secular and neutral save for the aim to try and resolve all or most issues. It can be away from the farm, or at the farm if everybody would prefer that. Client confidentiality binds the service as it does for all legal services.

The service can have rewarding results, heading off, marriage or family breakdown and rescuing farm business for the future are prime examples.

If you are experiencing similar issues consider approaching a mediator before heading to more formal, expensive and stressful outcomes through Court proceedings.

MAKING TAX DIGITAL

Many articles are being written on the subject of HMRC's plans to get taxpayers to report to them quarterly via an on line tool. Some free software may be available and spreadsheets have not been kicked into touch so this is likely to be evolution rather than revolution.

In the Cloud

More and more of the administration tools we use are going cloud based. The cloud offers huge benefits - being able to access data from anywhere that has a broadband or Wi-Fi signal, not having to worry about backups and hard drives and software upgrades, being able to send and share information easily.

With these benefits in mind switching to a cloud based book keeping system, is an obvious choice especially if your hardware or software is nearing the end of its life. Data can be accessed and input by all manner of devices; phones, laptops and with the scanning tools available, a paperless office

is coming closer to reality. If you would like to discuss transforming your book keeping please talk to us.

Share the tasks

Alternatively if you hate book keeping, can't or don't want to locate any broadband these tools make it straightforward for us to take the burden away and complete the process on your behalf. The cloud allows sharing of the tasks so for instance you can create sales invoices and we can look after the rest of the accounting records.

Please contact us to discuss how the cloud can be harnessed to make your business administration easier to handle.

GROWTH PROGRAM GRANTS

Launched in February, the Rural Development Program for England grants cover business development, food processing and rural tourism

The funding can help to pay for construction or improving of new buildings and buying new equipment and machinery. Costs can include professional fees, dedicated computer software and intellectual property such as patents.

The project will be expected to generate 1 job for every £30,000 of grant funding. The minimum grant level is generally £35,000

The process starts with an Expression of Interest - the last submission date for this is January 2018 and the project needs to be completed by March 2019.

This is likely to be the last chance for European funding so putting it to use to help you cope with the changes arising from Brexit has a certain irony.

Full details can be obtained from the RDPE website <https://www.gov.uk/government/publications/rdpe-growth-programme>

PROPERTY REVIEW



From 6 April 2017 tax relief on interest charged against rental income from residential properties will be gradually restricted, culminating in a maximum of 20% tax relief by 2020.

If you have a property let on a short hold tenancy and you have a large mortgage against it, you could, by 2020 be in a situation where your tax bill is greater than your rental profit. If you would like us to forecast the impact of this tax change please contact us. This is causing people to look about and consider alternative options for deriving income from their property. There are other tax reliefs and deductions that can be utilised against property income so a review of your options is timely.

Rent a room

Income from letting rooms in your own home can be covered by rent a room relief which was increased to £7500 per year from 6 April 2016.

If the income from renting a room exceeds £7500 this amount can be

set against the rent received which will then reduce the amount that is taxable. The threshold amount (£7500) is per household and therefore would be shared equally between a married couple or cohabittees where the property is owned jointly.

If you run a guest house or bed-and-breakfast business or provide services such as meals and cleaning, HMRC guidance confirms that relief is still available.

Guesthouse or bed-and-breakfast.

These businesses are regarded as a trade similar to a hotel. Rather than try to apportion the household costs for example, mortgage interest, electricity etc. it may be expedient to claim all of the household running costs reduced by an appropriate amount under the fixed rate scheme.

Fixed deductions

As part of a package of simplification measures designed to reduce the burdens imposed on small business, since 2013/14 a simple statutory method can be used to apportion premises expenses between business and non-business use where a property is used both as a home and as business premises.

The fixed basis operates by disallowing a set amount for non-business use. The amount disallowed depends on the number of people who live in the property as a home.

Number of relevant occupants 1-deduction £350, 2-£500, 3-£650

A 'relevant occupant' is an individual who at any time in the month or part-month occupies the premises as a home or stays in the premises otherwise than in the course of the trade.

Talk to us about choosing which method will work best for you. It is necessary to balance the deduction given against the associated record-keeping burden.

Furnished Holiday Lets (FHLs)

Giving the tenants of your residential property notice and switching to furnished holiday letting is another alternative that allows full deduction for property expenses and loan interest.

FHL rules have been tightened in respect of income tax loss offsets, and the availability of Business Relief for IHT should not be expected, however they still carry many advantages from a Capital Gains Tax perspective. The disposal of a property can qualify for Holdover Relief, Rollover Relief and Entrepreneur's Relief.

On line letting sites such as Airbnb provide a flexible marketing tool to owners, and gives excellent coverage, at a modest cost, even to those who only have a single property.

Digital Records

HMRC is considering allowing records to be kept on a cash basis for landlords. Small landlords may be exempt from having to keep records digitally but those exceeding the £10,000 threshold are likely to be caught up by the new rules. We have options available to help landlords comply with these requirements so please contact us for more details.

RESIDENCE NIL RATE BAND

This new tax inheritance tax(IHT) relief means that families could escape IHT on up to £1 million by 2020/21 when it has been fully phased in.

Winners

Introduced from April 2017 it is phased in over 4 years starting at £100,000 and rising to £175,000 per person, and is transferable to spouses if unused on the first death. When added to £325,000 (the standard nil rate band) the total for a couple is £1 million. It is only available when the residence is passed to children or linear descendants on death. There are provisions to cover those who downsized their home prior to death.

Losers

The residence nil rate band will be reduced by £1 for every £2 that the deceased estate exceeds £2 million. This means that in 2017/18 no relief will be available if the deceased estate exceeds £2.2 million. Reliefs such as Agricultural Relief and Business Relief are ignored when calculating the value of an estate so those with modest sized farms will not benefit.

Planning

A review of your Will and plans to pass on the family home may be necessary to ensure you can make use of this relief. Gifting part of the residence on first death may be considered if the estate will be over £2million on the second death. Please talk to us so that you do not miss out on this and existing IHT reliefs.



BREXIT - DO YOU KNOW WHAT TO EXPECT?

Self-reliance is going to be the most important attribute for farm survival. The likelihood of some sort of state funding is high but how and who it will benefit will remain unknown for much longer than is comfortable.

In order to help themselves farmers will need to be acutely aware of the cost drivers for their businesses and look at how these can be managed. The recent plunge in dairy prices and subsequent improvement have revealed the capacity for some businesses to adapt in the light of financial adversity, and change so they face the upturn better placed to make the most of opportunities.

Farmers are frequently advised to get closer to their markets, as most are price takers and commodity producers this seems a proposition only practical to small scale production and niche enterprises. Co-operatives have long been heralded as the method for making farmers stronger in the market place but us independent Brits do not seem to have the stomach for it.

So, assess the risks to your business. What are the factors that an individual can control? A meeting of those

in the business, a blank piece of paper, a cup of coffee (or something stronger) and a SWOT analysis will be a good start.

STRENGTHS WEAKNESSES OPPORTUNITIES THREATS

Be honest - a frank conversation and some forward planning will help lead to a focussed approach to what is going to be a bumpy few years following 2019. There are still a couple of years to get arrangements made, decide on policy and implement it. If you wait until 2019 to start making plans you could fall behind especially if you are financially frail at the point when change is forced upon you.

If you want help to draw up and execute your business plans please talk to us. Remember that some changes can have nasty tax consequences so please check ahead.

ATED

What is annual tax on enveloped dwellings (ATED)?

ATED is a tax payable on high value dwellings. It started on 1 April 2013 and is payable each year. You'll need to complete an ATED Return for your property if all of the following apply:

- it's a dwelling
- it's situated in the UK
- it was valued at more than £500,000 on 1 April 2012, or at acquisition if later
- it's owned by a company (unless acting as trustee), a partnership where one of the partners is a company or a unit trust

Hotels, guest houses, boarding school accommodation, hospitals, student halls of residence, military accommodation, care homes and prisons are not dwellings, so don't come under ATED.

There are reliefs that could reduce the tax completely (see below) but you can only claim them if you complete and send in a return.

ATED is payable for enveloped residential properties in bands annually from 1st April to the following 31 March. Initially the tax caught buildings valued at more than £2 million but from 1 April 2016 an ATED charge of £3,500 is payable for enveloped properties worth between £500,001 and £1m. Higher charges apply for properties worth more than £1 million.

Available reliefs

There are a number of available reliefs, subject to detailed conditions. For example:

- Dwellings let out on a commercial basis
- Historic houses open to the public
- Working farmhouses
- Dwellings held for charitable purposes
- Dwellings held for property development or trading
- Dwellings available for occupation by certain employees

Such dwellings will also be subject to the new form of capital gains tax (CGT) when they are sold - broadly, the sale price less the value of the dwelling as at 6 April 2013 (or date of purchase, if later) will be subject to CGT at a rate of 28%.

If working farmer retires and remains in a farmhouse owned by a company then the ATED charge would arise.

If residential property is owned by a company then the use of the property needs a careful review and ATED Tax returns need completion in order to obtain the exemptions.

Properties need to be revalued every 5 years and so the value on 1 April 2017 will apply for the 5 years commencing 1 April 2018.



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