


 A photograph of a lush green agricultural landscape with many cows grazing in a field under a clear blue sky. In the background, there are trees and a building.

AGRICULTURAL TAX TIPS MARCH / APRIL 2015

YEAR END TAX PLANNING – 5 APRIL 2015

The tax year is drawing to a close, so please consider whether you have made full use of the reliefs and exemptions available:

Tax rates and personal allowances – An individual has a personal allowance of £10,000 in 2014/15, which means any income up to this amount is tax free. Any additional taxable income is taxed at between 10% and 45%, depending on the income source.

However, once your taxable income exceeds £100,000, the tax free personal allowance is reduced by £1 for every £2 over £100,001, which means that income of between £100,001 and £120,000 is effectively taxed at 60%, with income over £150,000 being taxed at 45%.

Making pension contributions and gift aid donations may reduce your taxable income and so well timed payments to your pension scheme or to a charity could save you tax of up to 40%.

Make sure you are making the best use of ISA/National Savings/VCT/insurance bond investments to give non taxable income sources, or a return of capital taxable at 28%.

Alternatively, consider transferring income producing assets to your spouse if they have a lower income than you, thereby removing income from your higher tax rates. Income earned from jointly owned assets is automatically taxed equally, even where the asset (other than shares in a family company) is not owned equally and so you only need to give away a 1% interest to your spouse for them to be taxed on 50% of the income.

Child benefit high income charge – For individuals, where they or a partner receive child benefit income, a claw back of the child benefit is made where either person has taxable income of more than £50,000. Income may be reduced in the same way as above to help reduce any claw back.

Pension contributions – Provided you have enough “relevant earnings” in the year, it may be tax efficient to make or increase pension contributions before 5 April 2015, especially where you have unused relief to carry forward from the previous three years.

Pension contributions save tax at the higher and additional rates although tax relief is

generally only available for pension contributions of up to £40,000 a year, including any contributions made by your employer or other third party (see below).

Family pension contributions – not only can you or your employer pay contributions to your pension fund, but other family members can as well, such as your parents or grandparents.

Provided you have enough relevant earnings, family pension contributions are a useful way to help keep income below £50,000 and retain full child benefit entitlement where you do not have the funds spare to pay into your own pension pot.

These contributions also have the added benefit of saving your family member inheritance tax, either by being a gift out of normal income, or by being within the annual exempt amount.

Say you have taxable income of £60,000 and received child benefit for 4 children totalling £2,449. If your parents paid £8,000 into your pension fund (grossed up in your fund to £10,000), your adjusted income falls to £50,000, meaning no claw back of your child benefit, saving you total tax of £4,449. Your parents will save £3,200 in inheritance tax, so a cash outlay of £8,000 will save you and your family tax of £7,649, which means the contribution is almost free!

Landlord energy saving allowance – The ESA is available until April 2015 and allows certain qualifying expenditure to be deducted from rental income before tax is calculated. This includes expenditure on loft, cavity and solid wall, hot water and floor insulation as well as draft proofing.

Spouses/partners – Consider employing your lower earning spouse as a way to pass income across to them to save you tax as a couple. Do make sure though that payments are physically made and are commensurate for work carried out by them, otherwise the arrangements may be challenged by HMRC.

You could also consider making your spouse either a partner or shareholder in the business, although if they are a shareholder, make sure they own at least 5% of the voting rights in the company and are either an officer or director to protect valuable entrepreneurs' relief on any eventual exit from the business.

Dividends – Consider timing dividend payments so higher income is received in one year, and lower income is received in the following year. This measure could help protect against the loss of either your personal allowance or any child benefit in alternate years.

Repairs and capital – For unincorporated businesses, accelerate expenditure to help reduce profits to retain personal allowances and child benefit. Businesses may currently spend up to £500,000 on capital equipment in an accounting year and receive tax relief in full in the year of spend. This limit (the Annual Investment Allowance) is reducing to only £25,000 from 1 January 2016 and complex rules apply for periods straddling this date, so please do take advice before committing your business to a high capital investment.

Loss restrictions – Careful planning is required on the use of losses due to restrictions on relief. Relief on trading and certain other losses is now restricted to the higher of 25% of net income and £50,000 per annum. Please do take advice if you anticipate making any losses to ensure your relief is maximised.

Farm stock valuations - Many farm accounting years end in March or April and the amount and value of stock held at the year end can have a significant impact on profits and tax liabilities. Stock must be valued to identify and carry forward the costs incurred before the year end which will not give rise to income until a later period.

Stock should be valued at the lower of cost or net realisable value and guidelines used by most farms tend to provide for the following deemed costs:

- 75% of market value for harvested crops, sheep and pigs
- 60% of market value for cattle

However, there are other methods including actual cost of production and net realisable value if a profit is not expected to be made. Actual cost of production can result in valuations considerably less than deemed cost, so there is an opportunity to reduce the value of closing stock to bring down the tax bill.

If the deemed cost method is used you should consider the timing of sales at the year end. If high profits are expected this tax year, delaying the sale of a crop until after the year end will result in the value being reduced by 25% in the accounts, with profits delayed until the following year.

Gifting to your spouse - As with income tax, each person has an annual exempt amount which is lost if not used. For 2014/15, the exemption is £11,000. Gift an interest in assets to your spouse prior to a third party disposal in order to utilise their exempt bands.

If one spouse has unused losses, these can only be used against gains incurred by the same spouse and a transfer of assets may therefore be appropriate before any third party disposal to reduce the overall tax liability for the couple.

While gifting assets to a spouse immediately before a disposal is acceptable, there are limits, and it is therefore important that you seek advice if you intend to do this. Protecting entrepreneurs' and other CGT reliefs should also be reviewed before any transfers are made.

Capital losses – Capital losses are offset against chargeable gains before calculating any reliefs, such as entrepreneurs' relief, therefore try and delay crystallising losses until the following tax year, where appropriate. Crystallising losses can also mean wasting part of your annual exemption unless managed carefully.

Alternatively, if you have any capital losses to use either in the current or from earlier years, consider crystallising gains to use the losses thereby avoiding any tax charges.

Wills – Ensure your Will is up to date and works to minimise tax whilst giving your family flexibility and protection for the future, for example by using trusts.

Annual exemption – Take advantage of the IHT annual exemption which permits gifts of up to £3,000 per annum to be made tax free. Any unused amount can be carried forward one year only. Small gifts of £250 per donee may also be made as well as gifts in connection with marriage.

Gifts out of normal income - You can also make gifts to your family as “normal expenditure out of income” with these gifts being covered by your income, leaving you

enough income to cover your normal living expenses.

This can be a useful way for grandparents to pay school fees for their grandchildren provided there is sufficient income to support this level of generosity.

Next steps

Many of the above tax reliefs and exemptions are on a 'use it or lose it' basis requiring you to take action before 5 April 2015. All will rely on the circumstances of each individual therefore, if any of the above points interest you, please do get in touch.

THE CAP REFORM – QUALIFYING AS A ‘YOUNG FARMER’?

The new basic payment scheme (BPS) is encouraging new entrants or young farmers by rewarding them with an additional payment of up to 25%, claimed on a maximum of 90 hectares. If there is a greater uptake than expected the payment will be reduced proportionally to ensure all qualifying applicants receive some additional payment.

The qualifying criteria includes being less than 40 years old AND having control of the business now. However you cannot have controlled the business, or any other farming business, for more than 5 years.

It is possible to change business structures in order to qualify for this additional payment, and the RPA would support this, as the scheme is to encourage business succession. However the control does have to be genuine control, with supporting evidence, otherwise it will be caught by the artificiality provisions.

For a partnership, the partnership agreement should state that the applicant has the ultimate controlling vote or the majority of voting rights. Without a partnership agreement the rules are likely to be governed by the Partnership Act 1890 which states that there is no controlling party as ordinary decisions must be decided by a majority of partners. If farming through a limited company, control could be demonstrated by having the majority (>50%) of the voting shares.

To support any argument the individual should have genuine control of business decisions.

If considering whether to change your business structure to qualify for the additional payment you should seek professional advice as it can impact on income tax, capital gains tax, corporation tax and inheritance tax and costs can easily outweigh the benefits.



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