CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

ALBERT GOODMAN

AG RURAL INTELLIGENCE
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TO REINVEST OR NOT REINVEST

Your sale prices are low, profits will be down and the availability of the blood that streams around your business, cash, is getting tighter and tighter. Is this the right time to be reinvesting in your business?

There are many good reasons for investing in your farming business. Improved efficiency is a key one for most, whether that is in upgrading plant and machinery, or changing your farm yard to reduce working times. It may mean expanding production, or streamlining what you do. Good farmers and businesses are always striving to do more with less.

The Japanese call it Kaizan, which has come to mean continuous improvement within the business.

So, back to the question, is now the right time to reinvest in your business?

Many projects stand alone as good investments. They improve the business, and the return from them has a defined payback period. For example, investing in minimum tillage equipment or biomass boilers for poultry houses have had relatively short and defined payback periods.

Other larger projects in farming may have very long timescales attached, such as investing in new dairy or poultry units.

For example, take a farm where the dairy is old, worn out and generally not fit for purpose. The family look at their farm and family and have already made the decision that for the business to make money, the best way is to remain in milk production long term and the younger generation are committed to this strategy.

Is now the right time to be bold, go against the stream and start the investment? This is a complicated question, as much will depend upon the current size, efficiency and financial strength of the business. It may be depressing seeing the returns on the farm at present on a monthly basis, but the time may be right for this long term investment.

Indeed there are many good reasons for starting the investment now. The high value of the pound makes imports cheaper, so the cost may be cheaper now. If the project stands alone with a good return, then financially it will not weaken your business, so again, there may be good reason to start soon. Interest rates are low and cheap money can be locked in for the medium and long term easily. Also, as demand falls for some items, the price you pay may fall, so it could be cheaper to invest now.

If your investment is one that will reshape and improve your business for the next twenty or thirty years, should a relatively short term dip in the volatile world of commodity markets result in you putting off what is a fundamentally good decision? I conclude that starting some of these projects is right for some, and it is a good decision to start now.

The secret is the balance between risk and reward. This is something that good farm business manager's master and making the right decision has lasting effects. Be bold and decisive, but not rash, and your business will flourish.

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IS THE FUTURE OF SOLAR STILL BRIGHT?

A cloud is looming over the future of UK solar in the wake of two consultations by the Department of Energy and Climate Change (DECC) on cost control measures for the Levy Control Framework (LCF).

The first of these consultations looks at subsidies; the Renewable Obligation (RO) and the Feed-in-Tariff (FiT). The proposed changes would mean that all projects under 5MW installed after 1 April 2016 would not be able to claim the RO whilst projects larger than 5MW had already seen support under the RO withdrawn earlier this year.

The FiT is the alternative subsidy providing support for solar up to 5MW in size. Solar installations choose between the RO and the FiT and historically the tipping point had been 5MW with projects under this capacity typically providing better returns under the FiT. In recent months this balance had changed with sub-5MW projects starting to look more attractive under the RO as a result of significant quarterly reductions in the FiT caused by 'hyper degression' arising from installed capacity exceeding limits set by DECC for each quarter.

It was expected that the most recent quarter would see a reduction of 28% in the FiT for standalone (ground mounted) solar as a result of the rush to install solar before the next tariff degression, however due to a backlog in capturing pre-accredited applications a much lower capacity was recorded. The very latest consultation proposes that the FiT will reduce by as much as a massive 67% -87% across all categories from 1 January 2016 with smaller scale installations of less than 10 kWp being hit with the largest reduction of 87%.

Pre-accreditation of projects under the FiT is the other aspect of solar support that has been the subject of a consultation. A project could be pre-accredited, thus guaranteeing a tariff level in advance of commissioning an installation, provided that the project had planning, a grid connection agreement and was fully accredited within a specified window (6 months for solar projects). The changes mean that pre-accreditation will be removed from 1 October 2015 with projects obtaining the tariff at the date they are fully accredited instead.

So with effectively very little to no support for small scale standalone solar and increased uncertainty due to the inability to pre-accredit projects, where does this leave the solar industry? The general consensus is that the solar industry is close to reaching the ability to operate without subsidy, operating at prices that compete with the grid, a concept called 'grid parity'.

For businesses looking to guarantee long-term supply, rooftop installations are becoming increasingly attractive and many developers are 'land banking' in anticipation of a time when grid parity is achieved.

It is worth remembering that solar is a global industry and prices will continue to drop despite the UK regulatory regime and that grid parity is inevitable. Withdrawing the RO for solar and the ability to pre-accredit projects may even speed up cost reductions as developers put pressure on the supply chain in light of the ever decreasing revenues from subsidies.

There has also been a clear shift in the economic focus of projects since the start of the solar boom, from generating revenues from subsidies, to making savings on electricity costs and as developments in energy storage become more accessible and cost effective, the ability to use electricity when it is needed rather than when it is generated, will increase savings available and provide increased opportunities to sell electricity under Power Purchase Agreements.

The outlook for solar: sunny with a chance of showers.

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CAPITAL EXPENDITURE – IT'S ALL IN THE TIMING

Timing of capital expenditure can be very important.

Businesses can currently get 100% tax relief in the year of purchase when buying plant and machinery costing up to £500K per accounting year. However, the allowance, known as the Annual Investment Allowance ("AIA"), will be reduced to £200K from 1 January 2016, although this is a welcomed improvement from the previously proposed amount of only £25K.

Where accounting periods straddle January 2016, an apportionment of the AIA is necessary, but you may need to time the purchase carefully to make certain you get relief as early as possible.

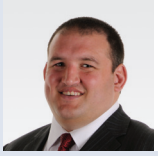
For Example:

John, a sole trader with a year end of 31 March 2016, is planning to buy a new tractor for £80K.

His maximum AIA for the year ended 31 March 2016 will be £425K (9/12 x £500K plus 3/12 x £200K), and if he buys the tractor before 31 December 2015, the AIA will be available in full against the purchase.

However, if he buys it on or after 1 January 2016, the AIA will be restricted to only £50K, with tax relief on the balance being at 18% in the same year, and then spread over 30 years for any remaining amount.

To ensure your purchase qualifies for the maximum AIA you should take delivery of the item before 1 January 2016 or earlier if your accounting year end is earlier. If you are buying on HP it is important to sign the contract and bring the asset into use before 1 January 2016.



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CHANGES TO THE TAXATION OF DIVIDENDS

Significant changes were announced in the budget to the way in which dividend income will be taxed from 6 April 2016. Whilst the changes will mean many small investors are actually better off, those running their business through companies will face major changes.

We will have to wait until the Finance Bill 2016 is issued after this year's Autumn Statement for full details but what we do know is:

- Tax credits – the 10% notional tax credit added to a dividend paid out by a company will be scrapped, and you will now only be taxed on the 'net' dividend.
- Dividend Tax Allowance – the first £5K of dividend income will be tax free.
- Dividends will then be taxed at 7.5% in the basic rate tax band, at 32.5% in the higher rate band and 38.1% in the additional rate tax band. This compares with 0%, 25% and 30.56% on net dividend income now.

What does this mean for me if I already operate through a company?

Whilst the rules are complex and unwelcomed by business owners, there are still savings by operating through a company. The savings pretty much disappear where profits are £150K and over, unless you are able to share these with family members or can leave the profits in the company.

A tax payer's position will depend on the amount of dividend income he receives, as well as his marginal tax rate. The following table may be used as a guide, comparing the 2015/16 position with what we expect the position to be in 2016/17, although each individual's circumstances should be considered in full:

Taxpayer	Better off	Same	Worse
Basic rate	Never	Dividends < £5,000	Dividends > £5,000
Higher rate	Dividends < £21,667	£21,667	Dividends > £21,667
Additional rate	Dividends < £25,250	£25,250	Dividends > £25,250

So basic rate tax payers will never be better off under the new rules. If their dividend income is less than £5K next year, they will be no worse off, but for every pound over £5K in dividends, they will be 7.5p worse off than they are now. Basic rate tax payers should therefore ensure they make full use of this year's basic rate tax band when looking at their dividend policy, provided their company's reserves will permit this. Any dividends may be credited to loan accounts if the company is short on cash.

Higher and additional rate tax payers might want to defer dividend receipts until 2016/17 if they expect to receive less than £21,667/£25,250. If dividends are expected to be more than this, tax payers might want to accelerate dividends into 2015/16.

It is still likely to be beneficial to pay a small salary and take the balance as dividends, as it is now. Overdrawing on company loan accounts could also become more popular in the short term for higher or additional tax rate payers.

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LOSING INTEREST IN RESIDENTIAL PROPERTY LETS

Many landlords have invested in residential property rather than in pensions, seeing this as the safer way to save for retirement and being able to benefit from increasing property values.

This may all change after Mr Osborne's recent announcement that tax relief for interest payments will be phased out from April 2017 for higher rate tax payers, removing the 'unfairness' of homeowners not being able to claim tax relief on their mortgage interest payments.

But the new rules are not as straightforward as it might sound and you might be affected even if you don't consider yourself to be a higher rate tax payer now.

The changes will be phased in from April 2017:

- 2017/18 – claim 75% of your interest against profits, 25% relief at 20% only;
- 2018/19 – claim 50% of your interest against profits, 50% relief at 20% only;
- 2019/20 – claim 25% of your interest against profits, 75% relief at 20% only;
- 2018/19 onwards – claim relief at 20% only.

In all cases, the 20% relief is restricted to the lower of:

- Remaining interest costs;
- Profits of the rental business; and
- Total non-savings income over the personal allowance.

Interest includes interest payable on loans to buy the property, furnishings or fees incurred when taking out or repaying loans/finance.

Example

David has two cottages let out producing income of £16.8K and with mortgage interest of £12K per annum. He uses a letting agent who charges £1.8K and has farm profits of £40K per annum. His tax position over the next few years can be summarised as:

	Old	New			
	16/17	17/18	18/19	19/20	20/21
Salary	40,000	40,000	40,000	40,000	40,000
Rental Income	16,800	16,800	16,800	16,800	16,800
Less Commission	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)
Less Interest 100%/75%/50%/25%/0%	(12,000)	(9,000)	(6,000)	(3,000)	-
Taxable Rental Profit	3,000	6,000	9,000	12,000	15,000
Total	43,000	46,000	49,000	52,000	55,000
Personal Allowance	(11,000)	(11,000)	(11,000)	(11,000)	(11,000)
Taxable Income	32,000	35,000	38,000	41,000	44,000
Tax @ 20% (32,000)	6,400	6,400	6,400	6,400	6,400
Tax @ 40% (balance)	-	1,200	2,400	3,600	4,800
	6,400	7,600	8,800	10,000	11,200
Less Interest Tax Credit 0%/25%/50%/75%/100%	-	(600)	(1,200)	(1,800)	(2,400)
Income Tax	6,400	7,000	7,600	8,200	8,800
Tax on Rental	-	600	1,200	1,800	2,400
Effective Rate on Ongoing Rental Profit	0%	20%	40%	60%	80%

You will see from the above that David has a normal rental profit of £3,000 per annum and he will need to service his capital repayments from this profit. Under current rules, his profit is covered by his personal allowance and so he pays no tax other than on his farm profits. As the rules change, he is pushed into higher tax rates and by 2020/21, when the rules are fully effective, he will pay additional tax of £2,400, i.e 80% of his normal rental profit of £3,000, leaving him only £600 out of which to service his debt.

The tax rate might be even higher if you have to take tax credits into account, or the higher income charge on child benefit or even the withdrawal of the personal allowance where income exceeds £100K.

David may need to think about transferring part ownership to his spouse, or possibly incorporating - the restrictions on interest relief will not apply to companies, furnished holiday lets or rental of commercial property.

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YOUR SPOUSE COULD SELL YOUR LETTING PROPERTY TAX FREE

If you sell your sole or main residence, you can do so, tax free. However, part of any gain might become chargeable if you have not lived in the property throughout, whether you let it in that time or not.

If you gift the property to your spouse, they usually take over your ownership history and their ownership will also therefore be tainted. However, this will only apply if, at the date of the gift, you are married and are living together, and the property being transferred is your (the couple's) sole or main residence.

Therefore, if you own a holiday home or let property and you are considering selling it at some point, which would mean part, if not all, of the gain would be chargeable to capital gains tax, you could transfer it to your spouse shortly before moving into it as a couple. The transfer would be at a nil gain/loss as it would be a normal inter spouse transfer. However, the history of the ownership (i.e. the holiday let or rental period) would not be transferred as you weren't living in it as your main residence at the date of the gift, with it only becoming your main residence when you move in at a later date. Any gain made on a subsequent sale will therefore be entirely tax free.

Please note that if you own a number of properties, you may need to put appropriate elections in place and you will also need to actually live in the property as your home in order for the relief to apply. It is always important to seek professional advice before entering into property transactions.

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VAT TREATMENT OF MOTOR EXPENSES

Most businesses will have at least one motor vehicle and the cost of running a vehicle can be expensive. We find that business owners are often confused about and how much of the VAT (input tax) on these expenses can be recovered.

Fuel

You need to look at the overall motor vehicle position and identify which vehicles undertake business and private mileage or do a mixture of both.

If all vehicles only do business mileage then this is straightforward and 100% of the input tax can be recovered on all fuel purchases.

If you have a combination of vehicles and uses it becomes more complicated. For example if you have three vehicles:

- Land Rover Discovery – 100% business use
- Ford Transit van – 100% business use
- Vauxhall Astra – 75% business use

To enable the recovery of the input tax on the Discovery and van's fuel, as well as the Astra's, you will have to pay across a HM Revenue & Customs fuel scale charge (FSC) entered as output tax on your VAT return, to take account of the Astra's private usage; the value of charge depends on the CO2 emissions of the vehicle.

The recovery of input tax on fuel is an all or nothing situation in a business where there are vehicles undertaking private use. You cannot chose to recover on business use only vehicles and not recover on the private use vehicles. Although you can choose not to recover any input tax on all road fuel purchased if fuel scale charges are not cost efficient.

Examples of the annual breakeven points for a range of emissions are shown below;

Vehicles with the low emissions of 125g CO2 - a minimum gross spend of £800 (FSC £134)

Vehicles with mid-range emissions of 165g CO2 - a minimum gross spend of £1,230 (FSC £205)

Vehicles with highest emissions of 225g CO2 - a minimum gross spend of £1,880 (FSC £312)

The only way to avoid the scale charge situation is to keep a full detailed mileage log and at the end of every quarter/month reclaim the percentage of input tax relating to business miles.

Maintenance

All input tax on costs relating to the maintenance of all business motor vehicles can be recovered in full, regardless of whether there is private use of a vehicle, unlike other expenses where private use restrictions have to be made.

There is a HM Revenue & Customs concession that says that in order for you to complete both business and private journeys the vehicle has to be in a road worthy state therefore all input tax can be recovered.

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JOIN THE REVOLUTION IN MANAGING YOUR FINANCES

As a farmer, like all business owners, there are probably a few reasons you do what you do. No doubt you're very passionate about farming, you have control of your future and probably you enjoy being your own boss but it's likely that balancing the books isn't high on the list!

Having passion for your business is great but accounting often sits at the opposite end of the scale. The accounting software many businesses have is often difficult to use. It's had a history of being time consuming and confusing for anyone who isn't an accountant.

However that's all changing – now. 'Cloud' based technology is revolutionising accounting software and now managing your finances is quick and pain free. Your data is stored in the 'cloud' – essentially large computer server warehouses with 'bank-level' security – allowing you access from any computer or device, anywhere and at any time.

Using a cloud accounting product rather than manual records means you are able to keep on top of your cash flow, keep track of which customers owe money and also which suppliers are due payment. Bank reconciliations are automatic and if you have a question you are able to ask us, your accountant, direct from the software.

We are able to work more collaboratively with you, enabling us to login and view your data at any time to give you pro-active support and advice.

There are numerous different cloud accountancy packages; the majority of which are supported by us here at Albert Goodman. However, our research has concluded that there is a clear market leader - Xero.

You can purchase Xero direct, or via Albert Goodman. Buying through Albert Goodman prices start from a little as £17 per month and either Jenny Cotton or Charlotte Parris – both Agricultural Team accredited Xero advisers – can guide you through the transition from your current software.

We think Xero is the most up to date and modern way for small businesses and accountants to work together. If you would like Jenny or Charlotte to demonstrate Xero to you at no cost please get in touch.

Five ways Xero cloud software makes accounting fun!

1. When statement lines from your bank account are fed into your accounting software automatically, you can see your cashflow in real-time.

2. Being able to see bank balances, invoices, bills and expenses at a glance gives you a clear picture of your finances.

3. View your accounts in the cloud so you can access them when you want, where you want, on any device.

4. You're free to be mobile – not chained to your desktop. You can work on the same data as your accountants at the same time, there's no need to share a computer or exchange files.

5. Small business accounting software with free updates means there's no need for installations or maintenance.

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NEW RURAL GRANT FUNDING NOW AVAILABLE

Two new capital grant schemes for farmers and rural landowners are now open under the Rural Development Programme for England. The new LEADER and Growth Programme schemes offer capital grant funding for rural businesses to provide education and training, renewable energy projects, tourism facilities and business startup and expansion.

£177m of funding is available under the Growth Programme with grants normally between £35,000 and £145,000 each. The Programme is administered regionally and each area has different criteria. The scheme is aimed at supporting the rural economy and projects which can demonstrate business growth and job creation will be favoured.

Examples of the projects funded under previous rounds of this scheme in the south west include an expanding micro-brewery, a new start up woollen yarn producer and a vanilla pod processing business.

LEADER funding is also available for small businesses, to support rural tourism, farm and forestry productivity, cultural and heritage projects and the provision of other rural services. This scheme typically offers smaller grants from £2,500 upwards.

Each grant will fund 40% of the eligible costs of a project, which can include new buildings, equipment and infrastructure. It is important to have any necessary planning consent in place before making an application. The application process is detailed and a business plan and budgets will be required. Applicants must also have upfront means of funding their proposal as grants will not be paid until the project is completed.

Grants are potentially lucrative and those considering any capital investment in their farm business or diversification in the near future are strongly encouraged to find out whether there is grant funding available for their specific project.

For more information and an informal chat about the new RDPE schemes please contact Jenny Towill at Stags on 01823 653429 or email j.towill@stags.co.uk

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KEEPING PENSIONS IN THE FAMILY

The has been considerable noise in the media about the recent raft of pension reforms which has focussed on the greater flexibility offered to those aged 55 or over to take money out of the their accumulated pension funds. Relatively few financial commentators, however, have focussed on the more significant aspect of the changes, specifically the ability now for an individual to inherit, tax-free potentially, not only the assets held in a pension fund, but also the pension 'tax wrapper' in which the investments sit.

Much as the way in which the recent change to the ISA regulations now allow a surviving spouse or civil partner to inherit the ISA tax wrapper. This particular pension reform allows a husband say to pass his pension fund to his spouse, still within a pension wrapper, thereby keeping the fund out of the spouse's estate for Inheritance Tax purposes.

Better yet, the spouse can then pass any part of the inherited pension fund that he/she doesn't need onto their children or even grandchildren. In doing so allowing the pension fund to be 'passed down the generations' and affording the younger generations of a family immediate access to these funds, regardless of their age.

Grandchildren of course have their own personal allowance for income Tax (£10,600 for 2015-16) which could allow income to be taken from an inherited pension fund, tax-free, even where the original owner of the pension fund dies after the age of 75.

This reform turns conventional pension planning 'on its head'. Why not maximise the amount you can pay into a pension, if by doing so you can benefit from tax relief, move surplus funds off the balance sheet of a business and into an environment that sits outside of your estate for IHT purposes and which can remain outside of your estate when you die, as well as that of your spouse/partner.

Having maximised your pension fund and retired, the new pension landscape is leading professional pension advisers to fundamentally change their advice on how best to fund your retirement. Put simply, deplete every liquid asset that you have (e.g. ISAs, shares, deposit accounts) before you resort to your pension fund. Why, because there's no sense in depleting an asset that sits outside of your estate for IHT purposes and that anybody of your choosing can now inherit.

Despite the obvious attractions of this strategy there are however a few obstacles to overcome. Most pension arrangements, especially contracts that are over 10 years old, simply cannot accommodate these new options and will therefore need remedial work. Even where pension contracts can cope with the new flexibilities, it will be vitally important to ensure that you complete a new expression of wish and provide a detailed accompanying letter of wishes, to ensure that you maximise the opportunity to preserve the tax status of your pension assets for future generations.

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THE NATIONAL LIVING WAGE

From April 2016, the government will introduce a new mandatory National Living Wage (NLW) for workers aged 25 and above, initially set at £7.20 – a rise of 70p relative to the current National Minimum Wage (NMW) rate and 50p above the increase coming into force in October. That's a £1,200 per annum increase in earnings for a full-time worker on the current NMW. The NLW will rise to £9.00 per hour in 2020.

The adult NMW rate is currently £6.50. It will increase to £6.70 from October 2015.

The Racing Industry Minimum Rates for riders, grooms and stable persons mirrors the NMW so any employer paying the minimum rates will face an increase in their wage bill.

This may be offset to some extent by the increase in the Employment Allowance (EA) from £2,000 to £3,000 - a business could therefore employ four people on the minimum wage without a national insurance liability. However, in many cases the increased EA will not fully offset the NLW increases.

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THE FAMILY HOME AND IHT

The government announced the introduction of a new transferrable nil rate band for the family home. The additional band will apply where a residence is passed on death to direct descendants such as a child or a grandchild. This will initially be £100K in 2017/18, rising to £125K in 2018/19, £150K in 2019/20, and £175K in 2020/21. The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased.

The allowance is in addition to the inheritance tax nil rate band which is currently set at £325K. By 2020/21 the total individual nil rate band will therefore total £500K.

Any unused nil rate band may be transferred to a surviving spouse or civil partner. It will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil rate band, are passed on death to direct descendants. This element will be the subject of a technical consultation and will be legislated for in the Finance Bill 2016.

However, there will also be a tapered withdrawal of the additional nil rate band for estates with a net value (after deducting any liabilities but before reliefs and exemptions) of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold. Therefore, there will be many individuals that will not benefit from the extra relief. This will include:

- Those with no children or grandchildren
- Those that do not leave the home to direct descendants
- Those leaving net assets worth more than £2m even where some of this may be covered by relief.

  For example a married couple with a 300 acre farm including a farmhouse worth £2.5m as well as rental properties and other investments worth £700K has total assets of £3.2m.

  Assuming agricultural property relief reduces the chargeable estate to say £850K and the total estate is left on second death to the couple's son, if death occurs in June 2017 the enhanced nil rate band will be £850K. However, as the total estate is worth in excess of £2m the main residence enhanced nil rate band will be tapered away completely leaving the basic enhanced nil rate band of £650K. Therefore IHT is payable at 40% on £200K (£80K).

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Contributing most to our clients' success

Our aim is to work closely with our clients. Our practical agricultural knowledge, accounting and tax expertise and enthusiasm mean that we are well placed to do this. We believe that we bring a proactive approach and fresh perspective to our clients' businesses. This means that we can give the best possible advice, enabling businesses to have the most suitable structure, pay the least amount of tax and effectively plan for the future.

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