ALBERT GOODMAN
CHARTERED ACCOUNTANTS

AGRICULTURAL TAX TIPS - MARCH/APRIL 2014

YEAR END TAX PLANNING - 5 APRIL 2014

With yet another tax year drawing to a close, pause and take stock of whether you have made full use of the reliefs and exemptions available. A summary of the main points are below but for a full breakdown please visit our website - www.albertgoodman.co.uk/index.php/articles-events/ag-articles/456-year-end-tax-planning-5-april-2014

Tax rates and personal allowances – An individual has a personal allowance of £9,440 in 2013/14, which means any income up to this amount is tax free.

Due to a restriction on personal allowances income of between £100,001 and £118,880 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 your tax rate. Pension contributions can also be made for other family members. Alternatively, consider transferring income producing assets to your spouse if they have lower income than you.

Child benefit high income charge – Where you or a partner receive child benefit a claw back is made where either person has taxable income of more than £50,000. There are methods of reducing the taxable income to prevent any claw back.

Refinance rental properties – If you own a property which is let out and has substantial equity in it, consider refinancing it to use the funds to repay private borrowings. That way, you may get tax relief on the borrowing reducing your tax bill on your rental property.

ISAs – You can invest in an ISA every year and whilst the amount invested does not attract tax relief, any income on the investment is free from income tax. The limits for an individual for ISA investments in 2013/14 are £11,520 in total (with up to £5,760 in a cash ISA).

Owner managed business – Consideration should be given to the structure of your business (sole trader, partnership or company). You could consider making your spouse an employee, partner or shareholder in the business. A salary, profit share or dividends could then be used to utilise their personal allowance and lower tax rates.

Expenditure - Perhaps accelerate expenditure to help reduce profits to retain personal allowances and child benefit and take advantage of the current £250,000 AIA. Recent case law now also means that it is easier to obtain a deduction for repairs rather than having to capitalise costs.

Loss restrictions – From April 2013 relief on trading and certain other losses is now restricted to the higher of 25% of net income and £50,000 per annum. Careful planning will be required.

Other taxes – there are annual exempt amounts for every individual for both capital gains tax and inheritance tax which should also be considered when approaching the year end.

Planning for any capital gains is essential to ensure all allowances, reliefs and losses are utilised which may mean transferring assets or realising negligible values of other assets.

Next steps

Many tax reliefs and exemptions are on a 'use it or lose it' basis requiring you to take action before 5 April 2014. All will rely on the circumstances of each individual therefore, if any of the above points interest you, please do get in touch.

THE LATEST FARMING AND FORESTRY IMPROVEMENT SCHEME (FFIS)

Everyone loves something for nothing, or as close to it as you can get. Under the latest FFIS, grants of between 15% and 50% of your eligible costs (60% if your holding is more than 50% in a Severely Disadvantaged Area), are being made available to help businesses, provided certain criteria are met.

The minimum grant being offered is £2,500 while the maximum is £35,000, and it does not matter if you have applied for a grant in a previous round. The closing date for applications is 4 April 2014, however this has been extended to 4 May 2014 for applicants in flood affected areas whose applications are being prioritised.

The grants will target the following areas:

- Energy efficiency
- Nutrient management
- Water management
- Animal health and welfare, and
- Forestry

For an exhaustive list of eligible items please call 0300 060 4761 or visit

www.rdpenetwork.defra.gov.uk/funding-sources/farm-and-forestry-improvement-scheme

The grant must be applied for before you order or purchase the items and it will only be paid after the purchase has been made. Sufficient funds therefore need to be available to cover the initial expenditure. It is worth noting that even if your application conforms to the strict criteria there is no guarantee that a grant will be awarded.

The capital allowances (amounts that can be written off against tax) associated with any qualifying purchases will be based upon the net cost to you, e.g. the amount that you have paid in excess of the grant received.

CHANGES TO TAX RELIEF FOR PURCHASES OF PLANT AND MACHINERY

There are a number of changes to come regarding capital allowances, the tax relief obtained on the purchase of plant and machinery.

Annual Investment Allowance (AIA)

The AIA provides a 100% deduction for the cost of most plant and machinery (not cars) purchased by a business up to an annual limit and is available to most businesses. Where businesses spend more than the annual limit, any additional qualifying expenditure generally attracts an annual writing down allowance of only 18% or 8% depending on the type of asset.

The maximum amount of the AIA was increased to £250,000 from £25,000 for the period from 1 January 2013 to 31 December 2014. It was due to go back down to £25,000 from 1 January 2015. However, in the budget this month it has been announced that the amount of AIA is now further increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015. The AIA is then expected to return again to £25,000 after this date.

The increased AIA will mean that up to 99.8% of businesses could receive 100% upfront relief on their qualifying investment in plant and machinery. For example a single company with a 12 month accounting period to 31 December 2014 could obtain overall relief for the period of £437,500 (£250,000 x 3/12 plus £500,000 x 9/12). There is a restriction of £250,000 for expenditure incurred in that part of the accounting period which falls before 1 April 2014. Careful planning may be required to take advantage of this relief.

New rules on purchasing commercial property

If you buy a second hand commercial property (including farms) post April, and you wish to claim capital allowances on the fixtures and fittings, if the vendor could have claimed tax relief on any fixtures in the property, those fixtures have to be identified, valued and added to the vendor's capital allowance pool for tax purposes (known as "pooling"). Fixtures are items attached to a building, such as heating, lighting and electrical systems and drainage systems.

You and the vendor will then need to agree a price for those items and sign a joint election. The price agreed in the election gives the amount you can then claim tax relief on for those items and you will need to make certain the contract includes reference to these items.

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It is vital, as part of the pre contract enquiries, that you establish exactly what fixtures the vendor has claimed tax relief on, what he could claim on and still needs to pool, and what he could not claim on, but you can.

Depending on the type of property, fixtures can account for up to 40% of the property's value. An individual paying tax at 40%, buying premises costing £500,000 could therefore save up to £80,000 in tax by dealing with the purchase correctly. If the value of the fixtures is not agreed then no one will be able to claim capital allowances on the items in the future which could devalue the property going forward. Therefore we recommend that where you are buying or selling property you should take advice from a specialist early on.

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