AGRICULTURAL TAX TIPS JANUARY / FEBRUARY 2015

FALLING FARM PROFITABILITY

An almost perfect growing season in most parts of the UK for 2014 has seen a bumper crop harvested; with the NFU reporting average wheat yield of 8.6t/ha – the largest ever and some 16% more than 2013. As a result there has been a substantial reduction in commodity prices for arable farmers. The price of inputs are not showing signs of reducing greatly and with high rents having been agreed in many cases, on the back of high commodity prices and improved yields, profits for many farms are likely to show a substantial reduction in 2014/15. Similar issues have been well publicised in the dairy sector as a result of the milk price reductions.

The single farm payment receipt is a welcome aid to cash flow for many farmers, however this will provide only a relatively short-lived boost.

This reduction in profitability comes at a time when, of course, the Annual Investment Allowance is at a record high and farmers are keen to invest and make the most of this relief. Cash flow planning is therefore critical and approaching the business bankers early, with well-prepared forecasts, will be highly important in securing any increase in facilities that may be required.

In a period of falling profits, it is also important to consider the timing of other transactions, as these can give a cash flow benefit, even if there is no absolute tax saving. Thought should be given to valuation of crops and livestock, with care taken not to fall into using deemed cost as a method of valuation where the actual cost of production is lower.

Farmers' averaging can also be a useful tool for unincorporated businesses (sole traders and partnerships) and can help to maximise the use of personal allowances and lower rate tax bands, especially between years of fluctuating profits. Even if there is no absolute tax saving available averaging can provide a tax deferral by reducing payments on account.

With tax payments due on 31 January thought should be given to whether there is an opportunity to reduce payments on account towards the current, 2014/15 tax year. The payments will be estimated based on the 2013/14 tax year when profits may well have been higher, so there may be scope to reduce these.

If losses are incurred then the utilisation of these should be carefully considered in order to maximise tax savings. Rather than simply carry forward losses it is possible for both incorporated and unincorporated businesses to set these off sideways against certain other income and capital gains or carry the loss back against profits of the previous period. There is scope, therefore, for repayments of tax which, at a time of falling profitability, can provide a welcome cash flow boost.

THE PERFECT MODEL

Many of our clients do not go much further than a 'back of the fag packet' approach when it comes to making investment decisions or budgeting for the next year, relying on the status quo continuing or feeling that they have an in depth understanding of their business that forecasts cannot accurately represent. However, even a stable business can benefit from generating sound financial projections that identify the impact of market influences, such as fluctuations in milk price or increases in feed costs, on margins.

With bank lending requirements becoming more stringent, we are increasingly seeing requests for detailed projections that demonstrate the ability to service a loan or overdraft from the cash flows of the business, typically over the next three or more years. Providing the bank with cash flow projections that have been prepared by an experienced accountant gives them confidence in the figures provided and the assumptions on which they are based.

A financial model can only be as good as the data upon which it is based and taking care to provide accurate information is important in generating cash flows that represent reality. As advisors to similar businesses, we can help to trigger questions and identify costs that may not have been considered. Investment decisions should be well thought-out; understanding the key variables that could impact upon the ability of a project to payback within a certain time period and indeed whether it will generate a financial return. A good financial model will incorporate the ability to run different scenarios or 'what if' analysis, such as showing the impact of delays in project timings or increased capital costs.

Investing the time and effort to produce detailed cash flow projections for a business enables the business owner to understand the key drivers for the business going forward, to plan for and to optimise growth whilst making it easier to secure the finance required to do so.

For more information please contact Rachel Lawrence at rachel.lawrence@albertgoodman.co.uk

BELATED COUNCIL TAX APPEAL CAN PROVE FRUITFUL

Written by Jeremy Bell, Partner, Greenslade Taylor Hunt.

You have just six months from the original assessment or change of occupier/tax payer (there are exceptions) to appeal to lower your council tax banding.

Don't give up if you have not considered appealing due to the presence of an agricultural occupancy condition or "ag tie".

It is not uncommon for planning restrictions to be placed on existing dwellings and many

farmhouses or farm workers' dwellings have "ag ties" or are subject to S.106 agreements (formerly S.52 agreements) tying them to the farm as well as restricting who can occupy them.

During a recent case a district council in the West Country said we were out of time for an appeal, but we appealed to the Valuation Office Agency (VOA).

We successfully argued that the district council failed to inform the VOA of the presence of the "ag tie" (known as a composite hereditament) which meant they had assessed the market value incorrectly.

We needed to show comparable evidence for freehold sales with "ag ties" as at the valuation date of 1st April 1991, for which the firm had plenty.

This led to a cut in council tax banding from G to E. We then claimed against the district council an overpayment dating back to 1st April 1993. This resulted in a refund totalling £4,485 which was credited to the client's council tax account.

As this case study shows it is worth doing a desktop check to assess if the banding appears fair and reasonable and to consult an experienced valuer in this field to see whether an appeal could succeed.

For more information on property valuations please contact Jeremy Bell at Greenslade Taylor Hunt on 01278 765588 or jeremy.bell@gth.net

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WHAT DOES THE NEW WORKPLACE PENSION SCHEME MEAN FOR FARMING BUSINESSES?

By now most of us will have seen the Government adverts for the new compulsory workplace pensions, but did you know that the new auto enrolment initiative covers businesses of all sizes and in every business sector? This means that if you employ even one individual on your farm, then Workplace Pensions will affect you.

Under the new legislation each business will be provided with a staging date, by which they must be ready to provide all qualifying employees with a pension at work.

Though this date could be as late as 2017, for those who employ less than 49 staff, it could also be as soon as August 2015, so it is essential to start planning and budgeting for the changes now.

Under the new regime each employer is required to provide a pension scheme to which all qualifying employees must be registered. The employer must also make contributions into the scheme, equivalent to a fixed percentage of each individual's annual income. Initially, employer contributions have been set at a minimum of 1% of qualifying earnings but this level will progressively rise until 3% is reached in October 2018. These are minimum levels.

All eligible employees will also be required to pay into the scheme and appropriate measures must be made to ensure that contributions can be deducted through payroll and paid over to the pension provider. The initial employee contribution is set at a similar 1% of qualifying earnings, but this will rise to 5% by 2018.

Any individual who ordinarily carries out work for you in the UK, is not currently paying into

a pension scheme and meets the minimum age and earnings requirements is considered to qualify for auto enrolment. Currently these conditions specify that qualifying employees are between 22 years old and state pension age and earning more than £10,000 per year.

So, how will your business prepare for Auto Enrolment?

The key to being able to implement the new legislation is to prepare in plenty of time. Here are the key stages:

1. Confirm your Staging Date

It is essential to understand exactly when your auto enrolment deadline will be. If you are not aware of the exact date for your business, consult the Department of Work and Pensions website which will be able to provide you with the latest information.

2. Assess your Staff

Though your workforce will be formally assessed on your staging date, it is a good idea to carry out a preliminary investigation as soon as you can.

3. Choose the appropriate 'Qualifying Scheme'

As an employer you are responsible for choosing a pension scheme that will provide retirement benefits for your employees. This is an incredible responsibility and can take a lot of thought and consideration.

For those businesses that already have a pension scheme in place, now is the time to assess the product offered and ensure it meets the minimum standards of the new legislation or if you have to choose an alternative.

4. Talk to your Staff

Though this can be stressful and confusing, it is also a very difficult subject for many employees to understand. Give them as much information as you can and keep them up to date with the changes you are making.

5. Get help

The most important step of all is to know that you are not alone. We can advise you on all aspects of preparing your business for auto enrolment, so that when the time comes you will be ready.

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