AGRICULTURAL TAX TIPS
JULY / AUGUST 2015

HARVEST WORKERS AND CASUAL BEATERS

H M Revenue and Customs (HMRC) have issued useful guidance for those employers who pay casual employees working outdoors harvesting perishable crops, or as casual beaters for a shoot.

The guidance outlines the specific circumstances which must apply in order for these employees to be paid without the deduction of tax. The guidance also stresses that their pay is still taxable income and these employees must ensure that any tax due is paid.

Monthly penalties (of between £100 and £400 depending on the size of the employer) now apply to broadly all employers who fail to submit necessary information to HMRC via the Full Payment Submission (FPS) on or before the time wages are paid to employees. It is therefore important that the rules are complied with and returns are submitted on a timely basis.

Please contact us if you would like help with payroll issues.

Internet link: https://www.gov.uk/paying-harvest-casuals-and-casual-beaters

CASH IS KING

Cash is often described as the life blood of businesses – agricultural businesses are no different. Without a proper understanding and management of cash, many businesses can simply fail. The impact of sometimes predictable trading events can have huge consequences for cash. With the appropriate use of budgets and cashflow forecasting, disasters can often be seen in advance and potentially averted.

For some manufacturing businesses, the working cashflow can be small, as raw materials purchased are quickly manufactured into ‘widgets’, sold at a profit and the debt paid,

all ready for the cycle to start over again. However, agriculture works generally on much longer production cycles – sometimes over several seasons. For example, a farmer rearing dairy heifer calves for future milk production will see two, or more likely three, years of growing costs before the first litre of milk can be sold from that animal. Across a large dairy herd, with a high replacement rate, this additional working capital requirement can be considerable. If not managed correctly, a shortage of available cash can be extremely damaging, or in some cases catastrophic.

Businesses invariably fail due to lack of cash, not necessarily due to lack of profitable trading. Banks will often examine the liquidity seen within a business during their credit assessment. This measures how far current assets (stock, debtors, work in progress) cover current liabilities (creditors, short term finance etc). Businesses that are not able to quickly cover their creditors are therefore more exposed than a business with strong liquidity. Debtor management and collection is equally important to avoid running short of cash. This is often not regarded as a high priority in many agricultural businesses. Animals sold via either deadweight or liveweight are usually paid quickly. Milk sold is paid the following month, and any grain sold off farm is usually paid fairly promptly. However, increasingly we see agricultural producers selling direct to the larger retail establishments who are seeking extended payment terms. When a supermarket extends its terms of business, by say only a couple of days, this has a hugely beneficial impact on its own cashflow – but to the detriment of its farmer suppliers' cashflow.

Successful businesses understand cash, often preparing budgets and forecasts to model how they anticipate the movement of cash over a given period. Budget results can lead to changes in strategy thus ensuring the working capital requirements of the business are maintained within agreed facilities. Or, if the expansion of the business requires extra facilities, this can be negotiated with the bank ahead of any potential breaches in limits. A discussion in advance will always provoke a more receptive bank discussion than one just after a facility breach!

Businesses now have a plethora of tools at their disposal to assist their understanding of cashflow. As well as easy-to-use software packages, a business can draw on the support and advice available from bank managers, business consultants and accountants who are all geared to assist. Generally businesses that prepare and monitor budgets, and talk with their professional advisers are better placed to adapt and survive.

Second payments on account are due by 31 July for tax on income arising in the tax year ended 5 April 2015. Given the current fall in profits it is important to review whether these payments are still due in full. Claims to reduce payments on account can be made if income is expected to be lower than 2013/14.

ACCOMMODATION BENEFIT IN KIND

A benefit in kind (BIK) that is common to certain industries, particularly agriculture, is employer provided accommodation. Tied cottages have historically been provided to agricultural workers and have not attracted a BIK.

However, to ensure such accommodation meets the relevant conditions and therefore does not attract a tax charge one of the following must apply:

1. The accommodation must be provided for the proper performance of the employee's duties and the provision of the accommodation is to enable the employee to better perform those duties
2. The provision of the accommodation is customary, as in agriculture
3. There is a threat to the employee's security

An agricultural worker would meet condition 2 but this does not apply to the director of a company. With long standing farming companies, the BIK could be a very modest sum. This is because it is based on what the company paid to acquire the property. If the cost of acquisition was less than £75k the BIK value will be equal to the gross rateable value (GRV) in 1973.

If however, a partnership has recently incorporated and the property is now in the company, the value for BIK purposes will be the value of the property at the date of incorporation. Therefore the likelihood is it is now worth more than £75k so the BIK will be calculated using the HMRC official rate of interest (currently 3.25%) multiplied by the value of the house, less £75, plus the GRV. This could result in a large annual tax bill for the company director.

In addition where a property cost less than £75k but the company then improves or extends it, this cost must be added to the original cost. If the total cost exceeds £75k, the higher BIK calculation detailed above applies.

In most cases it is likely that the house is kept outside the company to avoid the higher BIK cost.

All has been clear for many years, however the Office for Tax Simplification is looking at changing the exemptions to more precisely focus on whether the worker has to live on site, whether they regularly work long hours and whether the accommodation is needed because of regulatory requirements.

Therefore there has never been a better time to review workers' contracts of employment and the provision of accommodation.

UNEQUAL OWNERSHIP OF JOINT PROPERTY

By default, other than shares in a close company, HMRC always treat joint ownership of property by married couples as a 50:50 split. This means each spouse is liable to income tax on 50% of the net income from the property each year. This is the case regardless of the underlying ownership split.

There is an election that married couples can make to HMRC so that the income is taxed on the actual ownership proportions, however this must be made within strict time limits. If no election is made, then each individual will be liable to tax on 50% of the net income.

For example, where a farm cottage is owned by a husband and wife, if there is no election in place they will be taxed on any rental profits in equal proportions. However, if the husband is a higher rate taxpayer and the wife is only a basic rate taxpayer it would make sense for the profits to be taxed mainly on the wife to use her basic rate band. They could draw up a declaration of trust to show that the beneficial ownership of the property is 1% to the husband and 99% to the wife. Provided they then make an election to HMRC and submit it within 60 days, this will be effective for tax purposes meaning the husband will only be taxed on 1% of the profits and the wife will be taxed on the remaining 99%.

A consequence of splitting the beneficial ownership is that the property is now owned as 'tenants in common' (not 'joint tenancy'). Therefore, on the death of one spouse, the other spouse does not automatically inherit the deceased's spouse's share of the property, in which case their will needs to deal with how their share in the property is left. For capital gains tax purposes the gain on disposal of the property will be taxed in the proportions of actual ownership.

Sam Kirkham, Partner

Sam is a Partner within our agricultural team. A chartered certified accountant and chartered tax advisor, Sam specialises in tax planning for estates and agricultural and bloodstock businesses particularly business structures and capital taxes including capital gains and inheritance tax. She also advises high net worth individuals and investors on land and property transactions.

Tel: 01823 286096 E: sam.kirkham@albertgoodman.co.uk