The devil is in the detail

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Welcome again to our Whiting & Partners Farming Group Newsletter.

The devil is in the detail. In this issue we go behind the initials; ATED, AIA and R&D. All are considered with opportunities and threats highlighted.

Last issue's article addressing tax and woodlands attracted a great deal of interest so it's being followed up with a guest article looking at woodland opportunities-thanks to Justin Mumford, MD of Lockhart Garratt.

We boast the further success of our clients in the county council farm tenancy application game and give some thought as to how benefits can be drawn from farm accounts software

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2016 Diary Date

Tuesday, April 12, 2016 at The Maltings in Ely is the date for our annual seminar which brings together farmers, agricultural advisers and other professionals with links to the sector. Once again farm business consultants, Andersons, will be offering their views on the state of British agriculture and challenges facing the industry.

Whiting & Partners
Chartered Accountants & Business Advisers

Accounting for your Success

Water, Water, Every Where....

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The British climate has always been unpredictable, global climate change threatens to have a profound effect on our region with more extreme weather events becoming more frequent.

Long term statistics indicate that East Anglia's rainfall is fairly evenly spread throughout the year but the reality is that management of water resources is becoming ever more important for many farmers, especially those growing crops which require irrigation to ensure maximum yields.

As with most aspects of the tax system, the reliefs available for expenditure on water-related capital expenditure are complex. Since the demise of Agricultural Buildings Allowances in 2011, they range from nil to 100%!

For example, there is generally no tax relief for the construction of a reservoir or borehole, or for the installation of new field drainage works or flood defences. However, water tanks are classified as 'plant' or 'equipment', as are fishponds, interestingly, and therefore qualify for capital allowances. A reservoir may also qualify where it forms part of a water treatment system.

Expenditure on irrigation equipment qualifies for capital allowances, as do cold water systems; water heating systems, washbasins, sinks and toilets, installed in a building used for the business.

Qualifying expenditure within the Annual Investment Allowance - £200,000 a year from January 1 2016 - gets a 100% deduction from profit. Excess expenditure is eligible for the annual writing down allowance of 18% or 8% depending on the type of expenditure involved.

A separate 100% capital allowance is available for 'environmentally beneficial plant and machinery' listed on the water technology product list published by DEFRA and found at: www.hmrc.gov.uk/capital-allowances/fya/water.htm

This is aimed at saving water, harvesting rainwater and wastewater recycling products designed to reduce water use and thereby benefit the environment.

Conclusion: Both the weather and the tax systems may bring unexpected surprises, both good and bad, but planning ahead will ensure farmers do not see their hard-earned cash disappear down the drain.

Is Your Woodland Commercial?

As timber is a versatile material varying hugely from tree to tree markets tend to be plentiful and diverse but also complex. Softwoods and hardwoods are treated separately with the softwood market the bigger of the two and In East Anglia both are important.

Fashionable modern log-burners have driven a rise in prices for firewood. Now a major market for neglected woodland, there is a good return for lower quality material usually found on these sites.

Better quality larger hardwood trees can be sold into the milling market which is both cyclical and prone to trends. Currently the need for dark hardwoods like Oak and Sweet Chestnut is strong. White wood sales have mirrored the drop in demand for furniture made from them.

Grants under Countryside Stewardship offer opportunities for woodland management and infrastructure improvement. Schemes launched last year include a new Woodland Creation grant offering up to £8800 per ha. Annual grants are available for good woodland management practices.

Is your woodland commercial? That is the simple question you must ask yourself because tax planning comes into play.

If your woodland is standing idle without either selling or management as part of a long-term plan, it is likely to be classified as 'amenity' and you will miss out on many of the available tax benefits. This could apply to large and small woodlands where the gate was shut years ago when timber prices were poor.

HMRC's vague definition of 'commercial' is commonly interpreted as applying to woodland 'aiming to realise a profit either now or at some time in the future'. Obviously this involves selling timber, firewood or woodland products.

Keeping a woodland profit and loss account is imperative.

If the realisation of profit is still some way off, a clear set of management objectives is essential. This should include the production of timber or timber products as part of a management plan that, ideally, has Forestry Commission approval.

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Farming Software

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Farming has its own unique factors which make the use specialist farming software a must in today's world. Nearly all farmers will be familiar with the application GateKeeper as a field and crop management tool. They will also be using it to analyse the performance of their cropping enterprise as well as assisting compliance with red tape.

Often it will be possible to link this software to accounting software, an example is Farmplan with which GateKeeper links. It helps to streamline the inputting of data and improve the value of the information your accounting system produces. Farming software is built not just for financial accounts but also to produce harvest year accounts showing gross margins, to track repairs and costs of a particular asset and to assist in dealing with contra entries.

We have wide knowledge of farming software including, Farmplan, Landmark and Sum-it to name three. We have staff members trained in the use of these and other packages and increasingly our emphasis is to work in 'real time' with our clients using their chosen computer package. We provide them with the management information they need, so decisions can be made more effectively.

By sharing access to the systems we can also more easily assist clients with their bookkeeping either on their premises or in our offices.

Tenancy Successes

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In our last newsletter I was pleased to be able to report that three of our clients had successfully applied for county council holdings in Norfolk and Cambridgeshire.

At the time, a fourth application was pending and I am delighted to write that this application was also successful.

As with one of the previous clients, this was the first tenancy application by our client, as a new entrant and, again, I was involved in preparing the three year projections and cash flow forecasts.

This tenant is the third generation of the family for whom Whiting & Partners have acted and I was pleased also to have assisted the client's brother in a successful application for a similar tenancy some four years ago.

AIA Changes

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Since 2008, most businesses irrespective of size, have been able to claim a 100% allowance on all their qualifying plant or machinery expenditure

- including integral features but excluding cars
- up to a specified annual maximum.

This gives a deduction of 100% of the cost of items up to the Annual Investment Allowance (AIA) limit against taxable business profits.

At present, the annual limit stands at £500,000 but this is being reduced to £200,000 from January 1, 2016.

If your business has a December 31 year-end this should not create too many issues but for other year-ends there are transitional rules.

Here's one example:

Farmer Bloggs has a March 31, 2016 year-end. If he spends £300,000 on qualifying plant and equipment on December 1, 2015 – all is covered by the AIA and the tax saving is £60,000.

BUT if Farmer Bloggs spends £300,000 on qualifying plant an equipment on January 1, 2016, the transitional rules come into play and the immediate tax saving is only £19,000

Delaying the expenditure by 1 month has cost £41,000 in current Corporation Tax.

Timing of capital expenditure is therefore crucial and well worth talking to us about.

R&D Tax Relief

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Farmers, traditionally great entrepreneurs constantly looking to increase profits by developing new ways of doing things, could be eligible for R&D tax relief even if they fail to resolve the problem they are trying to overcome.

This relief gives companies an additional deduction from profits of 130% for eligible expenditure on a qualifying R&D project, so for every £1,000 spent, the deduction from profit for tax relief purposes is £2,300. The relief is designed to encourage businesses to innovate and create new products or processes that make a scientific or technical advance.

Examples of eligible projects could include:

- experimenting with planting patterns to increase disease or drought resistance
- introducing or increasing automation of harvesting, grading, cleaning and packaging of produce to increase productivity
- developing new ways of saving water or energy
- creating new storage techniques to extend the life of fresh produce

Eligible expenditure includes employment costs - including national insurance and pension contributions - for directors and employees involved in R&D work, together with expenditure on consumable items used in the course of the project.

Our experience shows that farmers are experts at finding ways of adding to the bottom line so if you think you have a project which may come within the definition of R&D, don't hesitate to give us a call - we have a proven track record of helping clients to make successful claims saving tens of thousands of pounds in some cases.

Hidden Tax - No Joke

The Annual Tax on Enveloped Dwelling (ATED) is a tax applied to houses, including farmhouses, that are owned by either a company or a partnership with a company as one of the partners. Introduced in 2013, it has largely been off the radar as it originally applied only to properties valued at £2m plus.

However, the limit was reduced on April 1, 2015, to properties of £1m plus and is being further cut to net properties valued at £500,000 plus from April 1 next year.

In each case the valuation is as at April 1, 2012 or cost at later acquisition.

The annual tax charge applied is as follows:-

Property Valuation	
From 01/04/2016	Annual tax Charge
£500K - £1M	£3,500
£1M - £2M	£7,000
£2M - £5M	£23,350

Fortunately reliefs are available.

If the property qualifies as a 'farmhouse' the annual tax charge can be reduced to £nil although the return claiming the relief still has to be submitted to HMRC. There are penalties similar to those applied to self- assessment tax returns for late ATED returns.

Accounting for your success throughout East Anglia

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