LARKING GOWEN
CHARTERED ACCOUNTANTS

Farmlines Newsletter

Summer 2010

Forthcoming events

Our agricultural team will be holding two major events in the near future. In the south of the region, we will be holding an agricultural "questions and answers" forum in the autumn. In the north/central area, we will be holding a joint seminar in February with local solicitors and land agents to consider the impact of this year's Budget, the harvest outturn for 2010 and tax planning opportunities for the future. Exact dates and venues for these events have not yet been finalised, however if you would like to receive further details, please email hollie.gould@larking-gowen.co.uk.

Seminars and meetings are a very cost effective way of advising clients as well as being something of a social event and we are always delighted to see old friends and familiar faces at these meetings. However there is no such thing as a free lunch (or indeed a free seminar!) and we also like to encourage non-clients to attend these functions so they can "see us in action". If you are aware of any friends or neighbours who are not currently clients of Larking Gowen, and perhaps are not entirely happy with the advice or service they are receiving from their existing accountant, we would be very happy for you to bring such individuals along as your guests. We will put the names of those bringing guests into a "champagne draw" and the winner (and his or her guest) will each receive a bottle of bubbly.

www.larking-gowen.co.uk

Budget 2010 – turning the clock back

Now that the dust has settled on the new coalition Government, we have had time to consider some of the practical implications of their first Budget.

VAT

The smallest surprise in the Budget was the increase in VAT from 17.5% to 20%. This had been well shadowed previously; you will recall that no politicians specifically denied that they were intending to raise VAT, although they were at pains to say that they would not extend the scope to food and children's clothing. Consequently, on 4 January 2011, the VAT rate will rise to 20% and this will affect all of us to a greater or lesser extent. In most businesses, the VAT will be recoverable through the farm in the usual way. However, if you are looking to incur significant expense on an item which is subject to VAT but where the VAT is not recoverable (typically private expenditure) it makes sense to make that purchase before the rate rises. If you are looking at something such as building work which might straddle the date of the VAT change, it should be possible for the builder to split his bill into the two relevant periods.

Capital Gains Tax (CGT)

The Chancellor also announced significant changes to capital gains tax rules. There have been many major changes to this tax over the last thirty years or so, and this one takes us back, in many respects, to the "rules before last".

The Budget speech implied that in future, basic rate taxpayers will pay CGT at 18% and higher rate taxpayers will pay at 28%. The fine print shows it is not quite that straightforward; after deducting the annual exempt amount of £10,100, all capital gains are simply added on to other income and ☛

if that figure exceeds the higher rate threshold, the CGT is charged at 28%. This could mean, for example, that someone with very little income and a one-off capital gain would pay 28% on most of that gain.

CGT is, however, one of the taxes that can sometimes be mitigated by forward planning. The rules can be very complicated, particularly regarding property and if you anticipate a capital gain, you ought to consult an accountant as far as possible in advance of the gain crystallising.

Capital Allowances

Major changes were also announced to capital allowances although these will not take effect until 2012. The annual investment allowance (AIA) currently stands at £100,000 and for most (but not all) businesses this is the amount on which 100% relief is given on capital expenditure. From 2012 the AIA will be cut to £25,000. Many farming businesses will have annual capital expenditure budgets well in excess of the reduced amount and, therefore, it would make sense to review such budgets most carefully with a view to bringing expenditure into the £100,000 regime wherever possible. Again, the position is not completely straightforward, particularly where the accounting period ends on a date other than 31 March or 5 April. However, since there is a reasonable window of opportunity, it should be possible to formulate a strategy for maximising relief in good time.

Holiday Lettings

The Chancellor also announced that there would be changes to the previous proposed legislation on furnished holiday lettings and pension schemes, both of which had been earmarked for extensive reform under the previous regime.

For many years, property which qualified as a furnished holiday letting has enjoyed an advantageous tax status. Provided the property meets conditions relating to the number of weeks it is available for let and the number of weeks it is actually let, income from such property is treated as "earned" for tax purposes and the property itself is treated as a business asset for capital gains tax, both of which tend to be advantageous to the taxpayer. The Chancellor announced in the Emergency Budget that this treatment would be extended up to 5 April 2011.

Consultation documents released on 27th July propose significant changes. Firstly, from 2011/12 it is suggested that a qualifying holiday letting will need to be available for letting for at least 210 days in the year and actually let for at least 105 days. This represents a 50% increase on the previous limits and is clearly intended to distinguish a genuine letting business from those holiday cottages which are let on an occasional basis. Secondly, the availability of any loss relief is to be restricted so that it can only be carried forward against future income from the same letting business. In this respect, lettings within the UK are differentiated from those in the EEA, so that it is not possible to offset losses between these two categories. Potentially the restriction of losses could give rise to problems where a larger farm business includes a heavily geared property enterprise. It is important to ensure that borrowing costs are properly allocated where such ventures are under consideration.

Pensions

A further consultation paper discusses the future treatment of pension contributions. Reliefs for these have already been restricted with effect from 5 April 2009 and the existing restrictions will continue up to 5 April 2011. Thereafter, the Government is suggesting that there will be a flat limit on allowable pension contributions, which will not vary according to age or tax rate, likely to be in the range of £30-£45,000. There will be an overall cap on the size of a pension fund and there are some very complex proposals for the way contributions into a final salary scheme will be treated. There are also proposals to relax the restrictions relating to the withdrawals from a pension fund at the age of 75.

Sugar

Finally, and whilst on the subject of technical issues, you will be aware that British Sugar has announced a major reorganisation of contract tonnage entitlements (quotas) for harvest 2011 and thereafter. The tax treatment of this will follow the precedents established in previous reorganisations. Those who sell quota or lease it out will be subject to income tax in full on the proceeds in the year of sale. Those who lease it in will be able to claim a trading deduction (although it is important to match the deduction to the harvest year rather than to the date of payment).

Where quota is purchased outright, it will be important to establish an appropriate amortisation rate to write off the cost of the quota over its useful life. This is essentially an accountancy issue rather than a taxation issue and Larking Gowen has considerable experience in agreeing appropriate amortisation rates.

Welcome to the team

We are very pleased that **David Hodgetts** and **Lionel Denny**, both of whom were formerly with Barclays Bank, have joined Larking Gowen as agricultural consultants. Their knowledge of farming and agricultural finance can only help to strengthen the agricultural team at Larking Gowen. **David Hitcham** joined the firm last year on a similar basis and each of these three individuals brings a wealth of agricultural and banking experience to the firm.

David Hodgetts

Lionel Denny

David Hitcham