Agriculture newsletter

Spring 2018

Welcome

Welcome to the spring edition of PEM's Agricultural Newsletter. Warmer days should be on their way providing the beast from the east doesn't show up again.

Looking forwards, we are hoping for a period of some certainty as Michael Gove has stated that farming subsidies will be protected at the current EU level until 2022. However there is still a great deal of change on the horizon both in terms of the tax legislation and the series of changes announced by the RPA.

In this newsletter we have highlighted some of the new rules and how they may affect you and your business.

There may be times when you have to let an employee go, this can be due to various reasons and in some circumstances you may want to make a termination payment to the employee. The tax payable by the employee on the termination payment may well increase from 6 April 2018; our article explains how these new rules work.

Katie Hilton from Cheffins has kindly written an article for us on rural funding streams explaining some of the recent changes; Katie will be willing to discuss any queries you may have on the points she raises.

All farming businesses are likely to be within Making Tax Digital (MTD) for VAT purposes from April 2019. Our article explains some of the basics so that you can start to ensure your business will be MTD ready.

Finally we have included some details on a new Stamp Duty Land Tax (SDLT) relief. Our article aims to help you understand how this relief can reduce the potential SDLT on the purchase of a first home.

We hope you will find the newsletter of use to you; if you would like to discuss any of the articles in further detail please don't hesitate to call your usual contact at PEM.

Contents

Nicola Anderson - Partner, Private Clients

Termination can be taxing

Breaking up is hard to do and, when it comes to letting an employee go, the process can also be costly when one incorporates a termination payment.

Historically, there has been a misconception that the first £30,000 of any payment made to an employee on termination of employment is always exempt from income tax and National Insurance Contributions (NIC's). Whilst the exemption does apply in many cases, this is only the position if the payment cannot be taxed elsewhere, for example, because it is not contractual, customary nor capable of being treated as a payment made on retirement.

Unfortunately, the Government is of the view that the current rules are too complex and, perhaps more importantly, capable of manipulation to minimise the income tax and NIC's due on a termination payment particularly where payments in lieu of notice (PILON's) are made, the taxation of which is generally dependent on whether the employer is contractually obliged to make such payment.

With the intention of creating fairness in the tax system, a significant change takes place on 6 April 2018. From this date, for any payment made on termination of employment, income tax and NIC's will be due on an amount equal to an employee's basic pay (adjusted to add-back salary sacrifice amounts) had the employee worked their full notice period after the date of termination even if there is no contractual obligation for the employer to make such a PILON.

As the following illustration demonstrates, the increase in income tax and NIC's as a consequence of the new rules will be significant in many cases and will turn a payment that is not taxable under the rules as they stand in the current 2017/18 tax year to something that is taxable going forward. Such rules, introduced for "fairness", are expected to raise additional revenue for the exchequer of £420 million in 2018/19 and thereafter.

Illustration

A basic rate taxpayer with a salary of £25,000 and 3-month notice period is made redundant after four years of service. There is no requirement in the employee's contract for the employer to make a PILON on termination. The total payment received on termination, over and above the employee's contractual pay, is £11,920, comprising a redundancy payment of £1,920 and a compensation payment of £10,000.

	To 5 April 2018	From 6 April 2018
Taxable payment		
Basic pay due had employee worked full notice period (3/12 * £25,000)	N/A	£6,250
Payments made without deduction of tax/NIC		
Statutory Redundancy Pay	£1,920	£1,920
Compensation payment	£10,000	£3,750
Total payment	**£11,920**	**£11,920**

On the assumption that the employee is a basic rate taxpayer, the total income tax and Class 1 NIC due under the new rules will be £2,000 as compared with £0 under the current regime.

Further changes will take effect on 6 April 2019, with the introduction of an Employers' NIC liability on any amount of an ex-gratia termination payment that exceeds the £30,000 threshold.

The new rules are complicated and we would recommend advice is sought before any termination payment is made to ensure that the correct amount of tax and NIC may be deducted.

Rural funding streams provide business boost for farmers

The RPA has announced a series of changes to the BPS greening requirements for 2018 which could impact on cropping decisions.

The 'three crop rule' continues unchanged but the most significant change is the complete ban on the use of plant protection products (PPPs) and seed dressings on Ecological Focus Areas (EFAs) which includes catch and cover crops. This applies to the whole period during which the crop is in the ground or the area is fallow, even if it was sown before 1st January 2018. Legume crops can no longer be counted towards EFA and losing the ability to grow a commercially viable crop of peas or beans to fulfil EFAs will require claimants to think a bit harder about what to grow. Make the most of hedgerows and buffer strips before turning to fallow land and catch and cover crops as these can offer numerous agronomic benefits and, with its short EFA window, will not require additional land to be taken out of production.

The EFA buffer strips option has been extended in definition to include field margins. Whilst buffer strips are found next to watercourses, field margins are defined as 'uncultivated margins around the perimeter of fields against the permanent parcel boundary or surrounding internal landscape features within the land parcel'. Permanent boundaries include fixed fences, hedgerows, lines of trees, woodlands, roads and tracks. Farmers can claim for these uncultivated margins under the EFA buffer strip/field margin option, and the same area can be used to meet the greening and cross compliance rules. These features are measured in linear form, not by width, so any additional width after the first 1 metre would not count.

The payment system for Countryside Stewardship Schemes (CSS) has been updated too. For those with CSS agreements in place, payments are being split into two tranches. All claimants will now receive 75 per cent of the annual grant as a first, or 'advance'

payment, with the remaining 25 per cent as a final payment. The first part ought to be received by the end of December in the claim year, the second part will be received at the end of June the following year. The annual claim submission deadline of 15th May remains the same.

A new CSS funding round was launched in January for Mid-Tier and the scheme has been widened out to accommodate a range of four 'simplified offers' in packages specific to arable, mixed farming, lowland grazing and upland farmers; well worth a look for those farms currently without any form of agri-environment funding and the Mid-Tier and Higher-Tier schemes are still available too. Application packs must be obtained from Natural England by 31st May with an overall application deadline this year of 31st July.

Applications in 2017 to both Mid-Tier and Higher-Tier CSS increased on the previous year, with the following options proving most popular in the Eastern counties: Basic overwinter stubble (£84/ha), winter bird food (£640/ha), management of hedgerows (£16/100m both sides) and 4-6 metre buffer strips on cultivated land (£353/ha).

The RDPE Countryside Productivity Small Grant Scheme opened for applications in February-March to provide funding for farmers to purchase equipment to improve the productivity of their farm. The scheme uses an online application process and it targets investment for specific pieces of agricultural equipment. Other application windows for this Small Grant funding stream are expected to open as the year progresses. Large grants under Countryside Productivity include Water Resource Management, Improving Farm Productivity, Adding Value to Agri-food and Improving Forestry Productivity.

The RDPE Growth Programme may also be worth considering, with grant funding available in limited parts of the region under three main headings of Business Development, Food Processing and Rural Tourism Infrastructure.

LEADER funding is still available across the region with priority given to projects that help create jobs, help businesses to grow and diversify and benefit the rural economy. LEADER forms part of the Rural Development Programme for England (RDPE), with money from the programme given to Local Action Groups so that grants can be assessed and awarded at a local level.

Grants available are generally set at a maximum of 40 per cent of eligible project costs and can range from £2,500 upwards. Grants that have already been awarded are diverse and wide-ranging.

Katie Hilton
Associate, Cheffins
t. 01223 271959
e. katie.hilton@cheffins.co.uk

Making Tax Digital

In 2015, the Government announced fundamental changes to the administration of the tax system. The Making Tax Digital (MTD) initiative will ultimately see quarterly updating of digital records for all taxpayers in moves that are intended to make tax administration more effective.

The original timeline for MTD envisaged the self-employed and some landlords transferring to the digital system from April 2018. However, concerns about the scope and pace of the reforms meant that MTD will now not come into effect for personal tax or corporation tax until April 2020 at the earliest.

The plans for digital VAT accounting, however, continue unabated. All businesses with taxable income over the compulsory VAT registration threshold of £85,000 will be required to be MTD compliant for their VAT accounting from 1 April 2019. Businesses that are voluntarily registered can continue with their current VAT arrangements if they choose.

What does MTD involve?

Businesses within the scope of MTD must use functional compatible software to digitally maintain the mandatory VAT records, calculate their VAT returns and submit these returns to HMRC via an Application Programme Interface.

Whilst most accounting software is expected to be MTD compliant by 2019, the new regime does mean that businesses will have no choice but to use compliant software throughout the year to keep their accounts. The days of keeping records on spreadsheets and submitting VAT returns manually will be behind us.

Which records must be kept digitally?

For each supply, a business must record:

- The time of supply
- The value of the supply
- The rate of VAT charged

For purchases, a business must record:

- The time of the supply
- The value of the supply including any VAT that is not claimable by you
- The amount of input tax that you will claim

The VAT account – essentially the audit trail between the business records and the VAT return – must also be kept digitally. This information will be used by your software to calculate and complete your VAT return.

What if I make routine adjustments before submitting my VAT return?

This is where MTD begins to get a little less straightforward as many farmers will have to make adjustments before manually submitting returns.

For example:

Many farmers have exempt income streams such as domestic rents. This means that they are partially exempt for VAT purposes and need to complete an annual calculation to determine how much VAT they are able to recover. How can a business comply with its requirement to hold real time digital records of the amount of input tax that it will claim on an expense when this calculation will not be performed until the end of the year?

Farmers often incur VAT on expenditure that has both private and business use. An obvious example of such costs would be expenditure on the farmhouse. What digital records are required to preserve the link between the VAT shown on the invoices and the VAT recovered on the VAT return?

The good news is that HMRC has indicated that it will rein back the strict legislative requirements and allow all these adjustments to be calculated outside of the MTD compliant software. The totals can then be entered into the software through a manual journal.

What next?

Most farmers will need to review their software and/or their VAT procedures to ensure that they are MTD compliant. PEM can help you plan for the transition and ensure that you are fully prepared for the new digital regime.

SDLT – relief for first time buyers

The younger generation are finding it increasingly difficult to get on the property ladder so the announcement in the 2017 Budget of a new Stamp Duty Land Tax (SDLT) relief for first time buyers was widely welcomed. However, there are some traps for parents looking to help their children acquire their first home.

What is the relief worth?

The relief extends the nil rate band so that no SDLT will be due if the purchase price is £300,000 or less. If the purchase price is between £300,000 and £500,000, SDLT will be payable at 5% on the excess over £300,000. This generates a £5,000 saving compared to the normal SDLT rates.

For purchases above £500,000 there is no relief.

Who can qualify?

In order to benefit from the relief, the purchaser (and also any joint purchasers) must be first time buyers. To be classed as a first time buyer, the individual must not have previously acquired a major interest in a dwelling anywhere in the world. A ‘major interest’ is a freehold interest or a leasehold interest granted for a term exceeding 21 years.

Paradoxically, an individual does not need to have bought a property in order to rule themselves out as a first time buyer. A property – or a share of a property - acquired by inheritance or gift will also mean that the recipient is not eligible for the relief. Therefore, parents that put their children on the deeds of the family home, or who buy their children a property to live in for the duration that they are at university, will prevent their children from benefitting from the first time buyers’ relief in the future.

All purchasers must be first time buyers in order for relief to be available. The relief is unlikely to be claimable if a parent agrees to be on the deeds of the child’s house in order to help them secure a mortgage.

A beneficiary of a Trust is not generally deemed to have a major interest in any property owned by the Trust. However, a nasty quirk of the interaction between the first time buyers’ relief and the 3% SDLT surcharge on additional dwellings does mean that the beneficiary of an interest in possession trust will not qualify as a first time buyer.

What does it apply to?

The relief can be claimed for purchases completing on or after 22 November 2017, where the purchaser(s) is a first time buyer acquiring their first home. Relief is not available if a first time buyer is acquiring an investment property.

The subject matter of the purchase must be a single dwelling. The ‘granny annexe’ relief that applies to the SDLT surcharge for additional dwellings has not been mirrored in the first time buyers’ relief.

This means that the purchase of a property that can function as two separate dwellings will not qualify.

The relief can be valuable but will not apply to all those buying their first home. For more information, please contact your usual PEM advisor.

About us

Our experienced Agriculture team offers expert advice and support for all areas of accountancy and taxation to suit your specific needs. Please meet the Agriculture team who will be happy to talk to you about any issues you may have.

For further advice, information or to feed back please do not hesitate to contact Nicola Anderson on 01223 728261 or email nanderson@pem.co.uk

Nicola Anderson
Partner, Private Clients
01223 728261
nanderson@pem.co.uk

Daren Peacock
Partner, Private Clients
01223 728220
dpeacock@pem.co.uk

Sarah Davis
Assistant Director, VAT
01223 728300
sdavis@pem.co.uk

Stephen Peak
Partner, Audit
01223 728244
speak@pem.co.uk

Gordon Plumb
Head of Agriculture
01223 728266
gplumb@pem.co.uk

Graham Newman
Senior Manager
01223 728243
gnewman@pem.co.uk

Evie Olley
Manager
01223 728321
eolley@pem.co.uk

Douglas Myers
ACA Trainee
01223 728265
dmyers@pem.co.uk

PEM
Salisbury House
Station Road
Cambridge CB1 2LA

t. 01223 728222
e. pem@pem.co.uk

pem.co.uk

KRESTON
A member of Kreston International | A global network of independent accounting firms