

Talking Tax...

Farmers can benefit from tax changes

The tax scene continually varies and some of the recent changes may benefit farmers.

Capital Allowances

Perhaps the greatest change has been the introduction in April 2008 of a new code of Capital Allowances (depreciation allowance) on plant and machinery.

There is an Annual Investment Allowance whereby there is a 100% tax deduction for the first £50,000 spent on plant and machinery in an accounting year. Thereafter, a business will get 20% of the balance over this amount each year. Therefore businesses spending more than approximately £130,000 in a year will be initially worse off. Under the new code it is essential to properly plan expenditure to maximise the relief. Remember if you do not use the £50,000 allowance in any one year it will be lost. It is a use it or lose it position.

Obviously it is vital to correctly classify structures such as dairy cubicles, slurry store and grain dryers as plant rather than agricultural buildings or fixture and fittings. The measly 4% annual allowance for agricultural buildings is being phased and will be covered in a later paragraph. It is also important to correctly identify any repair element in part of major projects as a repair ranks full relief.

One important point to watch is that in the case of funding plant under a hire purchase agreement the item of equipment must be brought into use in the business before the relevant year end to obtain relief that year.

There is 100% relief on environmentally beneficial plant and machinery which does need to meet very strict criteria. This 100% relief in relation to such items is in addition to the Annual Investment Allowance previously referred to, therefore, it is possible to claim the normal Capital Allowances 100% on a new tractor up to the £50,000 and then also claim the 100% relief on the full costs of environmentally friendly equipment.

Agricultural Building Allowance

Agricultural Building Allowances are being phased out with no allowances being available after 6th April 2011. In the meantime the previous annual allowance of 4% is being scaled back to 3%, 2% then 1%. This will have an impact on farmers looking to erect new buildings. Consideration should be given using a Self Invested Personal Pension arrangement as a tax efficient means of funding a new agricultural building.

Capital Gains Tax

A further major change in the tax legislation last year was the introduction of a new 18% flat rate Capital Gains Tax. Indexation and Taper Relief have been abolished. This does provide a saving in the case of non business assets such as Buy to Let properties which could have been subject to 40% tax previously.

As part of the change the Government introduced a new Entrepreneurs' Relief. In essence this relief takes the effective rate of Capital Gains Tax to 10% on a limit of £1,000,000 where appropriate qualifying conditions are met. However this 10% rate is precisely the same as would have been achieved under the old rules. One important point to appreciate is that the Entrepreneurs' Relief will apply to the sale of the whole of the business or part of the business but will not apply to the piecemeal sale of various assets of the business. Therefore anyone looking to sell part of the business assets will need to take professional advice.

Inheritance Tax

Over the last few years HM Revenue and Customs have won some cases on Inheritance Tax and are taking a tougher line with farmers.

Agricultural Property Relief has been denied where -

- “ A farmhouse is no longer the hub of the business and not of an appropriate size, content, layout and character when taken in conjunction with the area of land.

“Where there is “hope value” over and above the Agricultural value on say a grass let arrangement.

However in an older case from 1999 (Farmer/Giles) Business Property Relief was granted in relation to a considerable number of let cottages (where it was successfully argued that the letting activities were all part and parcel of one business). Therefore, in appropriate circumstances and with the benefit of careful planning it may be possible to use this case to your advantage

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