Ryecroft Glenton
Chartered Accountants

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Autumn/Winter 2013

Welcome

I recently attended the Northern Farming conference at Hexham—very interesting and very well attended. By far the most interesting presentations were by the five working farmers who spoke with plenty of honesty and passion. They were all very encouraging and there were common themes running through their presentations—keep up to date with technology, this can save you money, diversification either on your own or in joint ventures/contract farming arrangements, give the youth a chance—they are not as averse to risk as their parents but the risk must be managed! These messages went down well and it was pleasing to note a large number of young farmers or aspiring farmers in a very receptive audience.

I hope you will enjoy the Autumn/Winter edition of the Agricultural Journal and, of course, if you have any questions on the enclosed articles, please do not hesitate to contact a member of the team.

My best wishes to you all for the festive season.

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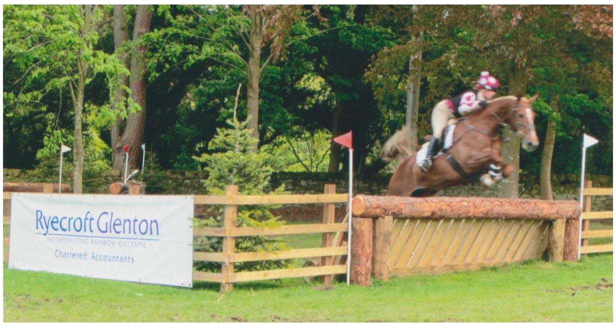
Belsay Horse Trials



The first Belsay Horse Trials were held this year in the picturesque setting of Belsay Hall/Castle and Gardens, having previously been held at the Linnels near Hexham.

Ryecroft Glenton were delighted to have supported the event as a sponsor. It was estimated that around 4,000 people attended over the weekend to watch just under 500 equestrian competitors, including Olympic silver medallist Nicola Wilson, take part in the dressage, show jumping and cross country. The event was considered to be a great success both by competitors and spectators.

Tony Glenton, Senior Partner of Ryecroft Glenton, said "We have been associated with Belsay for many years and the initiative to bring the horse trials to Belsay for the first time was something we wanted to support strongly. The setting is outstanding and the event will, I'm certain, become an increasingly important one in the horse trials calendar in the years ahead. Laura and Peter de Wesselow together with Edward Pybus are to be congratulated on an event which was beautifully organised and thoroughly enjoyed by participants and spectators in wonderful surroundings".

Deborah Graham *looks at the implications of a change in the valuation of assets for inheritance tax purposes.*

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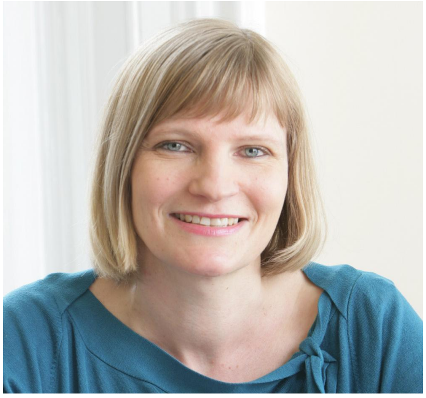

Inheritance tax and debt – important changes

As a general rule, a debt or loan reduces the inheritance tax assessable value of the asset it is secured against which, until recently, allowed an individual to structure their borrowings very sensibly and efficiently with an eye to future inheritance tax savings.

This was particularly relevant to farmers and landowners who were well advised to fund the purchase of agricultural and business assets – which themselves are often exempt from inheritance tax by virtue of the very valuable agricultural property relief and business property relief – by offering non-relievable assets, such as their own private residence or investments, as security for borrowing to fund the purchase of the already inheritance tax privileged assets.

In the following case, a farmer whose bank debt is secured against his City residence [we assume the farm is operated such that both the land and the farmhouse benefit from agricultural property relief] could sleep soundly knowing that his reckonable estate for inheritance tax purposes would be valued at £nil despite his having £2m worth of net assets.

- £2m residence in the City
- £2m of bank debt (secured against £2m City residence)
- £1m of farmland
- £1m farmhouse

However, the 2013 Budget brought with it a change in the way the value of assets are calculated for inheritance tax purposes.

The general principle of debt being deductible against the value of the asset upon which it is secured is supplemented by a new set of rules. The most significant change is that where a liability has been incurred to acquire, maintain or enhance inheritance tax privileged assets (which includes those benefitting from agricultural and/or business property relief), HMRC will require that the liability reduces the value of those IHT relievable assets regardless as to where and how it is secured.

The new rules negate the tax advantage under the previous rules and, in this example, the farmer's inheritance tax liability could potentially grow from £nil to £800k.

All new borrowing since 6 April 2013 – including overdrafts and additional borrowing taken out under pre-existing loan agreements – will be caught and the opportunity to secure borrowing in a tax efficient way has now gone. Pre-existing borrowing – that is debt in existence before 6 April 2013 – may still prove inheritance tax efficient but any refinancing or restructuring could bring the new rules into play.

Anyone in this position, even if they have taken sound advice in the past to structure borrowings efficiently, should review their arrangements as soon as possible to ensure their beneficial inheritance tax status is not lost.

Abolition of the Agricultural Wages Board

30 September 2013 marked the abolition of the Agricultural Wages Board (AWB) in England meaning negotiating pay and conditions is entering unchartered territory for many farmers and those working in the agricultural community. The AWB did not only direct the level of pay entitlement for those working in the agricultural sector but, also, various other conditions of their employment, the main ones being overtime, night work, rest breaks, annual leave, sick pay and training costs.

Employees taken on before 1 October 2013 will continue their employment under the terms laid down in the 2012 Agricultural Wages Order unless both they and you as their employer agree otherwise.

When employing new staff from 1 October 2013, their minimum wage will, broadly, be determined by the National Minimum Wage (NMW) Act, which recently increased the NMW to £6.31 per hour for those aged over 21 years. All other conditions will have to be separately negotiated with the new employee.

If you would like further information in respect of this, please let us know.

Paul Charlton *looks at contract farming and follows on from the last AJ's cash flow article with a look at budgeting.*

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Contract Farming

With farm revenues under seemingly ever increasing pressure, contract farming has become increasingly popular. Whilst most contract farming arrangements involve cropping enterprises, they have also been successfully used in dairy, beef and sheep enterprises. Although contract farming agreements have been in existence for over twenty years and have been modified to cope with the increasing volatility of both input costs and market prices, the introduction of the Single Farm Payment and Environment Payments, the concept is the same.

A farmer appoints a contractor to grow his crops for him, while, most importantly, retaining his working farmer status. The farmer provides the land and perhaps some buildings, as well as the working capital for all crop inputs. In return he receives a first call on profits, as well as a share of the divisible surplus, which is the profit remaining after deducting the contract charge and other overheads.

Contract farming agreements should be structured to allow the farmer to remain actively farming and give him the opportunity to step further back from day to day labour in order to pursue other business opportunities. They also offer an alternative to letting land under a farm business tenancy, thereby retaining very valuable Agricultural Property Relief (APR) which is available only in respect of land which is actively farmed.

Income under a contract farming agreement is treated as trading income whereas rental income under an FBT is treated as investment income for tax purposes. The expenses that are allowable against investment income are restricted to the costs directly attributable to land ownership and many costs may not, therefore, be eligible for tax relief where they would have been eligible against trading income.

Contract farming agreements provide most of the benefit of in-hand farming without the continued investment in farm labour and machinery, avoid creation of tenancies or complex partnerships, retain occupation of the farm, give greater stability of returns and retain valuable taxation reliefs.

Cash flow 2 – Budgeting

Banks are increasingly asking for more detailed budgets from their business customers but drawing up a budget just for the bank is a rather pointless exercise. A properly constructed budget, which is monitored throughout the year, puts a business in a position to assess progress, make adjustments if necessary throughout the year and undertake expenditure and tax planning exercises more carefully and efficiently.

The problem with a budget is that the day after it is drawn up, it will probably be out of date. This, however, is no reason not to complete a good budget as once it is in place it gives the basis from which to consider changes or improvements.

It is important to distinguish between a budget and a target. A budget is what you think is actually going to happen rather than what you might hope would happen. The key to a good budget is being realistic and honest. Wherever possible try to use real physical and financial data from your own farm business to prepare the budget. Too often budgets are based on theoretical possibilities rather than being grounded in the facts of how the farm has performed historically.

Farm businesses are likely to have bigger working capital requirements now than ever before. Most banks are still happy to lend towards this as long as they can see that it is affordable, how much the return will be and when it will be. Banks are generally more risk averse now than a few years ago and even for farm businesses making good profits swings in cash flow are now much more significant.

Andrew Wordsworth *looks at the VAT and payroll implications for beaters and pickers up involved in shoots.*

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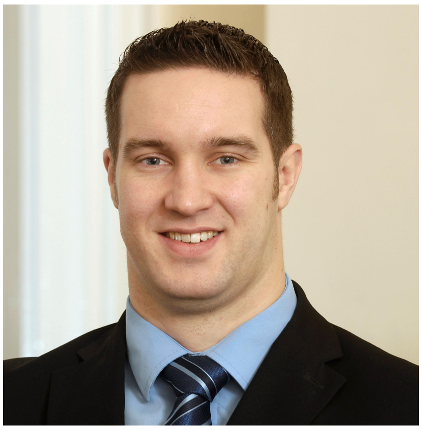

Beaters/Pickers up

The recent move to Real Time Information (RTI) for payments to workers threatens to have a big impact on the work done by beaters.

This change has meant that HMRC must be informed of any payments to be made to workers on or before the actual cash is paid.

HMRC have however relaxed the rules in this area to help smaller shoots. Where a shoot does not already operate a PAYE scheme then they are not required to submit the figures under RTI providing no one earns in excess of the lower earnings limit and no one is a member of the employer's family. Instead they just need to keep a record of certain details for the beaters. The information required includes the full names and addresses, dates of birth, genders, and national insurance numbers along with any payments made to them.

This relaxation only applies to daily workers who are employed for one day and paid off at the end of the day with no expectation of future employment. If a shoot employs beaters for longer than this there is further detailed guidance on the requirements.

The RTI changes are unlikely to affect pickers up, but they can potentially be caught by a different issue.

While beaters are generally regarded as being employed by the shoot, pickers up will often fall into self-employment by virtue of their requirement to provide extra equipment to complete the job (i.e. their dogs) and the nature of the work.

This will mean that PAYE and RTI is not an issue. However it potentially means that the amounts received by pickers up will become liable for VAT.

VAT is payable on any amount that is earned in the course or furtherance of a business by a VAT registered entity. If the pickers up are considered to be self-employed this then becomes a business activity.

The good news is that a VAT registration is for a business, e.g. a partnership, rather than the person who is one of the partners. This means that a picker up who is registered due to being a member of a partnership completely unrelated to picking up (e.g. an accountancy partnership) will be able to receive his picking up payments in his own name without VAT.

If this is the case he must ensure that any invoices raised are in his own name, not the partnership's, and any payments are paid into a private bank account, not the partnership's. If this is not done HMRC may be able to argue the income is part of the partnership business and VAT will be due.

For a VAT registered sole trader this does not apply even if the main business has nothing in common with the picking up work.

If you would like to discuss this further please contact your usual Ryecroft Glenton partner or Andrew Wordsworth – VAT specialist.

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