ISSUE 16 | Spring/Summer 15

allotts
chartered accountants

FARMING UPDATE

£4,250
TAX FREE
Rent-a-room

ISAs
Use your allowances

TAX
And the family

BASIC PAYMENT SCHEME
Sell unused entitlements

ICAEW CHARTERED ACCOUNTANTS

GROW YOUR BUSINESS WHILE THE SUN SHINES

INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

There are 2 types of ISA

- Cash ISA - you don't pay tax on saving accounts interest
- Stocks and Shares ISA - you don't pay tax on any income or capital gains you've made on your investments

You can put money into one cash ISA and one stocks and shares ISA each tax year. The tax year runs from 6 April to 5 April.

You can save up to £15,000 in one type of account or split the allowance across both types.

Consider utilising your allowances so save paying tax on your investments each year.

TAX-SAVING STRATEGIES

A pre-yearend review is good practice for every business; we hear a lot about pre year-end tax planning for individuals but it is essential for a business as well.

Capitalise on allowances

Businesses can take advantage of a 100% Annual Investment Allowance currently on up to £500,000 of expenditure on most types of plant and machinery.

Making a purchase just before the end of the accounting year will typically mean that allowances will be available a year earlier, while disposing of an asset could trigger an earlier claim for relief (or an additional charge to tax). Spreading the cost of larger amounts of qualifying expenditure over two years could maximise the available relief.

Review your Debtors

If any debtors have resisted all your chasing and you need to write off the debt, do it just before the year-end rather than after in order to get the tax relief in the earlier tax year. HMRC may ask for evidence of your efforts to collect the outstanding sums before granting the relief.

Boost your retirement income

Saving into a personal or company pension scheme can afford tax breaks of up to 60% on your pension savings. Employers can contribute to a personal pension scheme and obtain tax relief for the business, use of employer contributions can mitigate the limitations of "relevant UK earnings" for the individual (see below). Making the contribution before the business year end will accelerate the relief.

Personal pension contributions applying against 2014/15 income must be paid on or before 5 April 2015, and relief is limited to the greater of £3,600 (gross) or the amount of relevant UK earnings, and subject to an annual allowance capping pension savings at £40,000; unused allowances may be carried forward for up to three years.

Please contact us to find out more about the strategies that could help you and your business, ahead of the business's own year end.

TAX AND THE FAMILY

If your spouse or partner has little or no income, consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their personal allowances (£10,500 in 2015/16). However, care should be taken to avoid falling foul of the settlements legislation governing 'income shifting' and you need to consider the legal consequences of transfers.

Children also have their own personal allowance, meaning that income of up to £10,500 escapes tax in the 2015/16 tax year providing it does not originate from parental gifts.

If your children help on the farm consider paying them tax deductible wages rather than giving them pocket money, but be aware of restrictions in place to protect child workers.

Full details can be obtained from https://www.gov.uk/child-employment/minimum-ages-children-can-work

We can help you to utilise the tax-saving opportunities that may be available to you ahead of the year end. Please contact us for advice tailored to your circumstances.

FARM BUSINESS INCOME 2014/15

DEFRA figures published in January 2015 anticipate Average Farm Business Income to fall or remain broadly similar across all farm types in 2014/15. This is mainly due to lower input prices and a stronger pound which reduced Single Farm Payments by around 7%.

RENT-A-ROOM - £4,250 TAX FREE

Farmers often have bed and breakfast income or lodgers; here is a tax break that comes in handy.

Rent-a-room applies to income from providing furnished residential accommodation in the taxpayer's only or main home, for example, where they take in a lodger.

No income tax is paid if gross rents are below £4,250 per year. If income is higher than this, the first £4,250 can be exempted from tax. In both cases no expenses can be claimed against the letting income.

Payments by a lodger for any other goods or services (such as meals, cleaning, laundry etc.) in connection with the letting count towards the £4,250 total.

Owned or rented

Rent-a-room applies to people who let a room in a home they rent as well as to people who own their homes. It isn't relevant for tax but you may want to check whether:

- your lease allows you to take in a lodger (where you rent your home)
- your lender minds you taking in a lodger (where you have a mortgage on the home)
- your insurance company is content; their cover may not be adequate if circumstances have changed.

It does not apply to rooms let as an office or for other business purposes.

Partnership property

The scheme is for individuals, it does not apply to companies or partnerships. However it can apply when individuals have the income jointly (for instance husband and wife, or civil partners, where there is no partnership). In this case the limit may be halved.

Bed & Breakfast

Rent-a-room may also be applied to bed and breakfast or guest house businesses provided that:

- the house in which the business is carried on is also the individual's only or main residence
- the normal rent-a-room conditions are met.

If you would like any more information please contact us.

LETTING HOUSES – WHERE ARE THE ALLOWANCES?

The timing of expenditure eligible for Capital allowances forms a major strand of tax planning for farm businesses. The same rules do not necessarily apply if you have property rental income.

Furnished or unfurnished?

The tax treatment of property lettings is largely dependent on whether the accommodation is considered to be furnished, unfurnished or a holiday let.

Where the accommodation is only let with white goods it is considered partly furnished. However, even partly furnished properties are classed as unfurnished by HMRC and are thus subject to separate tax rules.

Furnished residential lets

Where a taxpayer lets a furnished residential property, plant and machinery capital allowances cannot be claimed on furniture, furnishings or fixtures within the property. By concession, a deduction can be claimed for a 'wear and tear allowance' of 10% of the 'net rent' from the furnished letting to cover the depreciation of items such as suites, beds, carpets, curtains, linen, crockery, cutlery, cookers, washing machines and dishwashers.

Partly furnished and unfurnished properties

If a property is classified as unfurnished or partly furnished, no allowances are available for the cost of furnishings. Tax relief may, however, be available where the costs incurred on equipment can be classified as a repair. The rules are complex and are governed by principles established in a number of tax cases.

Energy-saving incentives

Until 5 April 2015 landlords installing loft insulation, floor insulation, cavity wall insulation, hot water system insulation and draught proofing may claim an income tax deduction of up to £1,500 per property, known as the Landlord's Energy Saving Allowance. Please note that the allowance is not available under the 'Rent-a-Room' scheme or for furnished holiday accommodation.

Furnished Holiday Lettings

Unlike residential lettings, the expenses can include capital allowances on furniture and kitchen equipment. However, the 10% wear and tear allowance is not available for FHLs.

To qualify as a furnished holiday let the property must meet certain qualifying conditions regarding the availability, letting period and pattern of occupation.

If you are letting out property you should ensure that you are making full use of the tax reliefs and allowances available to you. However, the rules are complex and it is important to seek expert advice – please contact us for assistance.

GROW YOUR BUSINESS WHILE THE SUN SHINES

Any business needs attention if it is to flourish. Many farm business owners fail to plan adequately, and seek help only once it's too late. Talking to a professional advisor is the best way to a bright future, but there are very simple steps you can take to maximise your chances of growth and reap the benefits of a healthy business.

Planning and measuring

Be sure to make a business plan and refer to it regularly. It's also important to adapt to new circumstances. With new information and a constantly changing economic environment, you may have to significantly change your plans. It's not always a bad thing when the situation demands a re-evaluation.

In farming there are lots of key practical figures e.g. target planting dates, feed conversion, calving index; but setting up a system to measure your financial key performance indicators e.g. payback period, return on investment, gross margin, is also critical.

Knowing your enterprise

Don't overstretch yourself trying to operate too many different enterprises. Focus on your core skills, aiming for quality where you know you can maintain it.

Review the financial performance of each enterprise, they may be interlinked e.g calf rearing and a dairy enterprise, but try and value each output and input on a market basis to come up with unbiased figures which you can use to assess the financial and practical efficiency of each enterprise. E.g. output/cow may be outstanding, but output/hectare poor. This however may be a good compromise if it maximises farm income. Alternatively if the return on calf rearing is poor can it be outsourced, or improved or abandoned?

Pruning to perfection

Growth is a process of change, and no business begins fully-formed. Expect to make mistakes and learn from them.

Use new computer programs where relevant, research innovations and evaluate processes. Strip away the obsolete; just because Dad did it one way it does not mean that another way may not produce more benefits. Instant perfection may be impossible, but decide now that you won't be left behind. Change management, especially where family members are involved can become controversial. Sometimes bringing in a third party can help with decisions and make the process less personal.

Loving your business

It's easy for employees to see when a farmer/manager loves what they do. Your genuine enthusiasm is possibly the most inspirational tool you have. A happier team is hard working and focused, which leads to a quality end product.

We can advise on a range of strategies to help you manage the finances of your growing business – please contact us for assistance.

BASIC PAYMENT SCHEME REGISTRATION

For all too many farm businesses the income from support schemes is greater than the net annual profits. Paperwork has been dropping through letter boxes about registration/validation processes. If you are in any way unsure about what is required then take some professional advice or the consequences could be very expensive.

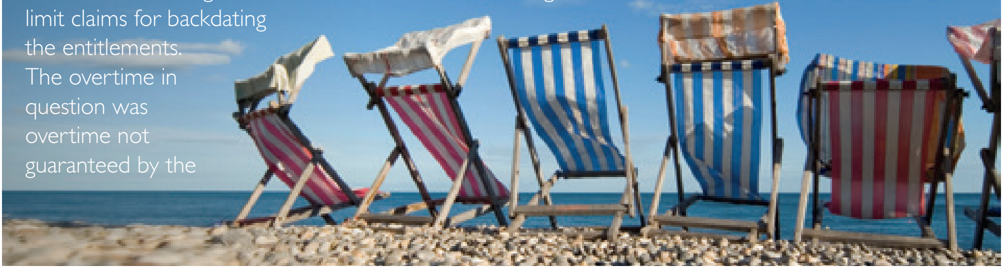
The trading window for entitlements opens in March. Remember, if entitlements are not claimed in 2015 they will be lost to the National Reserve, so if you have any unused BPS entitlements that is the time to sell them.

Buyers are already registering interest with auctioneers so that they can take the opportunity to maximise their subsidy income going forward.

HOLIDAY PAY AND OVERTIME

Following the 2014 Employment Appeal Tribunal case which decided that non-guaranteed overtime must be factored into a workers holiday pay entitlement, the government have introduced regulations to limit claims for backdating the entitlements.
The overtime in question was overtime not guaranteed by the employer, but which the worker must work if offered. From 1 July 2015 a claim for backdated holiday pay will only be able to be made for two years. This will also cover claims for any unlawful deductions from wages.

It is anticipated that in the run up to July 2015 there may be a flurry of back claims so any employers who offer overtime would be advised to review their position and seek further advice.



Rotherham Office:
The Old Grammar School
13 Moorgate Road, Rotherham S60 2EN
Tel: 01709 828400
Fax: 01709 829807
Email: info@allotts.co.uk

Doncaster Office:
Sidings Court
Lakeside, Doncaster DN4 5NU
Tel: 01302 349218
Fax: 01302 321739
Email: donc@allotts.co.uk

Website:
www.allotts.co.uk

Directors:
Jackie Saunders BA FCA DChA
Steven Pepper FCA
Neil Highfield FCA
Steven Watson BA ACA CTA
Mark Garrison BCom FCA DChA

Consultant:
Tony Grice BA FCA Cert PFS

Specialist Sectors:
Farming & Agriculture
Charities & Not for Profit
Education
Medical Services
Sage Support
Professional Practices
Solicitors
Trusts & Estates

Allotts Services:
Business Services
Corporate Services
HR Services
Independent Financial Advisors
(Provided by Allotts Financial Services Ltd)
IT Services
Payroll Services
Taxation Services
VAT Services
Wealth Management

Allotts Chartered Accountants is the trading name of Allotts Business Services Limited