in The Know
Farming
Autumn 2020

Nothing as certain as change!

While we all expected 2020 to be a year of change, I don't think that anybody expected a global pandemic or the way its impact has rippled through every part of our economy and society.

It has been "Rishi to the rescue" for much of the economy with a comprehensive (and expensive) level of financial aid. For some farmers supplying the hospitality sector, it has not been easy either. However, on the whole, UK agriculture has carried on as before. In some cases we are even seeing improved prices, particularly in the livestock sector, where we are seeing prices rise as an unforeseen consequence of COVID-19.

There is still a lot on the horizon for the farming sector. We are now well through our transition period before the UK leaves the EU (anybody remember Brexit?!).

The Agriculture Bill was passed in May and we are currently in negotiations over what future trade deals may look like for farming. While nobody wanted to see the empty supermarket shelves in March and April, I can't help but hope it might have brought food security and sustainability into focus while these negotiations are taking place.

In addition, we can expect some significant tax changes ahead in the autumn budget and beyond. On page 2, Rob Hitch considers some of the potential changes ahead as capital taxes come under scrutiny in an attempt to bolster the national finances.

I hope you find the newsletter an enjoyable read. And remember, whatever the rest of 2020 might throw at us, Dodd & Co are always here to help.

By Andrew Sims

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Look before you leap

Why forward planning can pay handsome dividends.

This month I dealt with two enquiries, one from a client thinking about retiring and selling up and another from a potential client who had done so, but then been presented with a very large tax bill and looking for any way of minimising it.

Making the decision to call time on a farming business and sell the family's prized assets is not something people find easy. It's often the culmination of a lifetime, or in many cases generations, of effort.

It is easy to get caught up in the moment, swept along by the prospect of a farm sale and largely ignore tax. Most people probably give their accountant a call to discuss Capital Gains Tax that might arise but often the biggest issue is Income Tax.

Capital Gains Tax is levied at 10 or 20%, possibly higher if residential properties are included, whereas Income Tax is levied at 20, 40, 60 and 45% rates before factoring in National Insurance.

Both conversations I had started off on Capital Gains Tax, pretty straightforward, as long as ducks were lined up to secure Entrepreneurs Relief all gains would be taxed at 10%.

Great, no big tax bill?

Next up are the cows, on herd basis, so again no tax.

Then we came to problem areas, young stock and followers. These might realise a profit of £350,000 over their book value. This would be taxed as income. Also sales of plant and machinery give rise to balancing charges or allowances that apply to income tax.

Unfortunately, as most farms have fully written off their plant and machinery purchases when they bought them they have a tax value of zero. This means any sale value will be taxed. This can be a shock, particularly given the value in plant often tied up in milking parlours, silage pits, combines and tractors etc.

In my client's case there was a conservative estimate that all the plant could be worth in the region of £400,000.

So before we start adding profit to cessation there is a likely profit of £750,000! Even if we take an average tax value of say 35%, this is a huge hole in the expected proceeds, in many cases more than the CGT bill!

There are ways to mitigate this, using companies or farmers averaging, but these all need an element of pre planning. So anyone thinking of selling up should take advice in good time.

By Rob Hitch, Partner at Dodd & Co

Market crash - is this one any different?

We have never seen a health crisis like this, however we have seen plenty of stock market crashes over the years, so is this one any different? Well that remains to be seen.

Towards the end of February, as the pandemic took hold, even medium risk investment portfolios fell almost 20%* before recovering reasonably strongly since April.

With COVID still at the forefront of everyone's minds and day to day lives, what can we expect from investment markets? Well, there is no guarantee of future performance of any portfolio, and now we have the threat of a second wave of infection, further lockdown measures, the question of whether a vaccine will be found and the prospect of significant job losses around the world.

Other world events loom large too, a Brexit deal is still to be decided, upcoming US elections and a potential cold war with China and the West.

It is fairly safe to say we could expect to see more volatility, remembering all too similar downturns of the past, such as the Global Financial Crisis 2007-2009, the dot-com bubble and acts of terror such as 9/11. However, with all these events we did see the light at the end of the tunnel, we did see recovery. Market volatility is inevitable and can lead to investment profit.

In any uncertain time, it is important that investors are disciplined enough to hold their nerve, remain invested and really focus on their long-term goals, otherwise losses will be realised. By remaining in a (hopefully) diversified portfolio, investors are provided with the opportunity for recovery and to get their investments back on track to meet their objectives. Diversification of a portfolio is paramount to achieve the best possible outcome, as one sector's negative can be another's positive, providing a balance through uncertain times.

The current situation magnifies the importance of solid financial advice, establishing one's attitude to risk and capacity for loss to ensure investments are within a clients' risk expectations, minimum, maximum and anywhere in between. Dodd Wealthcare can help manage investments in line with your individual needs and help achieve your goals.

*Statistic taken from FE Analytics and relates to the UT Mixed Investments 20-60% Shares index

A bird in the hand

Dodd & Co back in 1997 used to hold a budget breakfast each spring the day after the Chancellors budget. Times have changed since then; electronic communication and 24 hour news means this no longer happens.

What we do remember from those days, particularly after the Labour Party came to power under Tony Blair, was that each year our then tax partner suggested that Inheritance Tax (IHT) and particularly Agricultural Property Relief (APR) were under threat.

In fact, since it was introduced in 1984 IHT has changed little, but those old enough to remember will think back to pre-1992 when APR was only available on 50% of value.

Throughout the whole existence of IHT we have also had Business Property Relief (BPR).

Is all that about to change? Last year we had a report produced by the Office of Tax Simplification suggesting changes to IHT, notably the uplift to market value on death, and the qualification of a trading business.

The main implication for farmers of these changes would be to eliminate the uplift to market value on death, so a beneficiary would inherit the farm with no IHT but would pay Capital Gains Tax (CGT) in full on the gain when sold.

This would leave the position aligned with those who make gifts during lifetime and holdover gains.

This defers any tax on transfers but collects it at whatever prevailing CGT rate is applicable when it is sold.

Hot on the heels of last year's IHT review, Rishi Sunak has commissioned a report into CGT. Will this return CGT rates to levels more in line with Income Tax rates? After all, CGT at 20% is significantly lower than higher rate tax at 45%. It is not hard to see these rates being increased in part to start funding the repayment of borrowings in the wake of Covid-19 impact upon the economy.

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All of these tweaks could have a sizeable impact on farming families, but even more radical is the proposals by the All Party Parliamentary Group on inter generational fairness. They propose removing all reliefs and charging a lower level of Capital Transfer Tax on all transfers. Even if set at 10%, this could raise twice as much as CGT and IHT combined.

So, which way will Rishi Sunak go in the next six months? One thing is certain, the regime we currently have cannot get any more benign, and changes will almost certainly be detrimental. So are we now in the final days of a regime that has served agriculture well?

We have many clients passing wealth down generations at present whilst rules allow them to do so without a tax charge. Some are even considering paying CGT on gifts in order to lock into 10% and 20% tax rates.

It might be time for everyone to review their circumstances and decide whether to advance some family wealth plans whilst we can. If you would like to discuss your options, or would like any more information, please speak to one of our farming team would would be more than happy to help.

Stamp Duty Land Tax

The temporary £500,000 threshold

It was announced in July that Stamp Duty Land Tax (SDLT) would be cut for residential property purchases, with the 0% band being significantly increased from £125,000 to £500,000 until 31 March 2021.

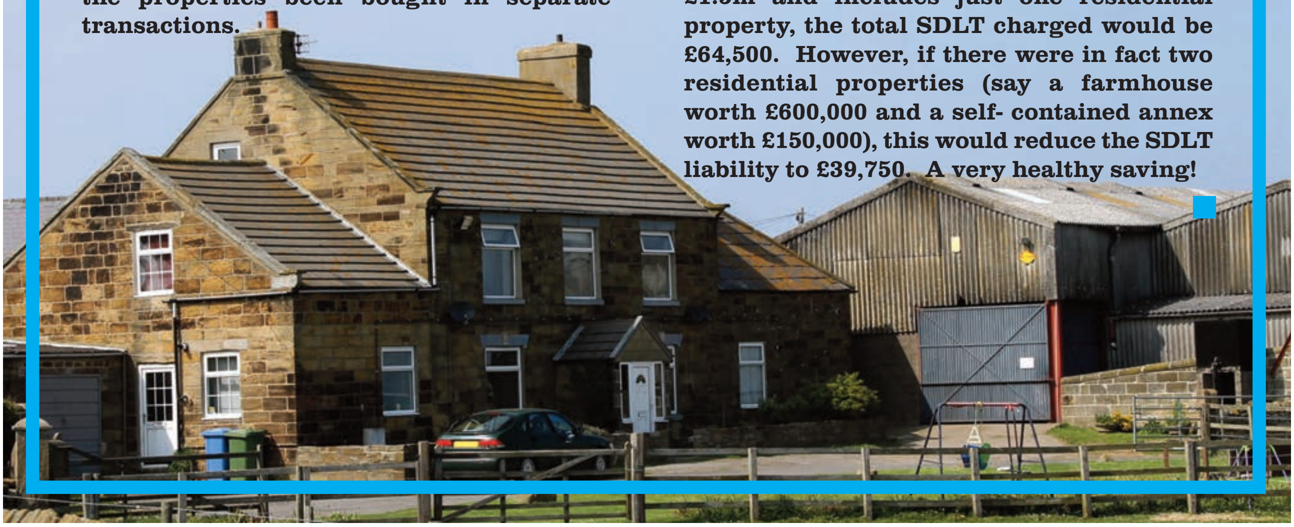
Importantly, the increase to the 0% band applies only to residential property purchases, and not to non-residential/ commercial property purchases.

Where a transaction consists of a mix of residential and commercial property (for example a working farm including a farmhouse), the non-residential rates of SDLT will apply. This means that such a purchase would not usually benefit at all from the increased 0% band.

However, there is an often overlooked SDLT relief called ‘Multiple Dwellings Relief’ (MDR) which applies where more than one residential property is included in the same transaction. The broad aim of the relief is to reduce the overall SDLT liability to the amount that would have been payable had the properties been bought in separate transactions.

What is not widely appreciated is that it is possible for MDR to be claimed where the transaction consists of a mix of commercial property and more than one residential property (i.e. there are multiple dwellings). Whilst the calculation is somewhat complex, in simple terms the purchase price attributable to residential properties is carved out, and the SDLT due on that element is calculated separately using residential SDLT rates and bands (with the benefit of MDR). This therefore means that, until 31 March 2021, a purchase of a farm including more than one residential property is likely to attract a considerably lower SDLT liability than a purchase of a farm including just one residential property.

To some degree a potential farm purchaser will be limited in terms of the planning that can be undertaken in order to access the more favourable SDLT treatment. This does highlight the importance of carefully reviewing the nature of the properties comprised in a farm purchase. For example, it may be the case that the farmhouse has a self-contained annex which can be viewed as a ‘dwelling’ in its own right. This would allow a claim for MDR to be made. By way of an example, if a farm is bought today for £1.5m and includes just one residential property, the total SDLT charged would be £64,500. However, if there were in fact two residential properties (say a farmhouse worth £600,000 and a self- contained annex worth £150,000), this would reduce the SDLT liability to £39,750. A very healthy saving!



Farm Diversification

Tipping the balance

Over the years many businesses across the agricultural sector have diversified, to ensure their core farming operations are supplemented by other income streams.

Hospitality and tourism are the most common form of diversification we see, as farms lend themselves to rural tourism, often having on site spare cottages, barns ripe for conversion, fields for glamping/yurts/shepherds' huts, or space in the farmhouse to provide bed and breakfast. Cafes, wedding venues and farm shops are also popular types of farm diversification.

During tough times in agriculture, be it falling milk or livestock prices or increased costs, or indeed during a good year, these diversified income streams help to supplement the farming enterprise and give some much needed extra profit.

All of that changed with the COVID lockdown, which came at the time of year that the hospitality industry is usually getting into gear for a busy spring and summer. Instead, the hospitality sector in the UK effectively shut down. Increasingly during this time, it was the farming business propping up the diversified enterprise, rather than the other way around. While some businesses were eligible for property related grants, this often wasn't enough to make up for the reduced bookings and lost trade.

The 4th July announcement that many hospitality businesses could reopen their doors was exactly what the industry needed. Furthermore, a temporary reduction in the VAT rate from 20% to 5% from 15 July 2020 to 12 January 2021, for certain hospitality and tourism businesses, provided an income boost to those that are VAT registered.

It is clear to see that domestic rural tourism is now 'on the up'. Travelling abroad now carries uncertainty, restriction and the risk of quarantine, meaning the staycation has found a renewed prominence in the UK. This is sure to spell increased profits for many rural tourism businesses in the UK, and for those diversified businesses a return to the 'usual' balance of profit making between farm and diversified enterprise that we saw pre-COVID.

Please contact Joanne on 01228 530913 or email joanne@doddaccountants.co.uk if you would like any further information on Farm Diversification.

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