ISSUE 11 | AUTUMN/WINTER 2020

# Farming Matters

Information and advice to help you grow your business | **renniewelch.co.uk**

## Inside this issue...

# Welcome

## Welcome to our eleventh edition of Farming Matters.

**Welcome to this new edition of Farming Matters in the strangest of times. I certainly did not think in the spring of the year that I would be spending thirty odd weeks working from home, or that I would likely be doing so for some time yet. I do hope that you are all keeping well and staying safe at this time.**

Now we are seeing that the nights are drawing in and, for most, harvest is home. The anecdotal evidence would suggest a bit of a mixed bag this year on yields. Too wet in the autumn and too dry in the spring being some of the factors. There remains, still, uncertainty over Brexit and where agriculture will fit thereafter. At such challenging times for farming businesses I hope that you will find the articles contained in Farming Matters as both practical and helpful.

Like every other business we have had to react to the changing environment and develop new operating practices to cope with the isolation of home working compared to the traditional collegiate arrangements. Certainly, for this old dog, it has meant learning a few new tricks. We have been moving to a 'paper light' approach for some time but this has forced the pace and now all our work is digitalised. You will read later about our document exchange platform, Openspace, which we will use to share this information in a secure manner.

Post-harvest, some of you will be considering capital investment however there are changes to the capital allowances that may be available to your business and Magnus Leonard has highlighted the importance of the timing of the investment. In addition, Max Hastings has outlined the new regime for reporting capital gains and paying tax on the disposal of residential properties.

It has probably never been more important to have contemporary management information and so we have two articles promoting cloud software and management accounting from Gail Kristiansen and Gordon Armstrong, which highlight this fact and some of the methods available to achieve this end.

Finally, we are delighted to introduce our 'Guest' writer, Graeme Gass. Graeme is a Partner in Turcan Connell specialising in tax, asset protection and succession. His article emphasises the need for us all to have a robust will in place.

I do hope that you find these articles helpful however if there are topics that you would like us to cover then please let us know as we want to make the bulletin dynamic and interactive.

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*It has probably never been more important to have contemporary management information*

# Cloud Accounting & Remote Working

> *At present the ability to work anywhere has never been more crucial*

**With the ongoing Coronavirus pandemic seeing unprecedented levels of home working, businesses are looking more and more to technology to aid them.**

Record levels of companies adopting online tools such as Zoom and Microsoft Teams has brought accounting software firmly to the fore, to ensure businesses can continue to function and keep records up to date, during what continues to be a very tough period.

Cloud accounting software, such as Xero and QuickBooks, has many benefits but at present the ability to work anywhere has never been more crucial. Multiple users can be set up, with varying security levels, ensuring that everyone can access real time information. Accountants are able to collaborate with clients, quickly and easily, offering advice on up to date figures.

Both QuickBooks and Xero comply with HMRC's Making Tax Digital for VAT legislation, which is due to expand in the coming years, with VAT Returns being submitted directly to HMRC from within the software.

Other benefits include being able to link directly to your internet banking, allowing transactions to flow from your bank statement to your software without the need to rekey information.

Many software companies are now including "receipt capture" as standard. This allows you to scan or photograph a receipt or invoice and forward to a dedicated email address. The scan will then be partially machine read to complete some of the posting fields. You are then able to add remaining details and post into your accounts, whilst also retaining a copy of the invoice on your cloud system.

The system learns as it goes, so over time manual input can become minimal.

**Many software companies are now including "receipt capture" as standard.**

### SCAN

This allows you to scan or photograph a receipt or invoice and forward to a dedicated email address.

### POST ACCOUNTS

You are then able to add remaining details and post into your accounts, whilst also retaining a copy of the invoice on your cloud system.

Sales invoices can be raised both online or through a mobile telephone app and be with the customer in seconds via email. Invoices can also be linked to payment services, allowing a "pay now" button to be added to the electronic invoice. This can then speed up customer payments and save time on credit control.

As information is held on secure servers, there is no longer a need to hold data back-ups, which can become cumbersome. However, information can be easily exported to programs such as Microsoft Excel.

We have experienced staff, fully accredited with Xero and QuickBooks, who are happy to demonstrate software to you. We can also help with program setup, training and ongoing support. All can be completed on Zoom or Microsoft Teams. Data currently held on many desktop packages can be converted to new systems, so no information will be lost.

If you require any further information please get in touch with us.

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# Management Accounting

The consequences of Covid-19 are expected to leave business owners with potentially years of hardship and uncertainty. We are all aware of the impact the virus has had on almost every industry, but in terms of the agricultural sector we have seen volatile prices, supply chain disruption and labour concerns. With Brexit looming in the very near future, adding to the uncertainty, it is more important than ever to utilise your management accounts.

Here we have set out some simple, practical management accounting tips that can help mitigate the effect of these uncertain times on your business, along with some of the benefits to be gained.

### KEEPING RECORDS UP TO DATE

Timely book-keeping is the most crucial and unfortunately, the most overlooked tip. Management reports are significantly more useful when they are up to date as they can provide more time to act upon the information abstracted. Additionally, processing numerous records in one session can be very time-consuming and stressful, at what is an already worrying time. As everything becomes increasingly digital, so too is book-keeping. There are a number of book-keeping systems available, both desktop and cloud based, which aid the record keeping and allow you to look at your management accounts at the click of a button.

### CONTROL YOUR CASH SO IT DOESN'T CONTROL YOU

Cash is king. For almost any business, cashflow should be high on the priority list. Cash forecasts and budgets incorporate future income and expenditure allowing more informed decision-making, and minimising the likelihood of unnecessary overspends.

### TAXATION

Timely book-keeping allows VAT to be reclaimed at the earliest opportunity which aids cashflow. From a year-end tax perspective, having an idea of profit levels on a monthly or quarterly basis can allow greater benefit to be derived from capital allowances and pension contributions, as you are in a position to plan ahead and where possible or necessary, purchase assets at the optimum time.

### IMPROVED FINANCIAL PERFORMANCE AND EXPANSION

Effective management accounting can assist business owners in understanding their financial performance, and how this might be improved. Performance levels (e.g. gross profit margin) in different enterprises can allow for optimal allocation of inputs, yielding the most profitable results. Having a reliable understanding of a business' financial performance is also critical when considering expansion and/or diversification. It is important to assess levels of working capital available to fund the investment and to ensure there is no future shortfall.

If we can be of any assistance with regard to management accounting and/or more efficient record keeping, please do not hesitate to contact us.

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## Openspace – Sharing confidential information securely

With events over the past few months making face-to-face communication impractical, the way in which we primarily communicate with clients has changed, with email and online correspondence becoming more prevalent.

As a result of this, we have implemented our secure document exchange portal known as Iris Openspace. This platform allows an online account to be set up to let clients securely share confidential information, such as accounts backups and tax return information, with us

As well as the benefit of being able to securely share confidential information with us, the system also allows us to share documents with our clients. For example, we would normally send accounts and tax returns for signature by post, however Openspace allows us to upload these documents for clients to sign electronically. Not only does this help to prevent time delays, but also reduces the risk of documents going missing in the post.

We have rolled out the use of Openspace to our client base over the recent months, however if you have not previously had an invitation to set up an Openspace account and wish to do so now, please contact Magnus Leonard on **magnus.leonard@renniewelch.co.uk** for further information.

# Wills and succession planning: certainty in times of uncertainty?

**Wills provide a structure to manage the next generation's succession to what could amount to significant assets, in particular family businesses and land interests. Having succession arrangements reviewed and brought up to date can provide peace of mind in times of uncertainty.**

The certainty provided by that structure requires a number of factors to be considered as part of the Will preparation process, with areas of risk addressed or mitigated through the appropriate drafting.

### IMPLEMENTATION: THE CHARGE TO EXECUTORS

Leaving aside changes to asset values or the viability of a business as a result of the economy more generally, the allocation of particular assets and/or business interests on death requires the right people to be charged with implementing that allocation.

Executors are appointed under a Will to deal with the administration of the estate, obtaining Confirmation in Scotland or Probate in England and Wales and completing the necessary inheritance tax reporting, and then implementing the beneficial terms of the Will. Where the Will provides any degree of discretion as to implementation, or even where there is likely to be a need for discussion around the sale of important family assets as part of the estate administration process, the choice of executors can be pivotal to moving the administration forward smoothly, while maintaining family relationships.

Executors have legal duties to act in the best interests of the beneficiaries, and whilst there is no rule against beneficiaries also being appointed as executors, the appointment of beneficiaries as executors should be carefully considered.

Executors act as a body, and there should be confidence in that body being able to carry out the Will provisions effectively.

### COMPETING CLAIMS: LEGAL RIGHTS

In Scotland, certain family members under a Will have rights to limited claims against the value of the estate on death, notwithstanding the terms of the Will itself. These "legal rights" apply to spouses and children, and if claimed require the claimant to forfeit any provision made in their favour under the Will.

This legal concept can be particularly relevant where there is a principal successor to a business or land interest, and the value of that interest makes up a large proportion of the value of the estate. How should potential legal rights claimants be provided for, or how can potential claims be managed financially whilst still achieving the overall succession objective?

The practical implementation of that succession objective should be considered as part of the drafting of the Will, and although values can and do change over time, the options for dealing with potential legal rights claims should be considered as part of the succession planning arrangements.

### CONCLUSION

Certainty in terms of succession cannot be absolute. Good succession planning is about having the right structures in place, with the right people involved in managing those structures. Considered drafting is key, as is scope to adapt and manage implementation as circumstances change. All of these will help to achieve the desired outcome.

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# Changes to the reporting of Capital Gains on UK property sales

**From 6th April 2020 the way in which taxpayers are to disclose gains on the disposal of UK residential properties has changed. Upon completion of the sale of a residential property there will be a 30-day window to report the disposal and pay the associated capital gains tax due to HMRC, through the submission of a "payment on account return".**

The need to disclose a gain to HMRC is most likely to arise from the sale of a rental property. However, disclosures may also be required upon the sale of holiday homes; properties owned by the taxpayer which have not been used as a main residence or are no longer used as a main residence; and inherited properties not considered to be the owner's main residence. These rules may also apply to trustees who dispose of residential property held in trust.

A disclosure will only be required in cases where the gain made on a UK residential property disposal exceeds the capital gains annual exemption, if this has not already been used. The current annual exemption for the 2020/21 tax year is £12,300. Within the disclosure the taxpayer will need to estimate their income for the tax year, as capital gains above the annual exemption are chargeable to CGT at 18%, where they fall within an individual's otherwise unused basic rate band, and 28% when they fall within the higher and additional tax rate bands.

Where a Self-Assessment tax return is completed by the taxpayer, the gain disclosed within the "payment on account return" must also be included within the tax return and the final CGT position will be determined at this date.

If the taxpayer fails to inform HMRC of a disposal that meets the reporting requirements within 30 days of completion, regardless of whether they are within the Self-Assessment regime or not, penalties will be imposed along with interest charges on the gain.

If you require any further information regarding the reporting of capital gains on the disposal of UK residential properties, or require assistance with reporting a gain, please get in touch with us.

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# Annual Investment Allowance

**Capital expenditure incurred by a business is not necessarily an allowable deduction in computing trade profits, but it may attract capital allowances. Capital allowances are treated as a trading expense and are deducted in arriving at taxable trading profits.**

Perhaps the most valuable form of capital allowances is the Annual Investment Allowance (AIA) which gives businesses 100% tax relief on qualifying purchases of plant and machinery in an accounting period.

The maximum amount of AIA available has varied over the past few years. The AIA was temporarily increased from £200,000 to £1,000,000 per annum with effect from 1st January 2019, however this will shortly revert back to £200,000 on 1st January 2021.

This change could mean that businesses inadvertently miss out on AIA on qualifying purchases, where these are made after 1st January 2021. The timing of a large purchase is therefore crucial to maximise tax savings.

The allowance is apportioned and maximum allowances for the year, and the period from 1st January 2021 are shown below:

The table below highlights the position that purchases made early in 2021 may have very limited allowances. This is worth considering carefully when looking to invest in any new plant and machinery.

To illustrate the impact of the reduction in AIA limits, using an accounting period ending on 31st May 2021, if you were to spend £700,000 on qualifying plant and machinery in the Autumn of 2020, you would be able to claim AIA of £666,667 to reduce your taxable profit. If, however you waited until the Spring of 2021 to purchase the plant and machinery for £700,000, the maximum AIA you could claim to reduce your taxable profit would only be £83,333. The balance of the capital expenditure would secure writing down allowance at 6% or 18% in perpetuity, depending on the type of asset.

If you are considering making any expenditure on plant and machinery, please do not hesitate to contact us for advice to ensure the timing of the expenditure is as advantageous as possible from a tax perspective.

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| Accounting year ending | Maximum AIA for the year | Maximum AIA from 1st January 2021 to accounting year end |
|---|---:|---:|
| 31/12/2020 | £1,000,000 | N/A |
| 31/01/2021 | £933,333 | £16,667 |
| 28/02/2021 | £866,667 | £33,333 |
| 31/03/2021 | £800,000 | £50,000 |
| 30/04/2021 | £733,333 | £66,667 |
| 31/05/2021 | £666,667 | £83,333 |
| 30/06/2021 | £600,000 | £100,000 |
| 31/07/2021 | £533,333 | £116,667 |
| 31/08/2021 | £466,667 | £133,333 |
| 30/09/2021 | £400,000 | £150,000 |
| 31/10/2021 | £333,333 | £166,667 |
| 30/11/2021 | £266,667 | £183,333 |
| 31/12/2021 | £200,000 | £200,000 |

## What would you like to see covered?

If there are topics that you would like to see covered in future issues please let us know and we will endeavour to include these going forward. Please contact Isla Young on 01573 224 391 (isla.young@renniewelch.co.uk).

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