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Farming Matters

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accountants : audit . tax . investment . IT

Welcome

Welcome to our fourteenth edition of Farming Matters.

The clocks have sprung forward, and I think we see the year ahead in a more positive light. We have had a wonderful spell of early spring weather but a bit of winter still lurking around the corner. Spring drilling is moving apace, the winter crops are looking well, and most people would agree that they have potential. The world is a troubling place at the moment and these troubles have had an adverse impact on us all with higher fuel and energy prices and on top of this, in agriculture, we have seen enormous rises in the cost of fertiliser.

There has been some positive news with the increases in the cereal prices but that is likely to have an inflationary impact in other farming sectors and other areas of society. The coming months are certainly going to be both interesting and challenging as we watch the economic world evolve.

The Government is changing the basis on which our profits are going to be assessed. So, Lynn Miller has produced a detailed note for partnerships and sole traders showing how the changes are likely to impact you. This is the most fundamental change to our tax system since we moved to self- assessment almost thirty years ago. It is a change that will impact many businesses and Lynn outlines, clearly, the options that may be available to the taxpayer to mitigate the impact of the change.

We have now had a year or so of the new rules relating to capital gains tax arising on the disposal of domestic properties and Marie Gilmour has produced an article outlining these rules and reminding you that if you sell a house, which is not your home, then there are strict timelines to intimate this to HMRC and to make a payment of the gains tax that is calculated on the gain.

We are delighted to introduce our 'Guest' writer, Jennifer Neill. Jenn is a Chartered Surveyor with Edwin Thompson in Berwick. She is looking at situation of managing a telephone mast changes.

Finally, you will read about the fundraising effort by some of our colleagues as they ramble across the Borders. The walk got off to a bit of a shaky start on Saturday but the tango orange clad group processed, via Melrose, to Longformacus by Sunday afternoon. Painkillers were shared amongst the group like skittles and the cold beer provided by Colin Crombie was welcomed by all the walkers as they reached half time.

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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This is the most fundamental change to our tax system since we moved to self-assessment almost thirty years ago.

Basis period reform is coming – the planning starts now!

Following on from our article in the last issue of Farming Matters, a topic currently being given significant consideration by accountants, but not yet widely publicised by HMRC, is basis period reform for unincorporated businesses (sole traders, partnerships, limited liability partnerships). This is likely to affect an estimated 400,000 businesses across the UK, many of which are in the agricultural sector. But what is a basis period and how will the changes affect those businesses concerned?

WHAT IS A BASIS PERIOD?

Put simply, the basis period for your business is usually the period for which your business accounts are drawn up. This "accounting" date is not necessarily the same date as the end of the tax year.

To illustrate this, where a business prepares a set of accounts covering the year ended 31st December 2021, the end of that "accounting" period is 31st December 2021.

As 31st December 2021 falls into the tax year ended 5th April 2022, the profits to 31st December 2021 will be reported on the tax return for the year ended 5th April 2022 and the tax liability for the year calculated based on those profits.

Special rules apply on the commencement of self-employment, and this can result in the same profits being subjected to tax twice in the opening years.

The profits that have been taxed twice are known as "overlap profits". Tax relief is given for these by allowing them to be deducted from the profits of a later period, when either the self-employment has come to an end or the annual date that the accounts are made up to is changed.

WHAT IS CHANGING?

Going forward, as part of their move towards income being reported digitally under the Making Tax Digital regime for Income Tax, HMRC are looking for all unincorporated businesses to begin reporting and paying tax on their profits on a tax year basis, i.e., for the 12-month period ending 5th April, regardless of the date that their annual accounts are made up to.

This will be compulsory from the tax year ending 5th April 2025 with special transitional rules introduced to prepare for this in the tax year ending 5th April 2024.

HOW WILL THIS AFFECT MY BUSINESS?

Those businesses that already draw up accounts to 5th April (31st March is treated as 5th April for this purpose) will not be affected by the changes.

Those businesses that are affected will have a choice of either changing their accounting year end to 5th April or apportioning their profits for the two accounting periods which span 5th April each year to reach a figure for the year ended 5th April.

CHANGING THE ACCOUNTING DATE

In most cases, the change of accounting date will take place during the tax year ending 5th April 2024.

This will result in additional profits becoming taxable in that year, subject to the deduction of any available overlap profits available (profits taxed twice when the business first started).

HMRC is aware that, in many cases, this could result in an unusually high tax bill arising for that year. To help with this, the additional profits will automatically be spread over 5 years for tax purposes, with an option to bring forward and spread over fewer years if that would be beneficial to the individual concerned.

To continue with our example of a 31st December year end, the tax return for the year ending 5th April 2024 will include the business profits for the year ending 31st December 2023 and the business profits for the period from 1st January 2024 to 5th April 2024, after the deduction of any overlap profits available, i.e., the profits included on the tax return will cover 15 months rather than 12 months.

The net profits for the 3-month period from 1st January 2024 to 5th April 2024 will then automatically be spread over the 5 tax years ending 5th April 2024 to 5th April 2028 for tax purposes, e.g., if the net profits for the period amount to £100,000, then £20,000 of these will be taxed in each of the 5 years from 5th April 2024, in addition to the usual 12-month profits for each year, unless the individual elects to tax these earlier.

Where losses arise in the transitional period, special rules have been introduced to provide more flexibility in the way that these can be used.

WHAT IF I DON'T WANT TO CHANGE MY ACCOUNTING DATE?

Keeping the existing accounting date is an option and will be considered alongside the option to change the accounting date as it may be better for some businesses from a commercial perspective.

Whilst in some cases, apportioning profits, rather than changing the accounting date, could be a reasonably straightforward process, for others it may present a challenge, for example, the figures for the later period may not be available in time to meet the tax return filing deadline. In this instance estimates would need to be used, with the tax return and liability amended later, when actual figures are available.

For those making pension contributions during the year, a delay in actual profit figures becoming available may make tax planning in this area difficult.

WHAT SHOULD I DO?

Start planning!

For some businesses, where there are significant overlap profits brought forward, it may be beneficial to change the accounting date of the business earlier to make best use of these overlap profits and perhaps even obtain a tax repayment.

Where a business is expected to incur significant expenditure on capital items, such as plant and machinery, it may be worth considering the timing of this to take full advantage of the capital allowances available and help reduce the additional profits taxable in the period of change.

The basis period reform may have implications for those making pension contributions, for example, increased profits may bring with them the opportunity to make additional contributions to help reduce tax liabilities, whilst reduced profits, due to the availability of relief for overlap profits, may restrict the amount of contributions that can be made, or that it would be beneficial to make, for that tax year.

There will also be cashflow issues to consider.

We are currently considering the position on a case-by-case basis for all existing clients who are affected by these changes and your usual contact within the firm will discuss this with you.

IN THE MEANTIME...

If you are anticipating any significant changes to your usual income levels or sources, pension contributions, your business, such as scaling up or down, retirement etc. or any capital expenditure, such as large items of plant and machinery, please let us know so that we can take this into account.

We would also be very happy to provide advice to new clients upon hearing from you. Please feel free to contact us by email at **lynn.miller@renniewelch.co.uk** or by telephone on 01289 330311 (Berwick) or 01573 224391 (Kelso) to arrange a discussion.

Reporting sale of UK residential property within 60 days

In the past, sales of UK residential property, other than a home you have lived in throughout your period of ownership, would only need to be reported to HMRC when you completed your self-assessment tax return.

From 6th April 2020, where capital gains tax is payable on such sales, HMRC have required a separate and additional return to be submitted within 30 days of the sale completing and any tax due paid by the same deadline. From 27th October 2021, the 30 day period increased to 60 days for completion dates on or after this date.

If a property is owned jointly, then each party is required to submit a return separately.

HMRC impose penalties on any late-filed returns and interest and surcharges on any tax not paid within 60 days of completion.

The most common types of disposals which would be caught by the rules will be sales of holiday or rental properties, however, any residential property which has not been your main home throughout the period of ownership would fall within the reporting requirements.

Where your share of any gain on relevant property disposals is within the annual exempt amount – currently £12,300 – there is no need to make the report, unless your exempt amount has already been used in the tax year. There is also no requirement to report any capital losses made unless you intend to utilise the loss on a subsequent gain in the same tax year.

Where tax is due, the capital gain on amounts above the annual exempt amount are chargeable to tax at 18% where they fall within an individual's basic rate band not used elsewhere, and 28% where they fall within the higher and additional rate tax bands.

Costs of purchase and sale of the property as well as improvements can be set against the sale proceeds when calculating the gain on disposal. There may also be reliefs available if the property has been your main home for part of your ownership, or if it was used in your business, however, this can be a complex area and we would always recommend seeking specialist advice.

If you are in the process of selling a residential property, or are thinking of doing so, please contact Marie Gilmour on (01573) 224391, or **marie.gilmour@renniewelch.co.uk**.

Managing A Telecom Mast Lease

The new Electronics Communications Code provisions have grasped much of the headlines throughout the past few years. However, many Landowners still hold existing agreements under the old Code provisions which are just as important to have actively managed. Below are the most common issues dealt with by our rural teams in Berwick and Galashiels.

UPGRADES AND SITE SHARING

As the UK demands increased and higher quality connectivity, upgrades to existing masts continue at pace. Old Code agreements may limit the number and type of apparatus that can be installed at a site. If work is planned on your land, it is worth checking your agreement to determine if the quota of apparatus is, or will be, exceeded and under what circumstances a premium payment may be sought.

Once the work is completed, a check of what has been installed is vital to ensure nothing above what was agreed is in situ.

Similarly, for site sharing an additional 'payaway' could still be due based on a percentage of the rent between the operator and their lessee. These may also have been reviewed since the beginning of the agreement and an additional amount is now due to the Landowner.

RENT REVIEWS

Before a new Code agreement is negotiated the current rent must be checked. Often rent reviews have been missed and we have recently claimed large back payments of rent for our clients. Inflationary rent reviews can often be neglected by operators unless raised by the Landowner or their Agent.

Once a new Code agreement is entered into and the old Code agreement ended, the opportunity to initiate past rent reviews has gone.

SELLING THE LEASE

We have seen approaches by companies offering to purchase and capitalise the lease. What may seem like a good offer initially may, when broken down, work out at less than the current rent on a per annum basis and have strategic implications for your property.

TERMINATION

On termination of the lease, we have seen offers made by the operators to retain parts of the infrastructure - a concrete pad for example. These offers have been well below the final value negotiated by Edwin Thompson.

We strongly suggest that specialist professional advice is taken on all aspects of telecom leases, and in particular new sites.

Jenn Neill in Edwin Thompson's Berwick Office would be pleased to discuss any queries you may have.

TO DONATE: please visit www.justgiving.com/RennieWelch or pop into one of our offices.

Office Trek

As you may be aware, we are currently fundraising for 'Team Lukas'. You may have spotted us out and about in our bright orange T-shirts (we won't be missed easily!).

Our challenge is a 115 mile trek, over 6 days, between our three offices. Not an insignificant task for those of us who sit at our desks for seven hours a day!

The walk is split over three weekends and began at our Kelso office, on 26th March, when we walked along the Border Abbeys Way to our Melrose office and then along the Southern Upland Way to Cairneymount Farm. The following day we continued along the Southern Upland Way to Longformacus.

At the time of going to press we are to continue our trek on the 9th April, along the Southern Upland Way, through the Lammermuir Hills, until we reach Pease Bay. On Sunday we move onto the Berwickshire Coastal Path, finishing at Burnmouth.

The final weekend begins on 23rd April, trekking along the coast to reach our third office in Berwick. We plan to continue walking on to Horncliffe to give us a good start for the last day. Leaving from Horncliffe on the Sunday, we will travel down through Cornhill on Tweed and finish the walk following the old railway line into Kelso.

We are fundraising for Team Lukas to help provide Lukas with the ongoing therapy he needs to thrive and to give him the best quality of life and allow him to live up to his full potential.

Lukas is the son of Martin Thomson, one of our partners, and is a 9 year old boy who, up until just before his 4th birthday, was an active and healthy little boy.

In 2017, Lukas became unwell with flu type symptoms. The flu virus attacked his heart resulting in myocarditis. He was transferred from his local hospital to the specialist children's hospital in Glasgow. Not long after, he went into cardiac arrest, requiring 30 minutes of CPR, before being placed on an ECMO (heart and lung bypass) machine, saving his life. During his two weeks in ICU his family received the devastating news that Lukas had suffered a stroke following the cardiac arrest. Four months followed in the neuro rehabilitation ward where he had to relearn how to talk, eat and move. Lukas has worked so hard since his stroke and can now stand, and walk a little, with assistance. His goal is to be able to run around the garden with his younger sister, something we all take for granted.

We have received a fantastic amount of support to date and would like to say a huge thank you for the donations we have received so far.

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.

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