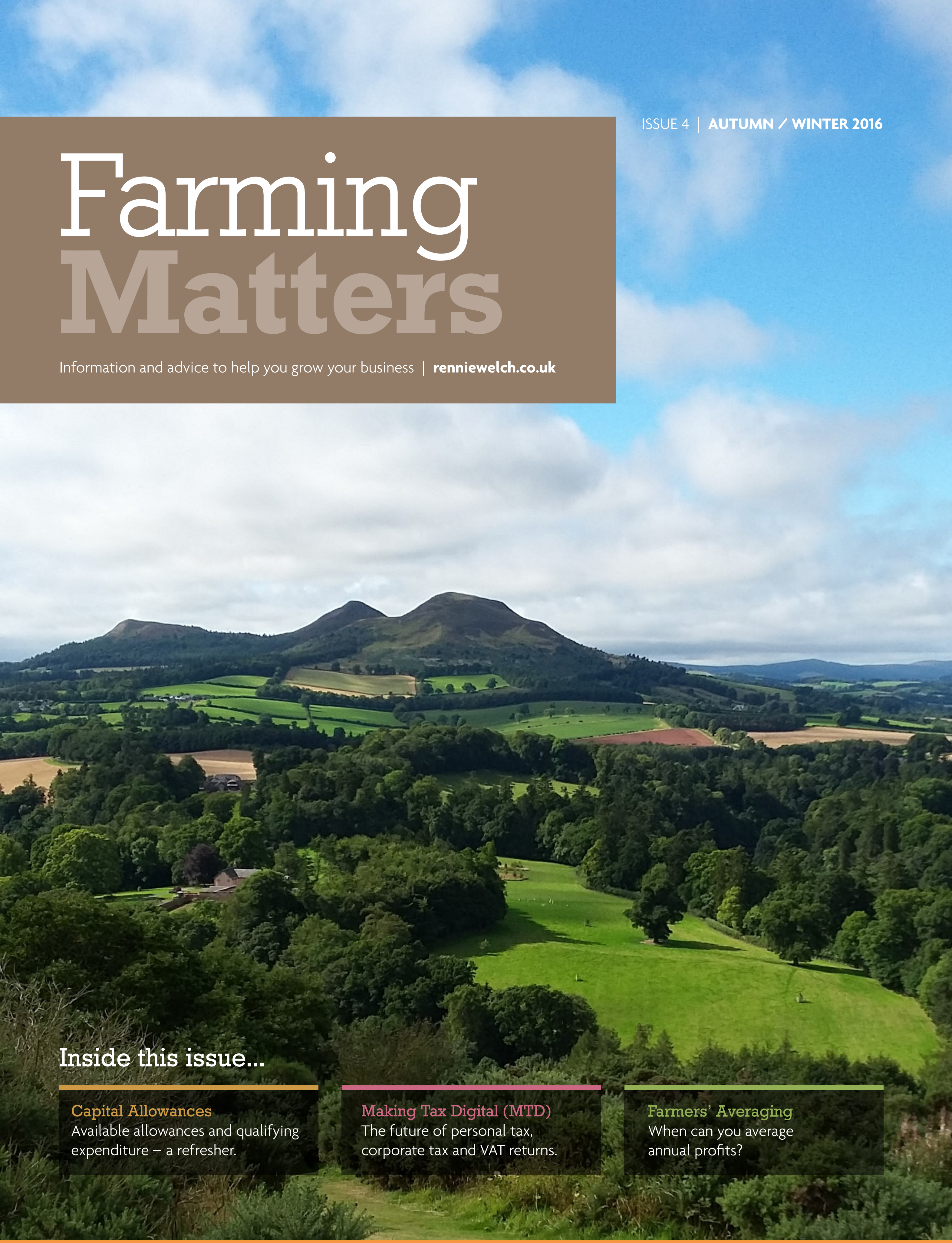


ISSUE 4 | **AUTUMN / WINTER 2016**

Farming Matters

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

Inside this issue...

Capital Allowances
Available allowances and qualifying expenditure – a refresher.

Making Tax Digital (MTD)
The future of personal tax, corporate tax and VAT returns.

Farmers' Averaging
When can you average annual profits?

RENNIE WELCH
accountants : audit . tax . investment . IT

Welcome

to our fourth edition of Farming Matters.

As the nights start to draw in and harvest becomes the perennial challenge against Mother Nature it is pleasing to start on a positive note by announcing that Mairi Drummond has become an Associate in the firm. This is a richly deserved promotion for Mairi who has contributed significantly to the development of our tax advice service.

After the cash flow traumas of the last twelve months it is good to see a more positive message coming from Holyrood regarding the payment of the next round of Basic Payment Scheme. Our articles, this time, look at some of the ways to reduce the tax liability and consequently improve the general cash flow situation in the business

Nothing stays still for long, not even the humble tax return. HM Revenue and Customs are trying to make tax digital and we outline what the future holds for the tax return and we also look at deregistering from the VAT system and the matters to consider at that time. Capital Allowances remain a valuable relief to reduce profit and the basic principles are outlined along with a note on farmers averaging and the changes that will be happening to this unique relief for farmers and market gardeners.

As you would expect, we make great efforts to train and develop our colleagues to ensure that we are at the cutting edge of legislative changes and IT developments. I am therefore delighted to announce that Craig Telford, the 2009 Coldstreamer, has passed his final professional examinations and has now become a Chartered Certified Accountant. In addition, Magnus Leonard has become a member of the Association of Tax Technicians.

I do hope that you find these articles interesting and helpful and of course if there are topics that you would like to see us cover in future editions, then please let us know, as we want the bulletins to be contemporary and interactive.

Gordon Chisholm CA | gordon.chisholm@renniewelch.co.uk
Senior Partner

VAT Deregistration

If you close your business down and deregister for VAT, you make a deemed supply of the goods you have on hand. This means you may have to account for VAT on some of your business assets and stock on hand, on your final VAT return. This applies only if the VAT due would be £1,000 or more.

You must include any tangible goods, for example stock, plant and machinery, commercial vehicles, if you claimed input VAT when you originally purchased them.

You do not include intangible goods, such as patents, goodwill and copyrights.

If you took over a business which was transferred as a going concern and the goods were VAT free at the time of transfer you must still account for VAT on them.

However, remember that you do not need to account for VAT on any item which you did not claim VAT on when you bought it. For example if you bought goods from a private individual or an item bought under the VAT Margin Scheme.

Different regulations apply to land or buildings dependent on whether you paid VAT on the purchase and whether you will retain the land or property after deregistration.

If your business will continue as it is being transferred as a going concern or you are changing its legal entity you do not need to account for VAT on the assets, if the new owner is registered for VAT. If the new owner is not registered for VAT however, you must account for VAT on the assets on hand in the usual way.

Once you have calculated the estimated value, this should be entered on the “Application to Cancel the VAT Registration” form, VAT7.

If HMRC accept your application to cancel, a final VAT return will be due, which should include the deemed supply VAT. This should be adjusted, by increasing your Output VAT figure. Remember though, that this is only if the VAT due will exceed £1,000.

Gail Kristiansen |
gail.kristiansen@renniewelch.co.uk

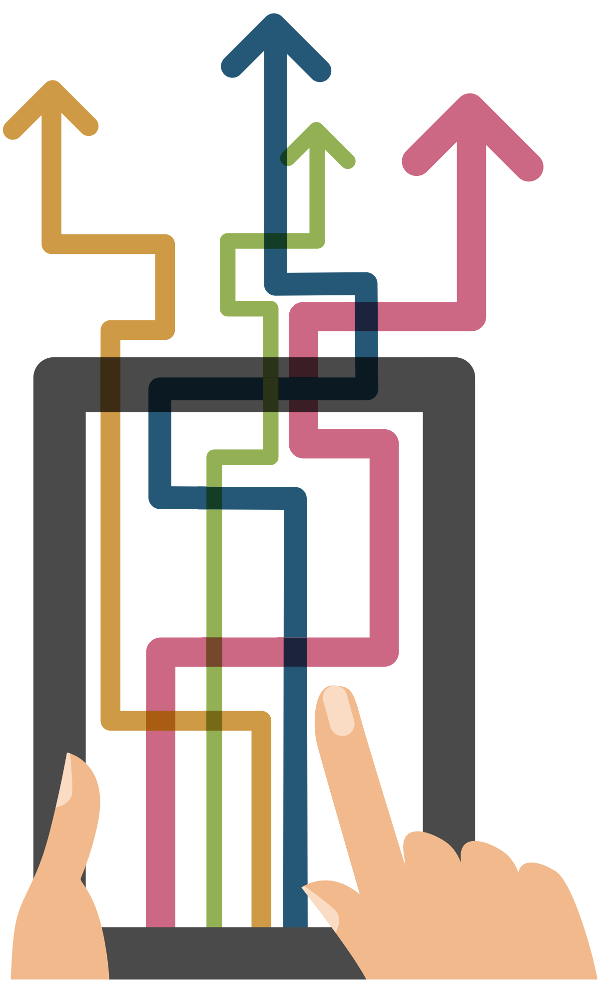
Making Tax Digital (MTD)

Where are we at?

The 2015 Budget announced the "death of the annual tax return" with a new digital system to be introduced by 2020. The government plan is to make these fundamental changes to the tax system by Making Tax Digital (MTD) and has resulted in the publication of six consultation documents which were released on 15 August 2016.

By 2020 most businesses, self employed people and landlords will be required to use software or apps to keep their business records digitally and to report this information quarterly to HM Revenue & Customs. The transition will commence in April 2018 for Income Tax and National Insurance with VAT digital reporting from April 2019 and Corporate Tax from April 2020.

Unincorporated businesses with combined turnover of less than £ 10,000 will be exempt from MTD. There will also be exemptions for Charities, Community Amateur Sports Clubs and those unable to use digital systems due to religious beliefs or medical conditions.



So what does this mean for the taxpayer?

This radical change will see tax returns for both individuals and partnerships being abolished along with VAT returns.

These changes will see a shift to a system where tax compliance is integrated into a business' daily activities rather than a separate exercise carried out after the year end. Businesses will need to keep digital records and make quarterly submissions to HMRC. These quarterly submissions will then be supplemented by a year end declaration confirming the final figures for the year.

With the Digital Tax Account each taxpayer will have a Digital Tax Account which they will be able to link to their software to make the quarterly submissions. You will also have the facility to authorise your accountant to have access to your digital account.

The transition to MTD will require taxpayer and agent resource in terms of time and money. There will be an influx of software products into the market place to cater for this change. As your advisers we can offer guidance on what product will suit your business to minimise the administration burden and cost of compliance. We have in our team accredited software advisers for Sage, Xero, Kashflow and Quickbooks Online.

There are many areas where the details have not been finalised but what we are sure of is that MTD is not going to disappear and will definitely be introduced from April 2018...so we better start planning!

The consultation period will end on 7 November 2016 and we will continue to keep you informed of developments over the coming months.

Kirsty MacDonald CTA FCCA|
Kirsty.macdonald@renniewelch.co.uk

Capital Allowances

Capital allowances are an important method of tax relief both for the farming business, where expenditure on plant, equipment, machinery and properties can be significant, and for rental properties that are operated as furnished holiday lets.

Neither expenditure that is capital in nature nor depreciation on capital expenditure are allowable as a revenue deduction when calculating the taxable profits of a business. Relief for qualifying expenditure is obtained by claiming capital allowances instead.

Claiming capital allowances will reduce the taxable profits of the business. This may result in a loss being incurred for which relief may then be obtained. The capital allowances claim may also reduce the taxable trading profits of the farming business to a level at which an averaging claim may be available. This could have tax benefits, such as moving trading farming profits from a year in which a higher rate of tax would be payable to a year in which a lower rate of tax is payable, or short term cash flow benefits such as reducing tax payments on account. Where a loss is incurred, the taxable profits of the business are treated as nil for the purposes of the averaging claim and the loss relief is applied separately, in the most beneficial manner. Averaging and loss relief claims are made on an individual by individual basis.

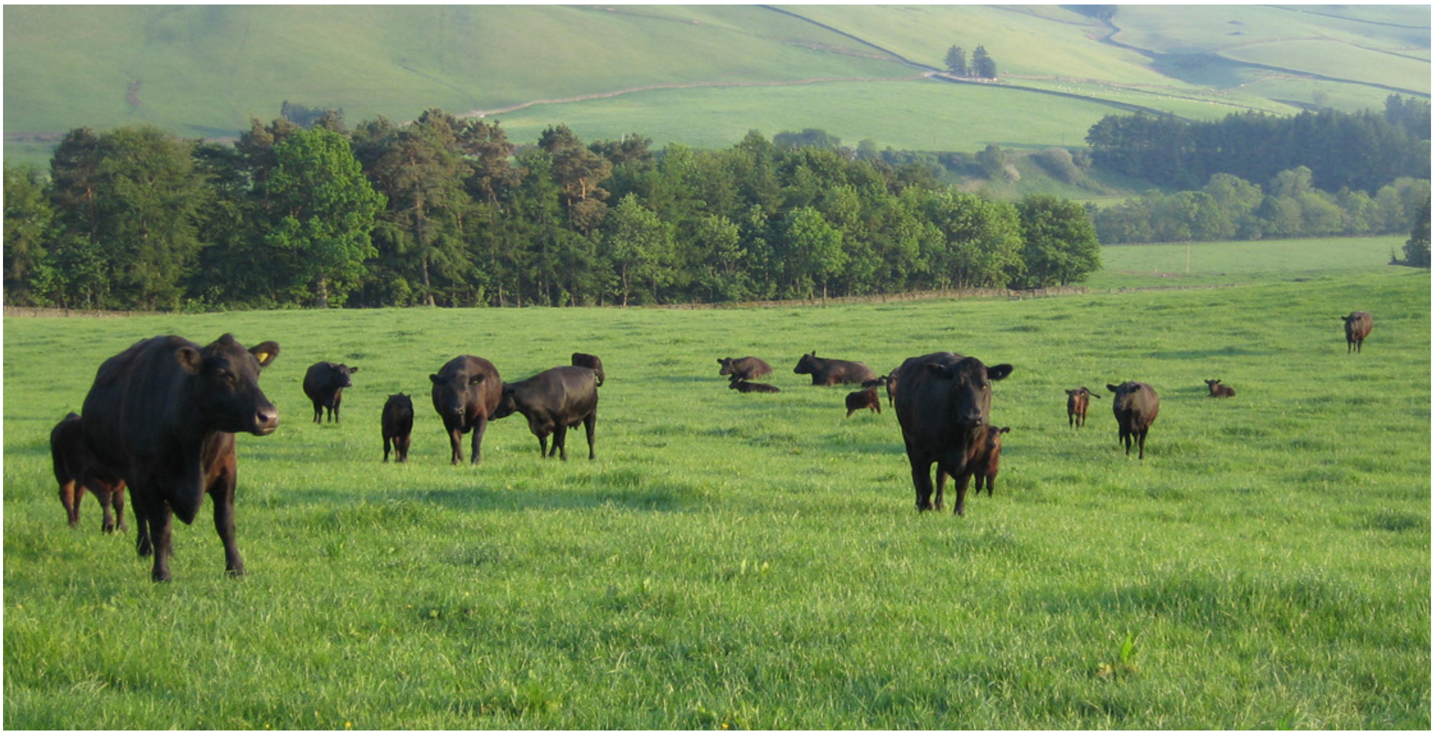
Making the distinction between what constitutes revenue expenditure and what should be treated as capital expenditure can be challenging, particularly where the expenditure relates to work carried out to properties or farm buildings, and should be determined based on the facts of each case and the application of factors such as statutory treatment, case law, the enduring benefit to the business, any element of improvement and whether the expenditure represents the replacement or acquisition of an asset in its entirety. Having identified that the expenditure is of a capital nature, further scrutiny will then be required in order to identify whether it qualifies for capital allowances and at what rate.

The annual investment allowance allows a business to claim 100% tax relief on qualifying expenditure up to a maximum annual expenditure limit. The annual limit has varied over the years and was most recently reduced from £500,000 to £200,000 from 1st January 2016. Where the business accounting period straddles a change in limit, transitional rules are applied to calculate the total limit applicable to the accounting period and the maximum amount that can be applied to expenditure incurred before/after the change in limit. The annual investment allowance must be claimed in the accounting period to which the expenditure relates. It is not available to mixed partnerships (where there is a corporate partner), on cars or on assets already owned and subsequently introduced to the business. Where the asset concerned is not used solely for business purposes, the annual investment allowance claim is restricted to the proportion relating to business use. Where relief is not claimed via the annual investment allowance, writing down allowances may be claimed on qualifying expenditure at the appropriate rate, currently 18% or 8% per annum depending on the type of expenditure. The most common types of expenditure are plant and machinery (such as equipment and vehicles) and integral features (electrical systems, cold water systems, heating and ventilation systems, lifts and moving walkways, external solar shading). Expenditure on certain types of energy and water efficient equipment may qualify for 100% enhanced first year allowances subject to meeting specific criteria. Again, where the asset concerned is not used solely for business purposes, the capital allowances claim is restricted to the proportion relating to business use.

A significant balancing tax charge may arise when an asset on which allowances have previously been claimed is subsequently disposed of and careful consideration should therefore be given to the timing of any disposal.

This article provides a brief outline of the tax relief that may be available via capital allowances. Detailed consideration should be given to the specific circumstances of a business when assessing capital allowances claims and any other allowances or tax reliefs that may be available.

Lynn Miller CTA ACA MAAT |
lynn.miller@renniewelch.co.uk



Farmers' Averaging

Due to the volatility of the faming industry, farming profits can vary significantly from one year to the next. The averaging relief available to unincorporated farmers is a means of evening out fluctuating trading profits for tax purposes. It is not available to companies.

Averaging relief applies to farming and market gardening trades carried on in the UK. This includes the intensive rearing of livestock or fish on a commercial basis for the production of food for human consumption. Exclusions apply to agricultural contractors and farms where the farming activity is part of a larger trade that includes substantial non-farming activities.

Averaging only applies to the taxable profits arising from farming activities. Other sources of income received by the farm, such as income from property letting, are not included.

For tax years up to and including 2015/16 full averaging relief was available for two consecutive tax years where the taxable profits of one year did not exceed 70% of the other. Marginal relief was available where the taxable profits of one year exceeded 70% but not 75% of the other.

Changes introduced in the Finance Act 2016 mean that from 2016/17 onwards the relief has been extended and it will be possible to make a claim to average taxable profits over either two or five consecutive tax years.

For two year averaging claims, the marginal relief referred to above will be withdrawn and full averaging will be available where the taxable profits of one year do not exceed 75% of the other.

For five year averaging claims, the taxable profits of the latest of the five tax years concerned will be compared to the average of the taxable profits for the first four tax years. Where one figure is less than 75% of the other an averaging claim will be available.

A claim will also be available where the taxable profits of one or more of the five tax years concerned are nil.

Where a loss is incurred, the taxable profits for that year are treated as being nil for averaging purposes. Loss relief is then claimed in the usual way.

A claim for averaging relief is made on the Tax Return for the later of the tax years concerned. Whether a claim is beneficial and what period the claim should cover will depend on the specific circumstances of the individual concerned.

Averaging is not available for the tax years in which the trade commences or ceases or where profits are calculated on a cash basis.

Lynn Miller CTA ACA MAAT |
lynn.miller@renniewelch.co.uk

Associate Promotion

The partners are delighted to announce the promotion of Mairi Drummond to the position of Associate of the firm with effect from 1 June 2016.

Mairi has made a significant contribution to the success and development of the firm and the service level we are able to provide to clients, which we are pleased to recognise.

Mairi joined the firm in 2007 as a qualified accountant and achieved the Chartered Tax Adviser qualification in 2008. Since that time Mairi has developed a specialism in tax and has made a significant contribution to the development of our tax advice services. Mairi also has a particular interest in the agricultural, tourism and leisure sectors.

Mairi is based in our Kelso office but is also available to provide support and advice to clients from our Melrose and Berwick offices.

We look forward to seeing Mairi's continued success in her role, helping us strengthen and develop the service offering of the firm for the future.

Berwick Office

We are pleased to announce the opening of our new office in Berwick-upon-Tweed, for the convenience of our clients and professional contacts in Berwick, North Northumberland, Berwickshire and the surrounding areas.

The office is located in the modern Berwick Workspace facility, conveniently situated in the town centre at Boarding School Yard, 90 Marygate, Berwick-upon-Tweed, TD15 1BN.

The firm has long had a geographical reach stretching far beyond the hub of our business activities in Kelso and the opening of our new location in Berwick will allow us to provide an enhanced and local service to our growing client base in the area. The offices are available for meetings with our clients and contacts and for deliveries of documents and records. Meetings in Berwick can be arranged through your usual Rennie Welch contact. Deliveries of documents and records can be made by post or to reception at Berwick Workspace during opening hours of 8.30am to 5.30 pm Monday to Thursday, 8.30am to 5pm Friday.

We hope the new office facility in Berwick will be helpful to our clients and professional contacts and look forward to seeing you there in the near future.

Quickbooks Online Partner Adviser & Xero Accreditation

We're pleased to announce that following successful completion of Certification by Gail Kristiansen and Gillian Dixon, we are now a Quickbooks Online Partner Adviser. This means we are able to help with implementation and training on the program. If you would like to discuss please give Gail or Gillian a call.

In addition we would like to congratulate Lisa Watson on passing her Xero certification. Lisa now joins Gail as having accreditation status on the software package.

Exam Success

We are delighted to announce that the following members of staff have recently passed their professional exams:

- **Craig Telford** has qualified as a Chartered Certified Accountant (ACCA).
- **Magnus Leonard** has successfully obtained his ATT qualification (Association of Tax Technicians).
- **Mike Heath** is now a qualified Trust and Estates Practitioner (TEP).

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).

Partners

Gordon Chisholm CA | gordon.chisholm@renniewelch.co.uk
Colin Crombie CTA | colin.crombie@renniewelch.co.uk
Gill Adamson CA CTA | gill.adamson@renniewelch.co.uk
Martin Thomson FCCA | martin.thomson@renniewelch.co.uk
Mark Thompson CTA ATT | mark.thompson@renniewelch.co.uk

Associate

Steven Reid CA | steven.reid@renniewelch.co.uk
Mairi Drummond FCCA CTA | mairi.drummond@renniewelch.co.uk

Consultant

George Young CA | george.young@renniewelch.co.uk