

ISSUE 5 | SPRING / SUMMER 2017

Farming Matters

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

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RENNIE WELCH

accountants : audit . tax . investment . IT

Welcome

*to our fifth
edition of
Farming Matters.*



Spring is always a very positive and industrious time of the year as we see a drawing out of the nights, spring crops getting drilled and tatties planted, and thoughts turn wistfully to summer and the Lions tour and winning in New Zealand!!

We are now in the build up to one of the most fundamental changes to taxation since self-assessment arrived twenty years ago – making tax digital – with HMRC looking for more information on a regular basis and our article on this intimates what will have to be provided and how to do so.

In addition to this we have a couple of articles on new tax increases or losses of tax relief. The Chancellor chose to tax dividends but helpfully gave an allowance of £5,000 to mitigate the pain but then in the March 2017 budget reduced the allowance to only £2,000. Those with buy to let properties have also lost reliefs, with interest now not receiving higher rate relief and the loss of the old wear and tear allowance.

There is also the ongoing consideration of enveloped dwellings and the reducing valuations to £500,000 which simply brings more properties potentially into that tax net.

There are therefore lots of changes giving us food for thought and of course another General Election coming along in June. The only certainty at the moment does seem to be uncertainty!

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.

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Senior Partner

Farm diversification support in Northumberland

We have had some helpful discussions recently with representatives from Arch, the regional business development arm of Northumberland County Council, regarding current potential funding and other support for farming clients in Northumberland.

We are often asked to advise on structuring for farm diversification projects, including accommodation, tourism and event type projects. We look at and advise on commercial protections and structures, alongside tax efficiencies and incentives, but any available funding support is often an important consideration.

The RDPE Growth programme is operated by Rural Payments Agency and can provide grant support of between £35,000 and £170,000 for projects in a rural area, including farm diversification projects, with priority being given to increasing tourism in rural areas. The LEADER fund is operated by Northumberland County Council and applications can be made by farming businesses for diversification, rural tourism, farm and forestry productivity projects. There is no upper limit with funding of up to 100% for eligible projects. These are only two examples of potential support for diversifying farming businesses in Northumberland. There are a number of other potential options and funds and we would be pleased to explore the possibilities with farming clients in Northumberland.

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ATED Update

We have written a number of articles regarding The Annual Tax on Enveloped Dwellings (ATED) over the last few years, with the focus being on farming and farmhouses. To recap, the legislation states that if a residential dwelling is held either by a company or a partnership that has a corporate member then potentially, an ATED tax return may have to be completed.

When the ATED legislation was introduced in 2013, the valuation for triggering an ATED tax return was for properties valued at £2 million or more, based on the valuation of the property as at 1 April 2012. This high valuation excluded most farmhouses.

Over the subsequent years, the trigger point for completing an ATED tax return has been reduced, and as of 1 April 2016, dwellings having a value of £500,000 or more as at 1 April 2012 were required to complete an ATED tax return.



Revaluation of Property

The ATED legislation states that property revaluations must take place every 5 years, the next being 1 April 2017. This means that if a residential property is valued at £500,000 or more as on 1 April 2017, an ATED tax return must be completed and submitted to HMRC for the 2017/18 tax year. Say a property was valued at £450,000 at 1 April 2012, but is now valued over £500,000 as at 1 April 2017, the property would fall under the ATED legislation and a tax return would have to be completed by 30 April 2017.

Due to the revaluation date and increase in property prices, potentially more properties could now fall under the ATED legislation, meaning farmers who farm through farming partnerships with a corporate partner or through a farming company, may fall under the ATED legislation if these types of farming structures own residential property e.g. the farmhouse.

Tax Charges

Although there are reliefs available (which have to be claimed), if a company is unable to obtain a relief for the residential property that they own, then there is a tax charge to pay which is based on the value of the property. The ATED charge is as follows:

Property Value	Annual chargeable amount 2017/18
More than £500,000 but not more than £1 million	£3,500
More than £1 million but not more than £2 million	£7,050
More than £2 million but not more than £5 million	£23,550
More than £5 million but not more than £10 million	£54,950
More than £10 million but not more than £20 million	£110,100
More than £20 million	£220,350

If you are uncertain if your property falls into the ATED regime, HMRC do offer a pre-banding check, but if you do ask HMRC for a pre-banding check, you may want to engage a surveyor to make a professional valuation on the property to accompany any paperwork for the pre-banding check, especially if the property straddles two tax bands.

For further advice or assistance, please contact either Mark Thompson or Mike Heath.

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Making Tax Digital (MTD)... the story so far

→ **Who will this affect?**

Under the proposals, all businesses and landlords will be affected by the new rules unless they are exempt.

The March Budget indicated that the level of gross turnover and/or gross rents for which exemption is to be provided is £10,000. 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.

→ **When will this impact?**

This is the big question! Prior to the recent General Election announcement there was a timetable in place which was expected to become law in the next few months.

The MTD provisions have been dropped from the recent Finance Bill, to allow the Bill to be passed in the short timeframe available before the dissolution of parliament but this came with the caveat of some interesting comments. When the Bill was read in the House of Commons it was indicated 'the government will legislate... at the earliest opportunity, at the start of the new parliament' and 'the government remain committed to the digital future of the tax system, a principle widely accepted on both sides of the house'. These comments will for many encourage prudence in planning ahead for the continued introduction of MTD.

Under the original proposals, unincorporated businesses and landlords would be brought within the MTD rules from the start of the first accounting period after 5 April 2018 if their total gross income exceeds the VAT threshold (currently £85,000). The entry point for many may only be one year away!

Unincorporated businesses and landlords with turnover below the VAT threshold but more than £10,000 will join a year later, from the start of the first accounting period after 5 April 2019.

VAT registered businesses will be required to bring their VAT returns within the MTD process from April 2019. This suggests that the web-based VAT return process will be withdrawn from 2019.

Limited Companies will not come into MTD until April 2020.

→ **How can you make sure you meet the MTD requirements?**

In order to meet MTD requirements you must keep digital records. This will mean either using MTD approved accounting software or spreadsheets accompanied by software, which together will meet the requirements of MTD. HMRC expects businesses to keep their records as near to real time as possible.

Businesses and landlords must analyse their transactions in accordance with the categories currently shown within the self assessment tax return.

You must make submissions showing totals of transactions to HMRC at least once every three months.

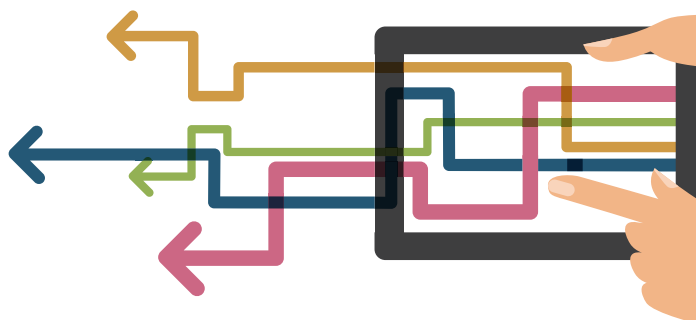
You must make a final submission to finalise profits for the accounting period. This will be made the earlier of 10 months after the end of the accounting period or 31 January following the year of charge for the profits.

As your advisers we can offer guidance on what software product will suit your business to minimise the administration burden and cost of MTD compliance. We have in our team accredited software advisers for Sage, Xero, Kashflow and Quickbooks Online.

It is to be hoped that greater clarity for the implementation timetable for MTD follows shortly after the election and we will continue to advise as the MTD 'story' develops.

Please contact Kirsty MacDonald or visit the MTD area of our website for further information.

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Changes For Landlords

Buy to let landlords of UK residential properties have been bombarded with tax changes in the last year. With the introduction of higher SDLT and land and building transaction tax (LBTT) rates for purchases of additional properties and the upcoming changes on restriction of finance costs, buy to let properties are possibly no longer quite the investment that they have been in previous years.



SDLT and LBTT

The 3% surcharge applies to both SDLT and LBTT for purchases of additional residential properties. You won't pay the extra 3% if the property you're buying is replacing your main residence and that has already been sold. If there is a delay in selling your main residence and it hasn't been sold on the day that you purchase your new property then you will be subject to the 3% surcharge. You may be able to apply for a refund if you sell your previous main home within 18 months if the property is situated in Scotland or 36 months if it is in England. There are, in addition, some unusual circumstances whereby you will be caught by this extra 3%.

One situation would be if you are a parent helping a child to purchase their first home by way of joint purchase. The surcharge will be on the full transaction (not just the parent's share) unless the parent does not own another residential property.

It is also worth noting that SDLT and LBTT are not aligned and there will be differences depending on what side of the border the property is located. One main difference is that cohabiting partners are treated as a single unit for the purposes of LBTT but not for SDLT.

Restriction of Finance costs

This issue was covered in detail in last year's spring/summer edition. To recap, the amount of income tax relief landlords can get on residential property finance costs is restricted from 6 April 2017 onwards. These restrictions will apply to all individuals renting out normal residential property in the UK or overseas, including those operating as an individual in their own name, as joint owners, through a partnership or a trust. The introduction of these changes not only limits the level of relief but also involves a fundamental change to the method of obtaining relief. Tax relief on the finance costs is currently available at the taxpayer's marginal tax rate by allowing a deduction when calculating the property business profits. Landlords will no longer be able to deduct all of their finance costs from their property income. Instead they will receive a basic rate reduction from their income tax liability for their finance costs. These restrictions will be phased in over a 4 year period so that the full restriction of interest relief will not be in place until 2020/2021.

Wear and Tear Allowance

Landlords of furnished properties have also received another blow with the 10% wear and tear allowance being abolished from 6 April 2016. Landlords can now only deduct the actual costs of replacing furnishings under the 'replacement of domestic items relief'. The initial cost of purchasing furnishings cannot be deducted. Those claiming rent a room relief are excluded from benefitting from this relief and furnished holiday lets will continue to obtain relief through the capital allowances regime.

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New Dividend Tax Changes

Shareholders of owner managed companies should bear in mind the imminent arrival of new 'dividend tax' liabilities, the first of which will become payable through the Self Assessment system on 31st January 2018.

The introduction of the 'dividend tax' was the subject of one of our previous circulars, and this is perhaps an opportune time to remind clients operating a business through a limited company and extracting profits as a dividend, of the forthcoming new liabilities.

The operation of owner managed and family businesses through a limited company has, for many years, been a well-used structure to minimise tax liabilities on profits. With many, an optimum tax position has been obtained by payment of a director's salary to utilise personal allowances, with dividends being declared sufficient to fund the additional personal income requirements of the business owner. For some the benefit has been maximised by limiting dividends to such an amount as results in no personal higher rate tax liability being generated. In these circumstances, the company has in the past paid Corporation Tax at 20% on profits and no further personal tax liability has arisen.

From 6th April 2016 the personal tax position on dividends changed. Dividends received of an allowance up to £5,000 suffered no personal tax liability, but dividends in excess of this allowance falling within the basic rate band became taxable at 7.5%, dividends in excess of the higher rate tax threshold became taxable at 32.5% and for those with high income levels over £150,000, the rate of tax on dividends became 38.1%.

The stark difference for many clients is that in the past no personal Self Assessment tax liabilities have arisen on dividends but unfortunately this will no longer be the case. **The additional personal tax will first become payable on 31st January 2018** and the effect of the self assessment payment on account system is such that a payment on account, equal to one half of the liability for the previous year, will also be payable on 31st January 2018. A further payment on account will be due on 31st July 2018.

We will be advising on the precise levels of dividend tax payments required through self assessment in conjunction with the preparation of personal Self Assessment Tax Returns and at this stage this is simply to remind you that a further tax liability will arise on 31st January 2018.

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Monitor Farms



A new Monitor Farm programme for Scotland was recently launched, and is being run by Quality Meat Scotland (QMS) and AHDB Cereals & Oilseeds. The Borders Monitor Farm is Whitriggs near Denholm, while the Lothian Monitor Farm is Prestonhall and Saughland Farms near Pathhead.

The purpose of the Monitor Farm programme is to bring together farmers and those involved in agriculture (e.g. accountants, agricultural consultants), to share ideas and knowledge through practical discussions and demonstrations, with a view to improving profitability, productivity, and sustainability of the farmers involved.

There are 6 meetings per year which are open to all to attend, the topics for the meetings will be decided by a management group drawn from those who attend, the slogan is "Farmer Led-Farmer Driven". The aim is not only to improve the business of the host farm but also, by extension, all of those who attend. Alongside the Monitor Farm there will be the opportunity to join a business (benchmarking group) which will look more closely at the figures and systems within this group.

Both Monitor Farms held their first meetings in February, for future meeting dates and further information, please visit www.qmscotland.co.uk/monitorfarms

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