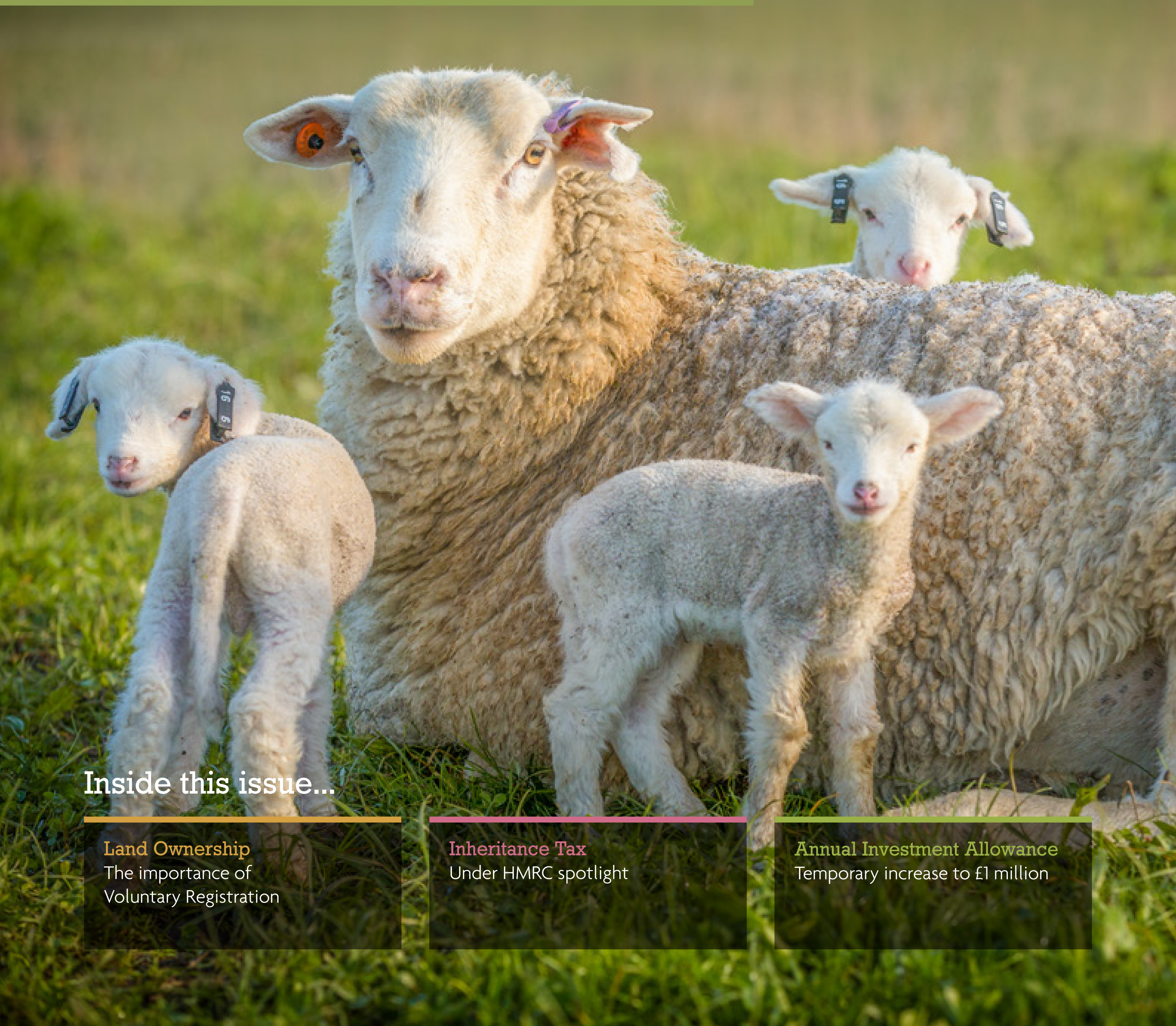
ISSUE 9 | **SPRING / SUMMER 2019**

Farming Matters

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



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Land Ownership
The importance of Voluntary Registration

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Annual Investment Allowance
Temporary increase to £1 million

RENNIE WELCH

accountants : audit . tax . investment . IT

Welcome

to our ninth edition of Farming Matters.

The clocks changed and the weather promptly followed with a nasty wintery reminder and a very 'dreich' week for lambing and calving. That said, the winter crops were looking well and most people would agree that they have potential but who knows what Mother Nature has in store for us in the coming months. At such challenging times for farming businesses I hope that you will find the articles contained in Farming Matters both practical and helpful.

Some of you will be considering capital expenditure in the coming months and there are a couple of helpful articles on things to consider when looking at capital purchases. There is, for the first time in a long time, an allowance on structures and buildings and this is covered along with the old chestnut of the differences between leasing and hire purchase. Mairi Drummond has written an update on the ongoing political thoughts around inheritance tax reliefs for farmers. There is also an article on improving your record keeping and the options to use technology to reduce the burden on record keeping. For us, year end stock is vital and that is why we write and ask for this and we amplify what we are looking for in our stock question and answer piece.

Finally, we are delighted to introduce our second 'Guest' writer, Stuart Buchanan. Stuart, a Director with FBR Limited in Kelso, is looking at the voluntary registration of land ownership. This is an important issue for land owners as it allows them to maintain control of the process.

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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Senior Partner

Capital Allowances

Capital expenditure incurred by a business is not an allowable deduction when computing trade profits. However, capital allowances may be available which allow a deduction for expenditure on qualifying plant and machinery when computing taxable trade profits.

Perhaps the most valuable allowance is the Annual Investment Allowance (AIA). The AIA gives businesses 100% first year tax relief on qualifying expenditure on plant and machinery. The AIA has been capped at £200,000 for a number of years, however, the Chancellor announced in his most recent Budget that the AIA would temporarily increase with effect from 1st January 2019 to £1,000,000 for a two year period, with the main purpose of this to allow businesses to incentivise and grow.

The actual amount of AIA available will depend on a number of factors. For businesses that have accounting periods that span over 1st January 2019, the AIA will need to be apportioned based on the number of months in the accounting period either side of the change. In addition, the amount of AIA available is also affected if the business decides to either extend or shorten their accounting period.

For businesses that spend in excess of the available AIA on plant and machinery, far less generous writing down allowances of either 8% (6% from April 2019), or 18% are available for expenditure on qualifying machinery, depending on the type of asset bought.

It is therefore crucial that, from a tax perspective, the timing of the purchase of an expensive item of plant and machinery is considered to ensure that the increased AIA is available. Subject to any further changes, the AIA will revert back to £200,000 on the 1st January 2021.

It was also announced in the Budget that a new Structures and Buildings Allowance (SBA) would be introduced for expenditure incurred on new non-residential structures and buildings. The relief will be available on the cost of the construction works on new contracts entered into on or after 29th October 2018 at a rate of 2% per annum on a straight-line basis.

The amount of relief available for qualifying expenditure incurred will depend on individual circumstances and detailed consideration should be given when evaluating any capital allowance claim, in addition to any other tax reliefs that may be available.

If you are planning significant capital expenditure in the near future, please contact me to ensure that timing of this is advantageous from a tax perspective.

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HAVE YOU VOLUNTEERED...?

The term "Voluntary Registration" is not a new catchphrase but the Land Registration etc (Scotland) Act 2012 passed on 8th December 2014 certainly put it into the spotlight.

Voluntary Registration involves the transfer of the title of land & buildings from the 400-year-old, paper based, General Register of Sasine's onto a digital format; known as the Land Register. The absence of a plan is not uncommon with Titles held on the Sasine Register i.e. the title relies upon descriptive boundaries only which can be difficult to interpret.

Historically, the Keeper of the Register of Scotland did not have to accept voluntary applications to register land under the 1979 Act but the new 2012 Act tasked the Keeper with transferring all unregistered property in Scotland within a 10-year period (2014 – 2024). Scottish Government passed the 2012 Act with the intention of accelerating the transfer process to facilitate transparency of property ownership.

During the 10-year window, property owners have the opportunity to voluntarily register their title where trigger events such as transfer of ownership is unlikely to occur.

Opting for Voluntary Registration allows the owner to retain control of the registration process and ensure that the title is correctly represented on the Land Register.

The alternative to Voluntary Registration is Keeper Induced Registration (KIR). KIR might not incur the same level of costs associated with the Voluntary Registration process but the absence of any input from the owner of the title puts the onus on the Keeper to get it right.

To date, the Keeper has avoided KIR of rural properties given complexities occurring with multiple ownership, split offs, rights & burdens, unclear boundaries etc. all of which may incur considerable costs at a later date to rectify manifest errors.

Avoiding Registration is not an option as the Keeper will eventually exercise her right to KIR to speed up the process if land owners do not come forward voluntarily.

Putting to one side the transparency of ownership, there are a number of benefits to Voluntary Registration;

- Preparation of an accurate scale plan based on current OS information
- Clarifies the boundaries for future transfers/sales
- Avoids ownership disputes
- Assists with succession planning
- Provides a state backed warranty of ownership
- Avoids uncertainty associated with KIR

The next step is to establish if your property is already registered and if not, prepare a new digital plan which is compliant with Registers of Scotland deed plan criteria.

To discuss your options and how to start the registration process; contact Stuart Buchanan at FBR Limited on 01573 224 381 or e-mail stuart.buchanan@fbr.co.uk

Stuart Buchanan
Director, FBR Limited

Hire Purchase vs Operating Lease

With the introduction of the new £1,000,000 annual investment allowance by HM Revenue and Customs, now is perhaps a good time to consider upgrading or investing in new equipment for your business. Below we will discuss the mechanics of both hire purchase agreements and operating leases.

A hire purchase agreement sees the hirer agreeing to pay for the cost of the asset over a period of time. The hirer gets possession of the asset as soon as the agreement is signed and the responsibility of the repair and maintenance lies with the hirer. For accounting purposes the asset is recorded on the balance sheet within fixed assets and the corresponding liability included within creditors. For tax purposes it is treated as though the asset was purchased at the beginning of the hire purchase agreement meaning you get an upfront tax relief on the total purchase price. However, bear in mind that the capital allowances can only be claimed when the asset is in use so timing needs to be considered when purchasing an asset near the accounting year end. As well as claiming capital allowances you will also be able to claim tax deductions for the interest charges arising under the agreement, but not the capital element of the payment. Generally an agreement which gives legal title to an asset at the end of its term, or gives an option to purchase this asset, is treated as hire purchase regardless of the agreement title.

An operating lease is the simplest form of asset leasing, where the customer does not take on the risks and rewards of owning the asset. It is therefore useful for allowing businesses to use assets for a period of time shorter than the useful life of the asset. As the terms of an operating lease are shorter, this can allow the business to update assets more regularly. If cashflow is tight this gives the option of avoiding a large up-front charge and allows the lease payments to be met while generating income. For accounting purposes the lease does not appear on the balance sheet and the rental payments are treated as business expenses and deducted from profits. Tax relief is obtained on these payments equally spread over the period of the lease.

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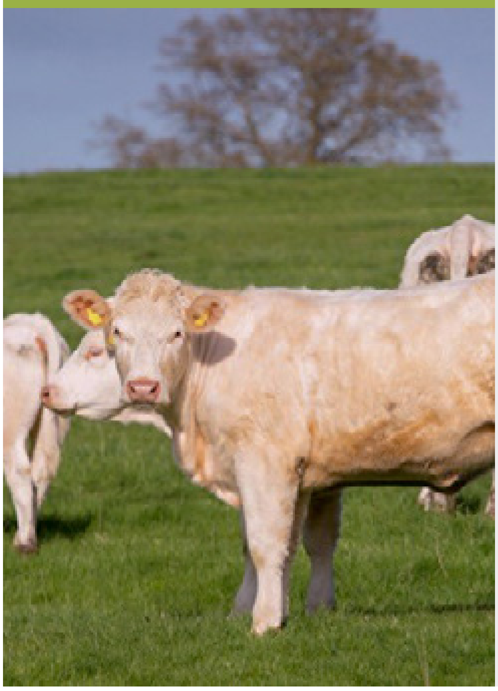
Q: You have contacted me requesting details of stock held at the year end – what information do I need to supply?



A:

Livestock
The first thing we need is livestock numbers. Not just a total, but a split between cows, bulls, bullocks, calves, ewes, rams, gimmers, lambs, etc. It's also always useful to tell us which animals were bought in and which were home-bred as this assists us with valuing them.

Growing Crop
With regards to growing crops we need to know the area of each crop in the ground at your year end. Depending on your accounting date it may also be useful to know what stage the crop is at, for example, whether the ground has only been ploughed or it's at the stage where spray has been applied. We would also need a note of any newly sown grass as this will have a valuation.

Crop Stores
We require a note of any seeds, fertiliser and sprays etc you have not used by your year end. We also need a note of any grain still on hand. It's always helpful to know whether this grain is to be sold or kept for feeding. Also it's important for us to understand whether a contract has been agreed prior to the year end for the grain in stock as this grain would be treated as a debtor in the accounts at full value rather than stock valued at cost.

Other Stores
We would like to know how much fuel you have in stock at your year end. Other stock you may have will include feed, medication, fencing materials and woodchips.

Too much information is better than not enough!

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Hints and tips on improving efficiency and streamlining your record keeping

Over the past few years bookkeeping procedures have changed significantly. We have moved from manual cashbooks and records involving lengthy manual calculations, tricky reconciliations and often multiple cross-checking procedures, into a world where almost everything can be automated.

With the introduction of Making Tax Digital for VAT last month, it now becomes crucial that you ensure that you are up to date with your current software subscriptions, and that you are aware of all the options available to you to help you remain as efficient as possible in your day to day record keeping.

Whether you are using a cloud-based platform such as Quickbooks Online, Xero, FreeAgent or Kashflow, or perhaps a desktop program such as Sage or FarmPlan, there are many options available to you to help improve the efficiency of your business, and to streamline your procedures.

Payment Processing

If you issue your invoices via email then payment services such as WorldPay and PayPal are now widely available to sign up to, and will appear as a link on your sales invoices, allowing your customers to make payment directly into your bank.

For businesses who have regular customers there are apps such as GoCardless which allow your customers to set up Direct Debit payment for their invoices. The amounts for payment are calculated directly from your ledgers within your accounting package, and the customers are advised of the payment amounts/dates prior to any payments being taken.

Debt Collection

Some packages have automatic reminder options for late payments, but where this is not available in your accounting program there are apps such as Chaser which can be integrated with your software to automatically chase bad debts.

Invoice Automation

With the help of apps such as AutoEntry, ReceiptBank and HubDoc you can scan, photograph or email your invoices to your own unique email address and the program will use auto recognition software to 'read' your invoices and to pull out the necessary information to then process it directly to your accounting package. Depending on which software you are using it also has the ability to attach a copy of the image to the transaction.

HubDoc also has the added ability to pull down recurring invoices from suppliers who generate your invoices online, which you would otherwise need to log in to retrieve each month.

Bank Feeds

Most software programs now have the facility to link into your online banking and pull down your bank transactions directly into your accounting software, meaning no more manual bank reconciliations at the end of the month.

If bank feeds are not available then software such as AutoEntry can use the auto recognition technology mentioned above to 'read' pdf copies of bank statements and these can then be imported to your software as csv or excel files. Alternatively HubDoc can be used to link up to your bank feeds, and then download them in the required format.

Bank feeds also introduce the use of 'bank rules' within the programs, this allows recurring items to be automatically processed to the correct nominal category and VAT code each time they appear on the bank statement, cutting down on the time spent maintaining your records.

Epos Systems

If you use an Epos system to record your sales, then instead of manually entering your sales for each period from an Epos report, you can possibly create an API link to import the information directly into your software.

Budgeting & Forecasting

While many of the current software packages include a vast array of reporting options, if you require more detailed budgeting or forecasting then apps such as Futrli and Insight can link into your data and provide extremely powerful and insightful reporting options, with options to set different scenario's etc. These apps link directly into your accounting package, so the reporting is accurate and always current.

There is also a more specialised farming app called 'Figured' which can provide benchmarking as well as stock management/cashflows/forecasting etc. Currently this app is only available to link with Xero software.

The above mentioned apps are only a very small example of the types of app which can be either linked into your accounting package, or run alongside it. If you log onto the website of your chosen software, you will see (especially with cloud-based platforms) that there are thousands of different apps out there, for assisting with more or less any business scenario you can envisage.

** Please note that not all of the apps mentioned above will work with all software providers. If you require any advice on either software or apps then please feel free to get in touch and I will be able to provide you with further advice.*

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Inheritance Tax under HMRC spotlight

Many farmers are concerned over the political landscape surrounding Inheritance Tax (IHT) reliefs and the possibility that the current favourable situation may change.

Currently, it is possible for farming assets to qualify for relief from IHT with Agricultural Property Relief (APR) and Business Property Relief (BPR) potentially available at rates of up to 100%. We would point out that it is important to review the availability of these reliefs as complexities can mean that they may not fully apply in every circumstance!

Concerns that there may be changes afoot have been influenced by the fact that, in January 2018, the Chancellor tasked the Office of Tax Simplification (OTS) to review Inheritance Tax. The OTS put out a call for evidence in April 2018 which sought to gather responses from the public and professionals and asked for thoughts on areas such as whether 'the criteria for being a farmhouse or the process of determining the agricultural value of the farmhouse be simplified?', whether there are discrepancies in the way APR and BPR operate and 'if it would help if APR was replaced by BPR or if the two were merged?'.

Due to the wide scope of the review, the OTS announced they would produce two reports. The first report looking at the administrative areas was issued in November 2018.

This report did not make any radical recommendations for changes in rules and covered digitalisation and administration. However it did mention that whilst they had received a wide range of comments about APR and BPR, the OTS's focus would be on the practical application and complexity of these reliefs rather than major changes to the reliefs themselves. This has been commented on by many as being good news for farmers.

The report mentioned that the 'evidence gathered so far suggests the reliefs are broadly working in a straightforward way. However, there are some areas where there is confusion, lack of consistency or where the rules do not account for businesses structured in different ways. This includes issues relating to furnished holiday lettings, joint ventures and limited liability partnerships – where changes could well have an Exchequer cost. The OTS has also heard that the need to claim APR before BPR can lead to increased administration.'

The second report which is expected to include recommendations in these areas is due in Spring 2019.

Whatever the outcome of the second report and the recommendations made, it is important that farmers make periodic reviews that the relevant reliefs apply and that the farming business has appropriate succession plans in place. To ensure opportunities are maximised, professional advice should be taken regularly to allow appropriate planning to be undertaken. Please contact me if you would like to discuss further any of the issues covered in this article.

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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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