



Environmental Land Management Scheme

As set out in the Government’s Health and Harmony report, the Government is changing the way in which support is given to farmers. The new scheme will be based upon the concept of “public money for public goods” and will be known as The Environmental Land Management Scheme (ELMS). It will embrace the principles contained within the draft Environmental Bill and the draft Agriculture Bill which at present are stalled at the report stage due to Brexit.

The aim of the scheme is to “leave the natural environment in a better state than we inherited it.” Farmers will be paid for improving the environment in the areas of improved soil, cleaner air and water, improved habitat for wildlife and increased animal welfare. There is also emphasis on everyone having access to local green spaces and recreation which has mental and physical health benefits.

Payments will be based on a “Natural Capital Valuation” approach. A baseline will be established when the scheme is joined, and payments will be based on the improvements made and the net environmental gain which has been made.

The concept of the “polluter pays” basis for penalties is also likely to be introduced to encourage a more sustainable approach to farming methods.

There will be a seven-year transition from direct payments. DEFRA has indicated that the new scheme will be straight-forward and will have a streamlined application process. Regular payments will be made on time. Farmers will be able to join together to facilitate new environmental schemes.

There is still uncertainty surrounding the scheme, but we would suggest that you look closely at your land use and review all of your business assets to ensure they are all working hard for you.

Capital grants for environmental projects will be available, and we will be able to assist you if you need to apply for further capital funding. We can also give advice regarding the tax implications of any new environmental projects you decide to undertake.

Give us a call to find out how we can help or please contact our rural department on farm@sheenstickland.co.uk

Grain silo treated as plant

The recent case of May v HMRC has highlighted the need for care to be taken when claiming Capital Allowances on assets.

Stephen May, an arable farmer, constructed a facility for drying and conditioning grain after it had been harvested and for storing it until it was sold. The facility was purposely designed to include controls for temperature and moisture extraction from the grain. Tax legislation allows silos to be treated as plant and machinery and Capital Allowances can therefore be claimed.

HMRC challenged the claim and argued that 80% of the facility was a “building” and therefore not eligible for Capital Allowances. The tax tribunal noted that whilst the structure looked like a large steel framed building with a concrete floor on which grain was lying, the facility had been specifically designed for the purpose of drying and storing the grain following harvest and maintaining certain levels of moisture and temperature whilst the grain was waiting to be sold. Therefore, the whole structure - not just the movable items - were integral to the building’s functions and a claim for capital allowances should be allowed. The tribunal also accepted that the building was temporary even though the grain could remain there for up to 9 months.

Whilst most new farm buildings will only be able to claim a 2% allowance under the Structure and Buildings Allowance regime for businesses incurring qualifying expenditure on



new structures on or after 29th October 2018, any specialist buildings may qualify for allowances at the higher rates applicable to plant.

If you are thinking about constructing a new building, talk to your accountant at the planning stage.

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Provision of accommodation and the National Minimum and Living wage

Accommodation provided by an employer can be taken into account when calculating the National Minimum Wage or the National Living Wage. No other benefit, such as a car, counts towards the minimum wage. If the accommodation is free the employer can add the offset rate of £7.55 per day or £52.85 per week to the worker’s pay for minimum wages purposes.

If the employer charges the employee more than the offset rate, the difference is taken off the worker’s pay for minimum wage purposes. Therefore, the higher the accommodation charge the lower the worker pay for minimum wage. If the accommodation is charged at or below the offset rate, it does not have an effect on the employees’ pay.

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Partial Exemption

There are currently three rates of VAT in the UK - standard at 20%, reduced 5% and zero 0%. In addition to these rates, some supplies are exempt from VAT, such as supplies of land and property where you have not opted to tax the land.

The ability to reclaim VAT if you are VAT registered is dependent on the type of supplies that you're making. If you make supplies that are standard, reduced or zero-rated you will be able to reclaim all VAT on inputs relating to these supplies. If you are making solely exempt supplies, you will not be able to reclaim any input VAT that is directly attributable to these supplies.

However, if you are making a mix of standard, reduced, zero and exempt supplies you will be considered to be partially exempt for VAT and will need to perform a Partial Exemption calculation when preparing each VAT return.

Input tax which is directly attributable to the standard and zero-rated supplies can be reclaimed in full, but only a percentage of the inputs on expenses which cannot be attributed (non-attributed) directly to a standard or zero supply can be reclaimed.

If the input tax on the exempt supplies and the non-attributable items is less than £625 per month (or £1,875 per quarter) and no more than 50% of the total input tax, you can claim all the input tax incurred. Even if you do not need to make an adjustment to the input tax being reclaimed, you should still be carrying out the calculation in case you get a VAT inspection.

If the input tax on non-attributable and exempt supplies exceeds £625 per month you cannot recover any of the input tax attributable to exempt sales and only a percentage of the input tax which is non-attributable.

The percentage of non-attributable input tax recoverable is calculated by dividing the amount of standard rated sales for the period (excluding VAT) by the total sales for the period excluding VAT. This percentage is then applied to

the non-attributable input tax to work out how much can be recovered.

The input tax recovered also must be reviewed annually as each VAT period can be affected by factors such as seasonal variations in sales. This is normally carried out in March when the calculation for reclaiming input tax recoverable is reviewed using the sales figures for the whole year to re-calculate the percentage recoverable. If the annual adjustment calculation shows that the exempt and non-attributable input tax for the year is less than £7,500 per annum and less than 50% of the total input tax, the previously blocked input tax can be recovered.

If you have any queries, please get in touch with one of the team on farm@sheen-stickland.co.uk



Vineyards

HMRC has recently confirmed that land used to grow grapes for wine and apples for cider can be treated as a qualifying use for the purposes of Agricultural Property Relief. This is good news for the producers of wine in the local area.



VAT on property used for storage – a reminder

Since 1st October 2012 any property, such as a building, a unit, a static container or other structure that is fully enclosed and is being used for storage, should have output tax charged at the standard rate of 20%. Output tax will always be charged at standard rate on a building which is subject to an option to tax.

If goods are physically stored in a structure, it is being used for storage purposes regardless of any intention of either the owner of the structure or the person occupying it. If part of the structure is being used for storage and the rest is being used for another purpose, the VAT liability follows the principle element of supply in accordance with normal VAT rules.

It is the responsibility of the landowner to ensure that the correct VAT treatment is applied according to the actual use of the space. You may wish to include a clause in your rental agreements specifying that the customer must tell you about any change of use of the building.

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Employing Contractors

If you engage contractors who work through a personal services company (PSC), the rules for making payments to them are changing from April 2020.

The new rules will make it the responsibility of the “end user” to determine if tax should be deducted from the contractor’s fee. Businesses that fall within the definition of “small” are exempt from the changes. Any organisation is considered as small if two or more of the following conditions are met:

- Annual turnover less than £10.2 million
- Balance Sheet total less than £5.1 million
- Total number of employees less than 50

The changes have been brought in to ensure that a contractor working through a PSC, who would otherwise be difficult to distinguish from directly engaged staff, pay the same PAYE and NIC as the employee.

If you use contractors, you will need to:

- Determine the contractor’s status for tax
- Notify the contractor of their status and the reasons for your decision
- If necessary, deduct PAYE and NIC from the payment made to the contractor and pay the deductions to HMRC. You will also need to pay Employer’s NIC on the gross payment

If contractors are being employed through an agency you must also notify the agency of the status determination.

This will mean that the “end user” may incur additional costs in the form of Employer’s NIC and there may be an increase in the fees that contractors are charging to make up for shortfalls in the contractor’s net income.

You should start to review contacts with contractors who operate through a PSC as soon as possible.

Give us a call to find out how we can help or please contact our rural department on farm@sheen-stickland.co.uk



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