SHEEN STICKLAND
CHARTERED ACCOUNTANTS Est. 1944

Summer 2016 Agricultural Newsletter

onagriculture

Residential Property Income Changes afoot

Over the last decade farmers have increasingly had to diversify and look for streams of income away from the traditional sources of farming income. For many of our farming clients a main source of income has become rental income either from letting out properties on the farm or investing in buy-to-let properties. Last year's summer budget announced a number of changes affecting individuals letting residential property which are due to come in over the next few years. Below is a summary of the key changes.

Interest paid on a loan used to purchase a buy-to-let property

Under the current rules both individuals and companies can deduct interest from the rental income received before calculating the tax payable. From 6 April 2017 interest relief is going to be gradually restricted for individuals and instead they will be able to deduct 20% of the interest paid from their income tax liability for the year. The percentage of finance costs deductible from income will be reduced over the next four years as set out below.

Tax year	% finance costs deductable from income	% finance costs where 20% tax reduction is allowed
2016/17	100	0
2017/18	75	25
2018/19	50	50
2019/20	25	75
2020/21	0	100

As you can see from the previous table the full effect of the new rules will not come in until 6 April 2020.

When the changes were announced last year there was a lot of media coverage but not all of the reports were accurate. Below are some of the common misconceptions surrounding these changes:

- **The changes will only affect higher and additional rate taxpayers** – This is not the case. The way in which relief will be given from 6 April 2020 onwards means that instead of deducting interest from rental income 20% of finance costs will be deducted from an individual's income tax liability. Therefore in some cases this will have the effect of pushing a basic rate tax payer into the higher rate tax band.

  Below is an example based on an individual receiving £40,000 of rental income and paying finance costs of £20,000.

Taxable income	2016/17	2020/21
Income from other sources	18,000	18,000
Taxable rental income	20,000 (40,000 - 20,000)	40,000
Taxable income	38,000	58,000
Less: Personal allowance	(11,000)	(11,000)
Taxable income	27,000	47,000
Income tax liability		
Basic rate (@ 20%)	5,400	6,400
Higher rate (@ 40%)	0	6,000
Less 20% of finance costs	n/a	(4,000)
Income tax payable	5,400	8,400

  In this example the individual ends up paying £3,000 more in tax as a result of the new rules.

- **Partnerships are outside of the scope** – The new rules apply to individuals, partnerships and trusts. They do not however apply to companies. Companies can continue to deduct loan interest as a business expense and will get tax relief at the rate of corporation tax (currently 20%).

- **Only apply to interest** – The new rules apply to all finance costs including interest, costs of arranging and repaying loans.

- **Applies to all let properties** – Commercial properties, properties overseas and furnished holiday lets are all excluded from the new rules.

Wear and tear allowance

You used to be able to claim wear and tear allowance (broadly a 10% of the rent less costs normally paid by the tenant) from gross rents where properties were let furnished. From 6 April 2016 this has been abolished for individuals and from 1 April 2016 for companies. It has been replaced with a deduction based on costs incurred on replacing furniture, appliances and kitchenware. This new relief is available to both furnished and part furnished properties.

Rent a room

The annual amount that you can receive from letting a room in your own home free of tax has increased from £4,250 to £7,500 from 6 April 2016. This is a fixed deduction and therefore if rents are higher say £10,000, £7,500 will be deducted from the rent and tax will be payable on the remaining £2,500.

If you need any help or advice on these changes please contact either Philip Sharpe or Harriet Sergeant on psharpe@sheen-stickland.co.uk/hsergeant@sheen-stickland.co.uk

Alresford Agricultural Show

We are looking forward to once again having a stand at the Alresford Agricultural Show on Saturday 3rd September; it has become one of the highlights in our calendar.

One of the most traditional country events, Alresford's annual agricultural show is just as popular and successful as when it first started, 108 years ago. With over 150 trade stands and 70 craft exhibitors, horse shows, plants and poultry, farm animals and vintage farm machinery, the show caters for everyone.

We are also sponsoring the Open Ridden Hunter class again this year, which will take place at 9am in the main ring.

The show runs from 9am-6pm in the lovely setting of Tichborne Park. For more information please visit www.alresfordshow.co.uk

We look forward to seeing you there!

The Future of the Family Farm Seminar

We are hosting two workshop seminars for farmers and landowners this autumn in Winchester and Chichester. The seminars will use a case study to explore all the various elements involved in selling a farm including Capital Gains Tax and other legal issues.

Sheen Stickland Partners Philip Sharpe and Harriet Sergeant, who specialise in the agricultural and rural business sector, will be joined by a number of partner organisations including Natwest, Carter Jonas and Moore Blatch Solicitors.

If you would like to attend either of our seminars or find out more information on our events for farmers and landowners please contact us on enquiries@sheen-stickland.co.uk

Annual Tax on Enveloped Dwellings

The Annual Tax on Enveloped Dwellings (commonly known as ATED) is not a new tax. It was originally introduced in 2013 to discourage people from using companies to buy high value residential property so that the property could be sold by way of a share sale opposed to an asset sale. The benefit of this being no Stamp Duty Land Tax would be payable by the purchaser.

When introduced, it was an annual tax applied on residential properties in the UK worth more than £2 million that were held within a corporate structure. The original value of £2 million meant that a number of our clients didn't have to worry about ATED but in 2015 changes were announced reducing the value to £1 million from 1 April 2015 and £500,000 from 1 April 2016. Given the current value of residential property, particularly in the South of England, these lower values mean that many more companies will be affected by ATED.

The good news for the agricultural sector is there are reliefs available where the property is:-

- **a farmhouse occupied by a farm worker or a former long-serving farm worker**
- **let to a third party on a commercial basis and isn't, at any time, occupied (or available for occupation) by anyone connected with the owner**
- **open to the public for at least 28 days a year (such as in the case of a stately home)**
- **being used by a trading business to provide living accommodation to certain qualifying employees**

Whilst the reliefs may mean you don't have to pay an annual charge you do still need to claim the relief. This can be claimed using a Relief Declaration Return. If the relief will reduce your ATED charge to nil or if you will still have an ATED charge to pay you will need to prepare a full ATED return.

If you have any questions regarding ATED or need help completing your annual return please do not hesitate to contact Philip Sharpe or Harriet Sergeant on psharpe @sheen-stickland.co.uk / hsergeant@sheen-stickland.co.uk

To Incorporate or Not to Incorporate

Over the last decade incorporation has been a popular option primarily due to the flexibility in respect of how you take income and the advantageous rates of corporation tax as compared with income tax. Unlike a partnership a company is a separate legal entity and the profits of the company are taxed independently therefore it enables the shareholders to manage the amount of income they receive and pay tax on.

In recent years limited companies have become less attractive for farming businesses due to the aggressive taxation on benefits in kind and the double tax charge on extracting income from the sale of assets. If a company sells a chargeable asset such as a property the company will pay corporation tax on the gain. The individual shareholder will then have to pay income tax when the money is extracted from the company. Therefore, when putting a farm into a limited company it is important to consider what assets should be incorporated.

The introduction of the new dividend tax rates introduced from 6 April 2016 have also meant that taking income from the company is now not so tax efficient. The new rules mean that there is no tax to pay on the first £5,000 of dividend income but thereafter an additional 7.5% is payable. This means for a basic rate taxpayer an increase from 0% to 7.5%, for a higher rate taxpayer an increase from 25% to 32.5% and for an additional rate taxpayer an increase from 30.5% to 38.1%.

Does this mean this is the time to disincorporate?

Having incorporated it is possible to discorporate but this may trigger a tax charge on the chargeable assets including Goodwill, land and building and plant and machinery.

Disincorporation relief was introduced in the FA 2013 and is a temporary measure that is available to smaller companies for disincorporations that take place on or before 31st March 2018. In addition qualifying assets (Goodwill and land and buildings) must not exceed £100,000.

The effect of this relief is that chargeable gains should not arise on the Company with the transfer of these assets to an individual. However, as with all tax planning there are a number of additional factors that would need to be considered, in particular the effect on the individual's tax position. If this is something that you would like to discuss in further detail please contact us in order that we may discuss your own particular requirements.

If you would like more information on business structures please contact Philip Sharpe or Harriet Sergeant on psharpe@sheen-stickland.co.uk/ hseargeant@sheen-stickland.co.uk

Family Partnerships and Limited Partnerships

Previous Sheen Stickland newsletters have covered the importance of having a suitably worded partnership agreement to cover the farming partnership.

In recent weeks we have been working on new partnership agreements for several farming clients with Moore Blatch Solicitors. As well as ending up with an agreement that correctly deals with the farm property, what happens on the death of a partner and other such issues, the process itself of discussing and developing the agreement has helped our clients, their children and wider family develop a succession plan of which they are all part and reflects the parents' wishes for passing assets to the next generation.

Most farming partnerships are known as general partnerships where the partners may have different responsibilities, duties and profit shares but are all full partners in that they share joint and several liability for the business. This structure works well for most family farming businesses.

However if some or all of the land is held in trust or there is a partner within the business who provides finance but is not an active member of the partnership, then there may be an argument that a limited partnership rather than a general partnership would be best suited to the family's needs.

In limited partnerships at least one of the owners is considered a “general” partner who makes business decisions and is personally liable for the business debts. But limited partnerships have at least one “limited” partner who invests money or assets such as land in the business but has minimal control over the day-to-day activities of the business. The advantage for the limited partners is that they are not personally liable for business debts over and above the amounts invested in the business.

In certain circumstances a Limited Liability Partnership or Limited Company may suit the family's needs though both these business structures have to file annual accounts and annual returns at Companies House removing some of the privacy of the traditional partnership structure.

To find out more information on the different partnerships available to farming businesses please contact Philip Sharpe or Harriet Sergeant on psharpe@sheen-stickland.co.uk / hsergeant@sheen-stickland.co.uk

CLA Breakfast at the Surrey County Show

May saw the CLA Breakfast at the annual Surrey County Show, which we were delighted to be sponsoring.

With around 50 guests in attendance, the breakfast celebrated Surrey's wealth of local food and drink producers, with talks from a number of fantastic speakers including Ian McCulloch of Silent Pool Distillers and Tim Metson from Coverwood Lakes and Farm, who is also leader of CowParade Surrey Hills.

Guests at the breakfast were also able to sample muesli from Imbhams Farm Granary and talk to local producers Kokoh Chocolate and Dunsfold-based The Crafty Brewing Company.

It was great to be involved in the breakfast, learn about the success of the rural business landscape in Surrey and champion the high quality food and drink producers that the county has to offer.

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This newsletter was published prior to the result of the referendum on 23rd June 2016.