PKF FRANCISCLARK
Chartered accountants & business advisers

WINTER 2019

FARMING MATTERS

SHAREDAMBITION

WELCOME TO OUR FIRST 2019 FARMING MATTERS NEWSLETTER

At this time of year it is always nice to reflect over the last 12 months and consider events that have made you smile or shed a tear, things that have made you feel proud, how adversities have been overcome and hopefully looking back with a sense of achievement.

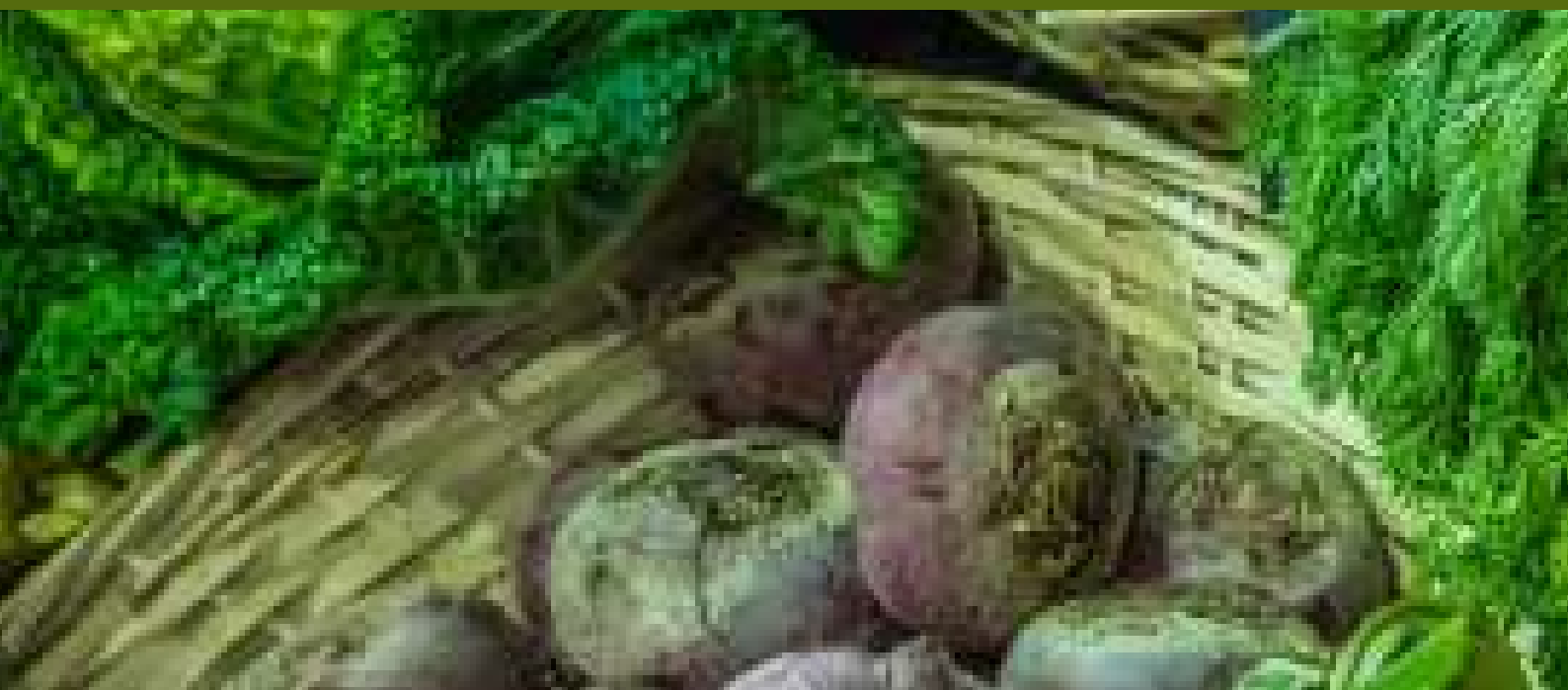
At the same time, the new year is a time for looking forward, considering the challenges and opportunities that you are likely to face with the intention of entering with a positive mind-set... but the current deadlock in the Brexit negotiations might make this difficult.

In theory, 29 March 2019 will see the UK's exit from the EU and usher in a transition period where nothing much will change.

In reality, with all the current political chaos, all outcomes would appear still to be a real possibility, from a delay to the Article 50 period, another referendum, a version of Mrs May's Brexit deal, an immediate exit with no deal or even another general election. In short, after an interesting start to the year, no-one knows what tomorrow may bring, let alone the rest of 2019.

As I have said before, few, if any sectors will be more directly impacted by Brexit than agriculture. Despite the clock ticking, there does not appear to be any more clarity as to what the Brexit outcome might look like and arguably the fog around Brexit seems to be thickening. As I am writing this the day after the worst Common's defeat by a government in modern political history, there is the usual caveat that everything might change... and South West agriculture may have certainty about their trading environment. Unfortunately I don't think this caveat will be needed.

In terms of labour supply, initial announcements with regard to the availability of 2,500 non EU workers whilst welcome, seem to just scratch the surface and the recently published Migration Advisory Committee (MAC) report calls for a radical shift in UK migration policy post Brexit. This could have major implications for the agricultural sector if implemented as foreign farm workers are unlikely, initially at least, to be classified as 'high-skilled' or indeed earn the £30,000 minimum salary suggested for them to be allowed to work in the country. This will leave many farmers questioning where their labour might come from.



The Agriculture Bill was introduced on 12 September which, whilst covering a lot of ground, remains vague. The Bill outlines how the Basic Payment Scheme (BPS) will be phased out and essentially replaced by a new Environmental Land Management Scheme (ELMS) where land managers are paid for 'public goods'. However, many, including myself, have expressed concerns as to the lack of reference to a safe and secure food supply and I have joked that at the moment at least, just like the alphabet, E (Environment) clearly comes before F (Food) in DEFRA!

In addition, it is important to note that the Government has only guaranteed overall funding for the sector at current levels until 2022, leading to potential uncertainty as to what happens next. The recent budget saw the Chancellor talk of the end of austerity and of the funding requirements for the NHS, education, digital infrastructure, counter terrorism police, the high street and even pot holes. The nearest to agriculture I could find was £60m for the planting of trees!

With the long term funding of the agricultural sector beyond this parliament being unclear, it does make it crystal clear that retaining the level of current funding for the sector is going to be a big ask and the sector will need to be on a charm offensive in forthcoming years.

So, as we enter 2019, you can see Brexit, which we must not forget the majority of farmers voted for on 23 June 2016, is continuing to create uncertainty for the sector and decisions have had to be made in terms of planting crops and breeding livestock, the results of which will only come to fruition when we are outside the EU!

I do wonder what we might have to talk about post Brexit? Or whether Brexit might be like the Hotel California lyrics where "You can check out any time you like, but you can never leave!"

2019 will see the implementation of Making Tax Digital and we have been, and continue to be very busy helping our clients prepare and this is certainly something everyone should be thinking about if they have not acted already. There is no non-compliance option available and the benefit of the cloud software in terms of tax planning, budgeting and monitoring should not be under-estimated.

This edition also includes articles on many topical issues including amongst other things "Who owns the farm?", a very important issue that I have been shouting about recently and which seems to have caused some ripples across the West Country. We also look at the importance of planning for the future and cash flow forecasting, laying the foundation for succession planning and what the Chancellor said in the budget.

Hopefully there is something here that will be of interest to you and as always if you have any questions arising then please do not hesitate to contact your local PKF Francis Clark office.

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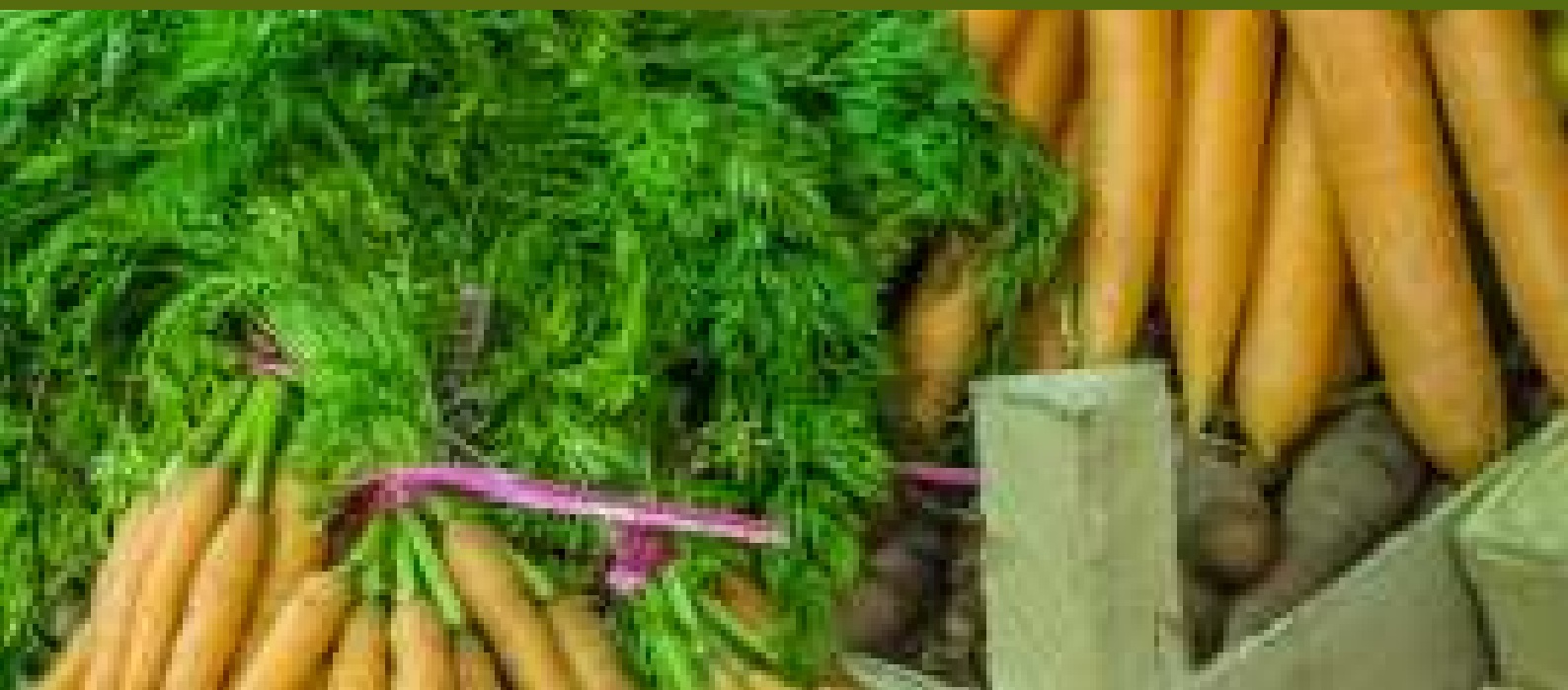

PLANNING FOR THE FUTURE

AND CASH FLOW FORECASTING

With the publication of the Agriculture Bill on 12 September 2018, we now know the Government's intention to phase-out subsidies in their current form by 2027. This raises the need for medium to long-term planning and we are increasingly involved in drafting ten year cash flow forecasts with clients.

Why prepare a cash flow forecast? Well, what would happen if your business does not change in the next ten years, but subsidy income declines as currently expected, then what would your profitability be in 2027?

A cash flow forecast helps to identify when financial pressure points will arise, and in turn will focus the discussion on what changes can and should be made to improve the business. In many cases, it may well highlight the need to replace the declining subsidy income with another source. Making your assets work for you and exploring diversification options could be the solution.

While many will say that it is almost impossible to accurately forecast so far ahead, this can be done in the round. Many costs in an agricultural business are fixed in the medium-term or are expected to only change by the rate of inflation.

Examples of fixed costs:

- Drawings - your domestic and living expenses
- Finance - mortgage and machinery repayments
- Labour - if employee numbers don't change, wage rates are expected to be inflationary
- Overheads - if scale and types of business activity remain unchanged then these costs can be forecast to increase by inflation.

Once you have determined what your costs might be, then calculate the minimum income required to cover these costs.

This may sound simplistic but starting a cash flow forecast helps to identify the income and costs over which you have a modicum of control and those that you do not. This is about identifying the knowns and the unknowns.

Where you have some control, you can effect change to improve those elements of your business. Where there are elements of your business over which you exercise limited control, these are often short to medium term and the risk of uncertainty can either be managed or eliminated by changing aspects of your business as a result of thoughtful planning.

IF YOU REQUIRE ASSISTANCE IN DRAFTING A TEN YEAR CASH FLOW FORECAST THEN DO NOT HESITATE TO CONTACT US.

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WHO OWNS THE FARM?

THAT WOULD SEEM TO BE A STRAIGHTFORWARD QUESTION YOU WOULD EXPECT MOST FARMERS TO BE ABLE TO ANSWER.

However, experience shows that whilst many people think they know the answer, they are surprised when they are told that this is not consistent with what the accounts or what the Land Registry says.

The majority of farm businesses still trade as partnerships and often this is where the issue lies, as the uncertainty is whether or not the farm is partnership property or an asset of the partners. This subtle difference needs to be understood as it can have significant implications.

As a general guide, if the farm has been purchased the position is clear, as it is more often than not clear who entered into the transaction and in what capacity.

However, it is much more common for uncertainties to occur where the farm has been gifted or inherited. It may be that the farm was left to one or more partners, possibly reflected as such in the updated Land Registry documents, but there may be little documentation as to whether or not the land was then entered into the partnership and, as there was no payment, it is likely that the asset is not listed on the fixed asset register in the accounts.

GIVEN THIS, IT IS EASY TO SEE HOW CONFUSION ARISES OVER THE OWNERSHIP.

So why does this matter?

How the farm is owned can have significant tax implications if the farm is sold or gifted during lifetime, or is bequeathed on death and ownership is often the root cause of many a farm partnership dispute.

For inheritance tax (IHT) purposes, if land used in the farming business is owned by partners outside of a partnership, then business property relief (BPR) would only be available at 50% on death which, depending on the level of hope value, could leave a nasty IHT shock. Similar land owned inside the partnership might achieve 100% BPR.

Supporting documentation, and how matters are presented in the accounts and tax returns are important. Where there is uncertainty over ownership, then in the absence of a partnership agreement, declarations of trust or well prepared accounts showing specific property capital accounts, there are many examples in case law relating to what have proven to be extremely expensive farming family disputes.

If land is to be sold, especially for development, or there is a death, dispute or a divorce, any uncertainty with regard to land ownership will only add to costs that could often have been avoided.

As such, it is imperative that in every case the position of ownership is clear, understood and supported by appropriate legal documents and accounts (including property capital accounts). If this isn't the case for your farm, then I recommend immediate action is taken. Unfortunately the unexpected can happen, and significant problems can arise.

A secondary point is then, even when the farm ownership is clear and well documented, whether the current ownership of the farm remains appropriate for you in terms of succession, wills and tax planning and whether or not a change in ownership can improve and clarify the situation.

These are all areas where we can assist and ensure that all points are properly considered. If you have any concerns with regard to these issues, please do not hesitate to contact your local PKF Francis Clark office.

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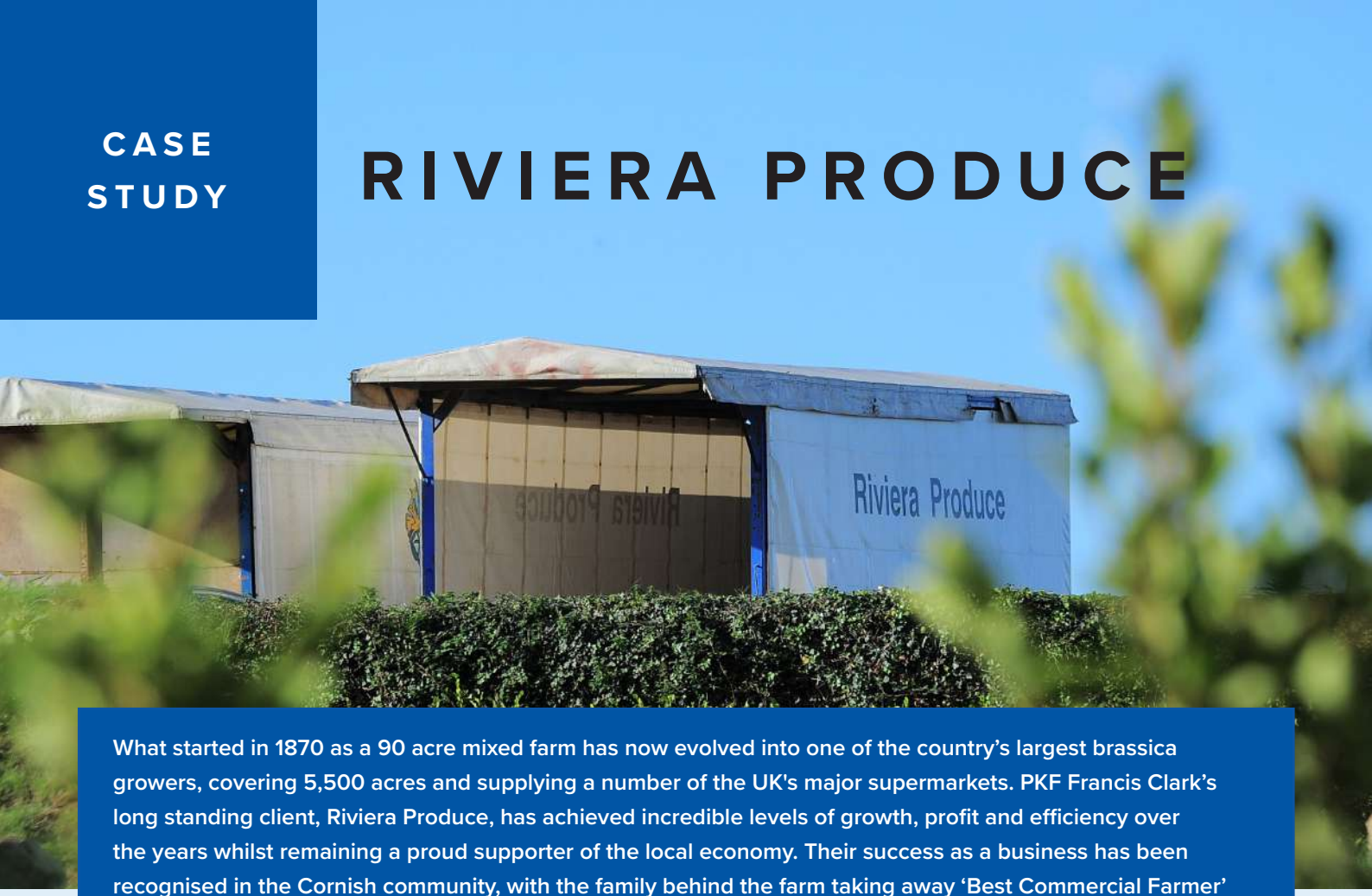
CASE STUDY

RIVIERA PRODUCE



What started in 1870 as a 90 acre mixed farm has now evolved into one of the country's largest brassica growers, covering 5,500 acres and supplying a number of the UK's major supermarkets. PKF Francis Clark's long standing client, Riviera Produce, has achieved incredible levels of growth, profit and efficiency over the years whilst remaining a proud supporter of the local economy. Their success as a business has been recognised in the Cornish community, with the family behind the farm taking away 'Best Commercial Farmer' title as well as the overall prize, 'Cornwall Farmer of the Year' at the Cornwall Farm Business Awards in 2018.

Riviera Produce is a family business, now in its sixth generation run by David, Sue and Tom Simmons based at a purpose built facility near Hayle in Cornwall. When the farm was established 150 years ago, it was a truly 'mixed farm' producing milk, beef, pigs and a variety of vegetables. A short lived expansion in the pig enterprise in the early 1980's, when David joined the farm from college, led him to undertake a thorough review of the farm, assessing what the family should focus their efforts on moving forward. Cauliflowers and brassicas were the clear answer, as they were able to produce excellent quality produce with an extended growing season.

A letter and subsequent phone call to a national supermarket chain, where David questioned why they were selling large quantities of imported produce when our own climate could support an almost year-round production of caulis and cabbages, led to a contract with supermarket chain Safeway, and a subsequent huge upscaling of the business. Over time the demand for Riviera's produce dramatically increased with other supermarkets coming on board.

Whilst initially reliant on over 40 other growers, David has, over the years, taken control of more of the land, culminating in the business that we see today – directly farming over 5,500 acres with another 1,000 acres in collaboration with six other growers.

In 2005, the family took the decision to sell their dairy herd. A decision that wasn't taken lightly, but was necessary for the future of their operation, as it allowed them to fully dedicate their time to concentrate on the most profitable part of the business.

Riviera Produce now sells to five major supermarkets nationally, producing over 70 million brassica plants over 700 fields, employing 400 people as well as becoming one of the top five brassica growers in the country.

Despite being a large scale business, which has had opportunities to expand outside of the UK, being 'Cornish and proud' very much remains at the heart of the company and the core business. There is still plenty of capacity to grow, but it is very important to the family that they remain regional, producing excellent quality products.

As progressive and innovative farmers, the Simmons family are always looking for new ways in which the business can be taken forward. Riviera continually invests in the latest technology for planting, crop management, harvesting and irrigation equipment which enables them to ensure the best possible quality and continuity throughout the year.

The latest development is their newly extended packing house which since completion in 2018 has been the venue for a 'Rural Professional Farm Walk' hosted by PKF Francis Clark. Over 45 rural professionals from across Cornwall gathered at the location to see the impressive set up.

The business is also committed to being as sustainable as possible, always taking steps to be as environmentally friendly as they can. Recent developments include solar panels to make 55% of the pack house self-sufficient, constant product development including squashes and new varieties of brassica and taking part in projects looking at the use of robotics.

BREXIT CONCERNS AND THE BUSINESS

Like many agricultural businesses in the South West, the family have concerns over the uncertainty of Brexit and how it will affect their businesses. A particular worry for Riviera Produce is the issue of access to foreign labour as 90% of the farm's workforce are Eastern European. Brexit, the resultant weakening of the pound and the vagueness surrounding what will happen has made recruitment and retention of what is a vital workforce difficult. Conversely however, if a no deal situation did occur, delays in importing competitors' goods from Spain "...wouldn't be the worst thing in the world!" commented David.

Brian Harvey said "Brexit is a common theme of concern for many of our clients, but more so in the farming and agriculture sector. Planning in these uncertain times is essential and we are helping our clients such as Riviera Produce with some of the steps they can take to future proof their operations".

David added "I am very proud of my Cornish roots and what Cornwall offers - fantastic produce, delivered fresh, daily, to all parts of the UK." The family play an important role in the success of the business, and his son Tom coming back to the farm to work in 2013 was "what every farmer dreams of, six generations of the same family working the land and it is something to be very proud of.

"PKF Francis Clark have been with us on our journey and their advice as we have grown and expanded has been invaluable. We look forward to future of the business and it is always reassuring knowing that we have Brian and the team at PKF Francis Clark to call on when needed".

Brian Harvey said "A true Cornish business - David and the family are a fantastic example of farmers who have sought out and maximised opportunities and who are always looking to develop the business whilst keeping a keen eye on costs. Working to the strident demands of the supermarkets is no easy feat and it is a testament to his, Sue's, Tom's and their team's hard work, passion and vision that Riviera Produce is such a success story and it is a pleasure to work beside them and watch them grow as a family and a business".

"PKF Francis Clark have been with us on our journey and their advice as we have grown and expanded has been invaluable"

IF YOU ARE NOT YET MTD COMPLIANT PLEASE CONTACT YOUR LOCAL PKF FRANCIS CLARK ADVISER AS SOON AS POSSIBLE TO TALK ABOUT THE BEST SOLUTION FOR YOUR BUSINESS.

LAST CALL FOR MAKING TAX DIGITAL

As you are all hopefully now aware, with effect from 1 April 2019, the MTD legislation comes into force. This deadline is fast approaching so a final push is needed to ensure you are compliant and we can help with this.

In summary, businesses with taxable turnover over £85,000 (i.e. compulsorily registered for VAT) are required to be MTD compliant and must submit VAT returns to HMRC via a digital link. To do this you need to be using functional compatible software that can record and preserve digital records, and provide information direct to HMRC.

Initially this may seem onerous if it means you need to move from your current system to a cloud based system, but clients that have already made this move have found there to be many advantages of their new system. It is therefore important that we can help every client unlock these advantages for their business.

For every client, real-time information and the ability to see key figures on a dashboard designed specifically for the user, together with a variety of management reports, enables decisions to be made quickly using accurate information. Being cloud based your accountants and also, where applicable, your agricultural consultant, can also access this information and provide timely, pro-active advice throughout the year, so decisions can be made at the times that matter and this is key for tax planning.

The cloud based packages we recommend are user-friendly and our team of experts can provide full training on their use. Learning anything new can feel daunting and needs an investment of your time, but the long-term efficiencies and time saved are well worth it. Automated bookkeeping through the use of scanning invoices into the system, machine learning and bank feeds for downloading statements can save a significant amount of time.

An egg producer who raises 130 sales invoices a day has recently moved to Xero and now finds they can raise and send their sales invoices in an hour, rather than the afternoon it took them previously. The invoices can also be emailed directly to the customers through Xero, meaning they receive the invoices more quickly and therefore hopefully will also pay more quickly, providing a time saving and also a cash flow advantage for the client.

Another real-life example is a farmer producing several crops and also running a dairy farm. Previously the bookkeeping involved using a number of separate spreadsheets. This time consuming process resulted in VAT returns not always being completed on a timely basis and often with errors. The use of so many spreadsheets also meant the farmer never knew how much profit they were making overall until the year-end accounts were prepared, often up to six months after that year-end. We have transitioned this client to Xero and, using the department functions, they can still track the results for each individual area, but they are now also up to date with VAT submissions and there are far fewer errors.

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SUCCESSION PLANNING

- LAYING THE FOUNDATIONS

The day to day demands of running a farming business can, I am sure, lead to a 'head down and plough through the work' scenario leaving little time to plan for your longer term personal and business objectives. Dealing with the here and now consumes most of your time and energy leaving little opportunity to consider planning for your own retirement and the succession of the business.

Setting time aside with professional advisers can provide some space to consider your long term plan and the eventual transfer of the business to the next generation. The phrase 'asset rich and cash poor' can often be heard in relation to farming businesses and two common challenges are; facilitating the retirement, or more likely semi-retirement, of the current generation as well as considering inheritance planning where not all beneficiaries may be in the business.

Looking at retirement planning first, it is generally the case that a business owner would seek to sell their business to realise a capital sum at the point of retirement. This is not generally an option for farming businesses and provision of capital to the retiring generation at the right time can allow the next generation to run the business without restriction.

The most tax efficient method of building an asset that is independent of the business and is liquid in nature is through a pension plan. With pension contributions attracting income tax relief and/or corporation tax relief depending on whether you are a partnership or limited company, the tax benefits are significant. Additional flexibility brought in recently has further enhanced the attractiveness of pensions which can now be accessed from age 55 with the first 25% of the fund available tax free and the remaining fund utilised to provide an income. To top off the benefits, any residual fund left at the end of the pension holder's lifetime can now be passed to beneficiaries without charge to IHT.

Making regular pension contributions as early as possible provides time to build a significant nest egg independent of the business which can reduce the strain when the current generation want to take a step back from the day to day operations. It provides freedom to exit the business as and when you are ready.

Turning to inheritance planning, it can often be a challenge to provide for children not directly involved in the business, those who inherit the farm will do so without a need to find capital. Making provision for others however can prove more challenging if the bulk of assets are tied up in land and business property. Building an asset base outside of the business can provide an income for the retiring generation and also a lump sum inheritance for children not directly involved in the business.

Pension saving as mentioned previously can be used for this purpose with surplus funds nominated to be paid to specific beneficiaries on death. Building a tax efficient ISA portfolio is another viable option, providing tax free savings for the lifetime of the current generation with the option to take a tax free income in retirement and then pass on a capital sum to beneficiaries, albeit potentially subject to IHT. If building a lump sum is not achievable then provision of life assurance through a 'Whole of Life' policy placed in trust can deliver a specified amount to beneficiaries free of IHT.

Investing a little time now to lay the foundations for the future can ensure a smooth and stress free transition from one generation to the other. At PKF Francis Clark, our accountants and financial planners work in tandem to provide you with trusted advice enabling you to achieve your objectives in a measured and effective way.

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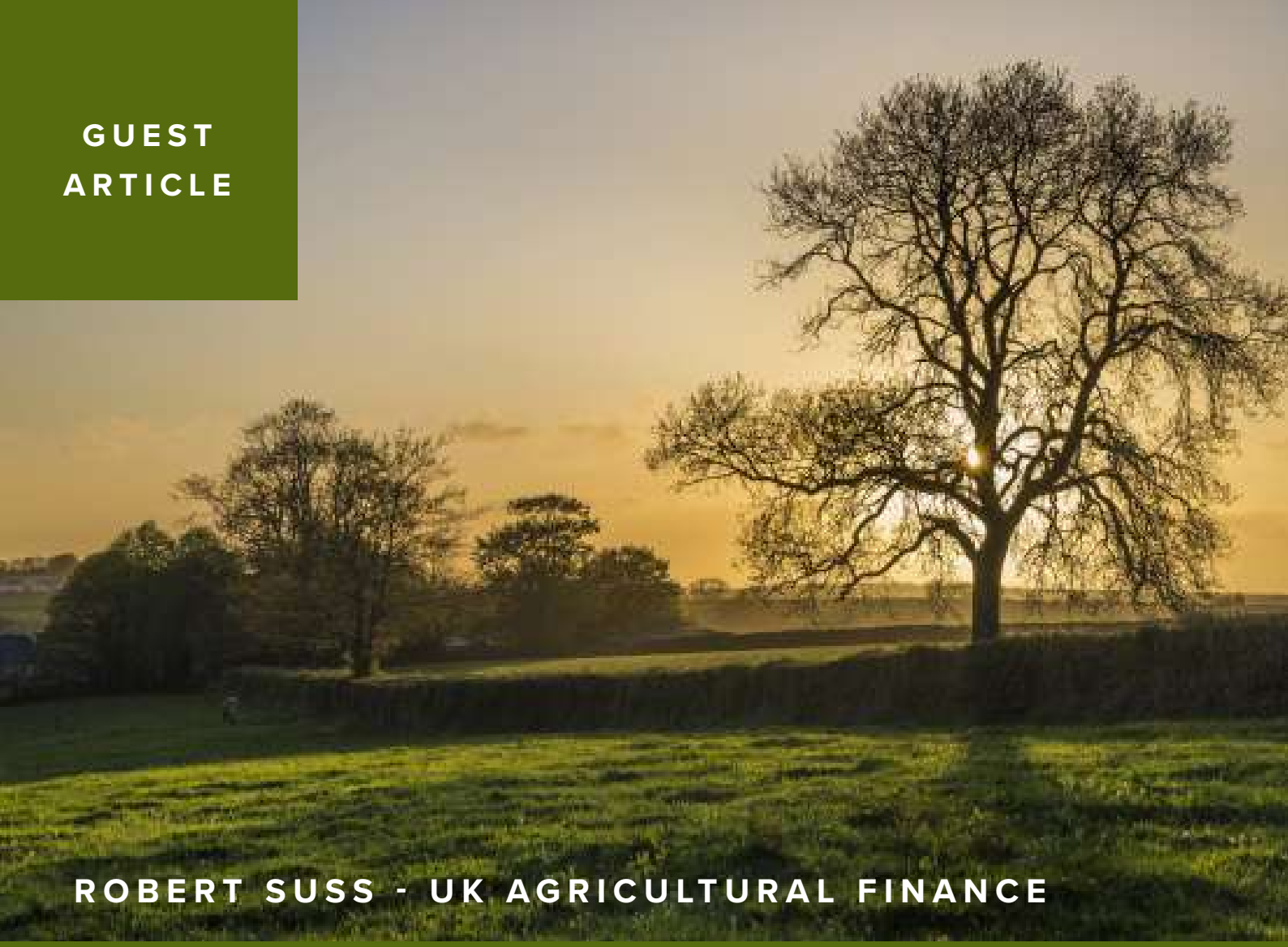
GUEST ARTICLE



ROBERT SUSS - UK AGRICULTURAL FINANCE

UK Agricultural Finance was founded to provide much needed business finance to rural communities across England, Scotland and Wales. The company recently secured institutional funding to expand its loan book by £150m to meet the demand from farmers for short and medium-term capital, after many of the banks cut their specialist lending teams during and post the financial crisis.

Rural finance requires specialist knowledge and a lender willing to offer traditional face to face underwriting. UK Agricultural Finance's team knows rural property and rural businesses, the many challenges they face, but most importantly their appeal. They also understand business lending against agricultural land where a 'one size fits all' approach doesn't work. The company prides itself on working with the leading experts in agricultural valuation, security and restructuring to ensure swift, informed and fair decisions.

UK Agricultural Finance works with farmers up and down the country providing loans to assist:

- Diversification, to build new businesses
- Purchasing new farmland when additional acreage or a unique property opportunity may come available and often at short notice
- Property finance to develop, renovate or repair property for capital appreciation and income generation
- Renewable energy projects can be a great source of additional income and add real value to under-utilised land on a farm, or even turn waste products into revenue
- Livestock finance to expand their livestock holdings
- Recovery and restructuring is needed when financial pressure is acute, and a facility can provide a window to take control and rationally plan
- Tenant farmers with a right to buy their land
- Generational transfer to help farming families who are looking to transfer their farm to the next generation achieve this.

Loans range from £100,000 to £10m, with terms from one to seven years and a maximum LTV of 65%.

UK Agricultural Finance recently joined a select group of alternative finance firms on NatWest's Capital Connections panel, becoming the 10th lender and first industry specialist on the panel.

UK Agricultural Finance is an enthusiastic supporter of farm diversification and is experienced in working with brokers and providing farmers access to capital to diversify, sustain, grow and improve their businesses.

If you have any enquiries, please feel free to contact the team on 01732 252399 or info@agriculutralfinance.com

COUNTRYSIDE PRODUCTIVITY SMALL GRANTS SCHEME TO REOPEN IN 2019 WITH £30M AVAILABLE

NEWS?

Whilst this is obviously good news, in a way it is not really news at all. The money is not a new commitment, but rather a reiteration/clarification of announcements made on the launch of round one of the scheme.

From my discussions with clients it was generally found that for the first round:

- The application process was reasonably straightforward; and
- The grant was popular!

MORE DETAILS TO BE RELEASED IN 2019

Further details will be published in early 2019, when the next round of funding from Countryside Productivity Small Grants Scheme (CPSGS) reopens for applications. Based on the first round and the press release for 2019 reopening, it is clear that:

- CPSGS is only open to applications from farmers across England;
- The grant must be used to purchase hi-tech equipment which will increase efficiency, productivity and yields;
  - This will include equipment specific to cattle, sheep and pig farmers, as well as precision farming and resource management equipment for arable farmers.
  - Grants can cover up to 40% of the eligible costs in your application and this is increased to 50% for farmers in Cornwall or the Isles of Scilly, the remainder of the funds having to be funded privately.
- The list of items eligible for the first round of funding (for information only as the round is now closed) can be found in the Small Grant Handbook (available on the **gov.uk** website).
- Following industry feedback, new items have also been added to the list of equipment eligible for funding in the second round, including fruit ripeness spectrometers and nitrogen-measuring devices for calculating fertiliser application for crops.
- The equipment listed costs £12,000 - £30,000.

The total fund for the CPSGS is £60m.

The application window for the next round of funding will open in early 2019.

Environment Secretary, Michael Gove, who made the announcement ahead of the Government's Agri-Tech Investment roundtable in London on Thursday 11 October said "The UK is a world-leader for talent in agriculture and technology, so there are real opportunities for our burgeoning agri-tech sector. Harnessing technology enables our hard working farmers to become even more productive and environmentally efficient."

I would echo this sentiment and as round one of CPSGS was extremely popular, I would suggest interested parties keep their eyes peeled for more details of round two...

And for those based in Cornwall and Isles of Scilly, I would recommend you visit www.agritechcornwall.co.uk/.

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DEVELOPMENT LAND FOR SALE, WHAT'S THE TAX?

It may come as a surprise that Sir James Dyson, 'Britain's biggest farmer', spent another £37m on land in 2018. The basic payment subsidy regime, tax reliefs and increasing demand for land from developers, all lend themselves to making land an attractive investment.

The national housing crisis has seen land prices soar in recent times and by way of example the sale of 100 acres of farm land for development, at say £200,000 per acre, could attract proceeds of approximately £20m! This will likely create a significant capital gains tax (CGT) liability. Providing the conditions for entrepreneurs' relief (below) are satisfied, then a reduced CGT rate of just 10% might be achieved (rather than 20% CGT without the relief).

Broadly, if the conditions are met, the following disposals will qualify for entrepreneurs' relief (ER):

- All or part of a business that the individual has owned for at least 12* months
- Assets that were in use for the business when the business ceased (if the business has been carried on for at least 12* months and the disposal is within three years of cessation)
- Shares or securities in a trading company
- Assets owned personally and used in a partnership or company, where the individual simultaneously reduces their interest in the partnership or shares of the company (under the 'associated disposal' rules)

** From 6 April 2019 the minimum period throughout which the qualifying conditions must be met increases from 12 to 24 months.*

A common scenario is for a farm partnership to sell development land that it owns. Ceasing trade completely is a route to achieving ER, provided other conditions are also met. However, if the intention is to carry on farming in some form then this can be problematic. Incorporating the farm business can be a way of both ceasing trade, achieving ER and yet still continuing to farm. Beware though, as unravelling this tax planning is not easy if it no longer suits your situation. There are also potential inheritance and capital gains tax implications for this 'cease and incorporate' situation and the concept of the word 'trade' is much debated especially where grazing agreements with third-parties are involved. PKF Francis Clark are well placed to provide transaction support and bespoke tax planning where opportunities exist for the sale of development land, please get in touch if you have any queries.

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HMRC LOSES BUSINESS PROPERTY RELIEF APPEAL IN VIGNE CASE

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In a recent court case, the taxpayer was successful in justifying relief from inheritance tax on a case involving livery. The taxpayer was the estate of Maureen Vigne, who died in May 2012, owning 30 acres of land in Buckinghamshire. Her executors claimed business property relief on the assets, but HMRC argued that it did not apply.

HMRC had maintained that a livery business does not qualify for relief as it is exploitation of land and so was an investment business. HMRC placed great weight on a case concerning holiday lets where HMRC had previously been successful in denying relief on the same basis. There are different levels of livery and the issue is how much activity is required by the owner to make the livery business qualify for relief.

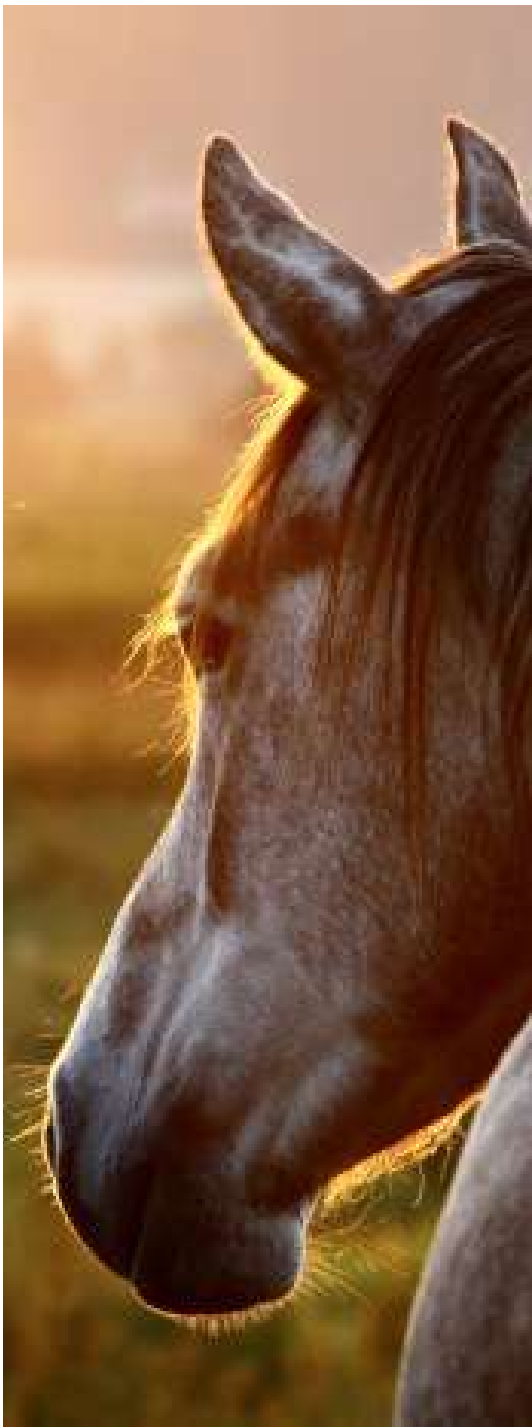
HMRC refused the claim for business relief and took the matter to court. The taxpayer was successful in the first court case. HMRC appealed and the case went to court again. Once again the taxpayer was successful. In both cases, Mr Vigne, one of the executors, argued the case in court personally.

The Vignes' livery business included more services than would normally be expected of a grass livery and/or DIY livery, such as the provision and administration of worming products, providing the horses with hay feed grown on part of the land, removing manure from the field and undertaking daily checks of general health. Yard managers worked approximately 20 hours per week.

Mr Vigne argued that when comparing the turnover of their business with the rental income potentially achievable on letting the land, it was clear that the extent of additional activities was sufficient to take the business way beyond a simple investment, and the growth in both turnover and expenses of the business had demonstrated this.

The success in Vigne by the taxpayer is clearly good news as the case is now a binding precedent unless the matter is taken to the Court of Appeal. It may also be useful in arguing for relief on other rural businesses such as grouse-shooting. The key issue is the level of activity undertaken by the taxpayer in conducting the business.

PKF Francis Clark has been closely involved with the Vigne case. John Endacott, our head of tax, informally supporting Mr Vigne with technical advice before the latest court case and Helen Lewis was in attendance at the court case itself. We have also been successful on a claim for business relief on a livery case in East Devon recently without the need to go to court. We have considerable knowledge of the technical issues in cases involving rural businesses and John Endacott is a leading expert on holiday letting cases and the author of a book on the subject.



BUDGET

The Chancellor of the Exchequer, Philip Hammond, delivered the Autumn Budget on 29 October 2018. He announced the end of austerity but had little else to say of any significance for farmers and rural landowners. This did not greatly surprise us as interested parties have enough to digest following the significant changes proposed in the Agriculture Bill, which sets out a new agriculture policy post-Brexit.

The announcement of government funding to plant trees to help offset carbon emissions and support wildlife is welcomed. This will provide benefits in improving air quality and providing wildlife habitats and provide longer term certainty needed for investment in woodland.

Interested parties have lobbied government ever since agricultural and industrial buildings allowances were abolished in 2011 and the announcement of a new structure and buildings allowance has been universally welcomed. The so-called 'SBA' is available for buildings where construction starts after 29 October 2018 and can be claimed over a 50 year period against the original cost of construction as a 2% writing down allowance. There will be no system of balancing allowances or charges upon a property disposal and SBA will continue to be available irrespective of ownership changes. Residential housing and land will not be eligible for relief.

A temporary increase in the annual investment allowance (AIA) for capital expenditure has been announced for two years from 1 January 2019. The existing limit of £200,000 will be extended to £1m, although it is true to say that most farming businesses find the current limit reasonably effective. Farmers considering major capital expenditure will welcome the increased allowance which is available on plant, machinery, 'integral features' of a building and some fixtures and fittings to be set against farming income in the year the expenditure is incurred.

Other changes to capital allowances include the revision of the list of environmental enhanced capital allowance items, prior to the relief being abolished in 2020 and the special writing down allowance rate which applies to fixtures within buildings being reduced from 8% to 6%.

Changes to capital gains tax include a tightening of the rules on ER. ER is a valuable relief that can mean an individual pays capital gains tax on the disposal of land at 10%, rather than at the standard rate of 20%. To qualify for ER, certain conditions must be met during a 'holding period' that ends on the date of disposal of the relevant land. From 6 April 2019 the 'holding period' will increase from one to two years.

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TAX ROUND-UP

National living wage	The current rate is £7.83 per hour for those aged 25 and over.	This will rise in April 2019 to £8.21, and will likely increase again in April 2020, so plan ahead for future increases in labour costs.
Workplace pension	From April 2019 the minimum employer pension contribution is 3%. Also from this date the minimum employee pension contribution is 5%.	Consider how and when you communicate these changes to your staff.
Pension Contributions	Income tax relief can be claimed when contributions are made into personal pension schemes.	There is however an annual allowance and a lifetime allowance which can restrict the amount of relief available. This allowance will also be reduced if adjusted income exceeds £150,000.
Marriage allowance	Anyone who is married or in a civil partnership can elect to transfer 10% of their personal allowance to their other half, providing that they are both basic rate taxpayers.	The 10% is transferred to the higher earner and is used as a basic rate tax reducer. This can reduce the tax liability by up to £237.
Farmers Averaging	It is possible for farming trade profits to be averaged over two years, or five years.	Averaging may enable a reduction in tax owed to HMRC, and it can help in periods of fluctuating weather and market prices.
Finance costs on rental residential property	Finance costs, including mortgage interest and fees, are in the process of changing from an allowable rental expense to a basic rate tax reducer. It is important to note that this will not apply to commercial property or furnished holiday lets.	Currently, 50% of finance costs are deductible from rental income, with the remaining 50% reducing tax at the basic rate. For 2019/20, only 25% will be deductible with 75% given as a tax reducer, and by April 2020 finance costs will only receive a tax reduction at the basic rate. The removal of finance costs from calculating property profit could impact on your marginal rate of tax, child benefit, personal allowance, or student loan repayments.
Capital allowances special rate	The annual investment allowance (AIA) will temporarily increase from £200,000 to £1m from 1 Jan 2019 to 31 December 2020. AIA is a 100% allowance for capital expenditure and should be utilised where possible. New non-residential structures and buildings will be eligible for a 2% capital allowance. From April 2019 the capital allowances special rate for qualifying plant and machinery assets will be reduced from 8% to 6%.	Plant and machinery is eligible for the AIA. However, if plant has a life of less than 8 years, a short life asset election can be made instead to preserve the AIA for other capital expenditure. This applies to contracts for construction entered into on or after 29 October 2018. The special rate pool applies to parts of buildings known as 'integral features'; items with a long life; thermal insulation on buildings; and cars with CO_2 emissions of more than 110g/km.
Capital gains tax	Residential property or carried interest are taxed at: 18% (basic rate), or 28% (higher and additional rate). All other assets are taxed at: 10% (basic rate), or 20% (higher and additional rate).	Care should be taken to identify any residential property or carried interest disposals.
Business tax reliefs	Entrepreneurs' relief: a flat rate of 10% capital gains tax on the sale of all or part of the business, and can extend to assets used for trading activity. From 6 April 2019 a business interest must be held for a qualifying period of two years before disposal. Roll-over relief: capital gains tax can be delayed until a future sale if certain business assets are sold and replaced within three years. Gift relief: shift the liability of capital gains tax to those you gift business assets to.	All of these can reduce or delay the amount of capital gains tax due.
Inheritance tax	Since April 2017 each person has a 'main residence' allowance in addition to the £325,000 nil rate band for inheritance tax purposes. This is to be fully phased in by April 2020. This 'main residence' allowance is given when a residence is passed on death to a lineal descendant.	The current additional nil-rate band is £125,000, and is set to increase to £150,000 from April 2019. It should be noted that estates with a net value over £2m will have this allowance restricted. It may be beneficial to consider transferring some assets which qualify for reliefs (e.g. agricultural property reliefs or business property reliefs) during your lifetime.
Making tax digital	From April 2019 making tax digital will apply to those businesses who have taxable turnover exceeding the VAT threshold (£85,000 until March 2022). This means that they will have to maintain digital records and submit VAT returns to HMRC using compatible third party software.	Qualifying businesses will need to consider whether they are using making tax digital ready software in order to be compliant by April 2019. HMRC are planning to roll out making tax digital from April 2020, at the earliest, for all other taxes. This legislation represents a huge change, preparation is key!