Business Clinic

Whether it's a legal, tax, insurance, management or land issue, Farmers Weekly's experts can help

Why is my income tax higher if profits are down?

Q I have just had a huge shock about how much tax I have to pay at the end of January. My profit was far lower last year, but I am now faced with a larger tax bill. Can this be correct?

Mark Chatterton
Director
Duncan & Toplis

ING IMAGE

A Unfortunately it probably is. I have assumed some numbers from typical farm accounts to illustrate the position.

At 5 April 2016, your accounts profit was £37,000 with a £38,000 depreciation charge added back.

You bought machinery totalling £45,000, so your taxable profit was £30,000, as capital allowances of £45,000 were claimed.

This gave you a tax liability of £3,880, which you had paid in January and July 2016. Therefore, your only payment in January 2017 was your first payment on account amounting to £1,940.

For 5 April 2017, your accounts profit reduced to £20,000 with a depreciation charge of £30,000 and no machinery purchased. This gave you a taxable profit of £50,000, which was considerably higher than that of the previous year.

Your liability for the year was £9,200. You made payments on account in January and July 2017 of £1,940 each.

This meant a £5,320 balancing payment and a first payment on account for next year of £4,600, totalling £9,920 due for payment by 31 January 2018.

The reason for these higher income tax bills is the fact that as for many farmers, your tax pool is now zero. The tax pool represents the tax value of the machinery.

The 100% first year allowance has ensured tax profits have been less than accounting profits for a number of years.

This has helped, as tax bills have been lower, but in a year when no machinery purchases are made, there are no capital allowances to claim.

The annual investment allowance (AIA) has fluctuated since its introduction in 2008, but now stands at £200,000/year a business. So most small businesses that spend no more than this will get a 100% capital allowance in the year machinery is purchased.

Our advice is to ensure you discuss your business tax computation as well as your annual accounts every year. This means you will be better informed about potential future income tax liabilities.

In a year when machinery is bought, not all the capital allowances need to be claimed, as a business can disclaim some. This will enable a balance to be retained on the pool and 18% writing-down allowances can be claimed in the following year if no machinery purchases are planned.

This will smooth the taxable profit situation and could also avoid going into the higher rates of tax.

Farmers' averaging claims, which now cover five as well as two years, should also be looked at to further optimise your tax position.

DO YOU HAVE A QUESTION FOR FW'S EXPERTS?

Outline the issue in no more than 350 words. Please give as much information as possible.

Send your enquiry to Business Clinic, Farmers Weekly, RBI, Quadrant House, The Quadrant, Sutton, Surrey SM2 5AS and include a telephone number.

You can also email your question to fwbusinessclinic@rbi.co.uk

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Should I consider new stewardship packages?

Q My higher-level stewardship scheme expired two years ago. Countryside Stewardship (CS) was complicated and received lots of negative press when it was released. We decided at the time not to renew. Given the direction we appear to be heading in, should I reconsider?

Henry Barringer
Food and farming consultant, **Savills**

TIM SCRIVENER

A Now is a sensible time to have another look at Countryside Stewardship.

Having completed a number of mid-tier scheme applications over the years, I couldn't agree more that the process was overly complicated, the amount of supporting evidence required was onerous, and the application pack was hard to decipher.

However, when you look past this, some of the option payment rates Natural England is offering are very attractive.

Defra has recently released four simplified ways of entering the scheme, with packages for arable, pastoral, mixed and upland farms. These schemes are non-competitive, providing you meet the minimum requirements.

In the arable scheme, the minimum requirements are 1ha of nectar mix or flower-rich margins/plots and 2ha of winter bird food for every 100ha of farmed land. Having come out of HLS, it is likely that you already have experience of establishing these options, aimed at farmland birds and pollinators.

The payment rates have increased significantly from the HLS rates. The HF12 (enhanced wild bird seed mix) was paid at £475/ha. The equivalent winter bird food rate is £640/ha, with the added option of supplementary winter feeding (AB12) at £632/t for every 2ha of winter bird food.

Options such as hedge management, 4-6m margins, skylark plots and cultivated plots for arable plants can be bolted onto the core options listed above.

Mid-tier and higher-tier schemes will still be available for more complicated applications – for example, where historic, wet grassland or organic options are required.

Michael Gove recently announced the government will continue support for CS agreements entered into prior to our departure from the EU.

Assurance was also given that farmers will not be unfairly disadvantaged when the transition is made to new arrangements.

This uncertainty of how CS will be viewed in future has discouraged some farmers from applying in the past. We know greater emphasis in terms of subsidy payments will be placed on environmental measures in the future and having a consistent source of income over the next five years from a simple CS scheme will help during the transitional period.

Should I delay succession for tenancy reform?

Q There has been talk in the farming press about imminent agricultural tenancy reforms and I wondered whether that would affect my chances of succeeding to my father's tenancy. Would I be better off to wait until the reforms come in, or should I begin the process under the current rules?

Duncan Sigournay
Partner and head of agriculture, **Thrings**

A You are correct in saying that something is potentially afoot with agricultural tenancies.

Last year the Tenancy Reform Industry Group (Trig) – a cross-industry body comprising representatives of all the leading sector organisations including the NFU, TFA, CLA, CAAV, Rics and others – was tasked by farm minister George Eustice to look at tenancy reform in the context of Brexit.

One interesting point to note about Trig is that historically it has worked on the basis of consensus among the group – if there was no agreement on a point it would not go forward as a recommendation to Defra.

This time around there are no such requirements for unanimity and as such, Defra has effectively been presented with a wishlist from which it could potentially just cherry-pick.

Timing-wise, Mr Eustice has indicated the reforms identified could find themselves included in the agriculture White Paper (due out this year). Given the scope of the White Paper, that sounds quite ambitious to me and my feeling is that tenancy reform could well slip down the government's agenda.

Returning your question, there are some proposals specific to succession.

These include replacing the suitability test with a business competence test, and removing the minimum retirement age for a tenant while simultaneously imposing an upper limit on retiring to, say, five years beyond the state retirement age, after which there could be no succession.

There has been talk of extending the list of close relatives eligible to apply beyond the current class of spouses, siblings and children. It has also been suggested that the commercial unit test be repealed – this test precludes succession where an applicant already has a significant interest in another commercially viable agricultural unit.

If implemented, some of these proposals will have the effect of raising the bar for succession. Depending on your own particular circumstances, it could potentially have a bearing on your succession.

My advice would be to keep the succession issue under constant review. If you are confident that you satisfy the criteria, you could go down the succession on retirement route if your father will be at least 65 by the time the retirement notice takes effect or is otherwise physically or mentally incapacitated. If there is any doubt, it would be prudent to hold off.

The main thing is to seek professional advice on your current circumstances to identify any potential weaknesses which can then hopefully be corrected ahead of any application.

Finally I would add that Trig has not limited its proposals to reforms to Agricultural Holdings Act tenancies like your father's.

Its proposals also cover reforms to Farm Business Tenancies, council farms and fiscal measures as well as exit from and entry to the industry.