

TAXATION

Coalition Budget – Tough love

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Writing this article on Budget day with the press releases available, but no detailed legislation, I feel as if the agricultural sector has escaped remarkably unscathed from what George Osborne announced to be a “tough but fair” Budget.

Capital allowances

The issue that will affect most farmers will be the ‘double whammy’ with –

- annual investment allowance limit reduced to £25,000 from April 2012; and
- writing down allowances reduced by 2% to 18% for main pool expenditure (most plant and machinery) and 8% for the special rate pool (mainly for integral features of buildings and expensive cars).

Although only a timing issue, this will impact on most farming enterprises, where larger pieces of machinery are bought on an irregular basis. For example, the Table 1 shows how the current regime provides cash flow relief with immediate tax relief of up to £50,000 on expenditure of £100,000, whilst the reduced allowances available from April 2012 will mean that after five years a farmer will have received tax relief on about £9,000 less expenditure than under the system when 40% first year allowances were available.

The position is even more noticeable, as Table 2 shows, with higher levels of expenditure,

say investment in kit costing £200,000, with a farmer receiving tax relief on about £28,000 less expenditure than under the current system.

There was no mention of agricultural buildings allowances, so these look doomed to extinction from 6th April 2011.

Capital Gains Tax

An increase in the rate of capital gains tax was widely predicted, so the increase to 28% for higher rate taxpayers on gains realised from 23rd June 2010 appears reasonable compared to the concerns that rates might equal income tax rates.

The surprise increase in entrepreneurs’ relief to £5 million per individual from 23rd June 2010 makes it now well worth ensuring that disposals fall within this relief if possible. The maximum tax saving for high rate taxpayers can be as much as £900,000 (£5 million at 18%).

However, this will not be straightforward for many farmers, who may not cease farming upon the sale of even significant assets.

Careful planning will be required to ensure that business structures enable farmers to obtain relief, perhaps by use of the associated disposal rules. Readers could look back at the *ALA Bulletin* Winter 2008-09 article on entrepreneurs’ relief for further details. (You can download it from the Members’ Section of the website).

This may mean that the maximum rates of inheritance tax relief are sacrificed if business property relief is only available at 50% on assets owned personally, but used by the company or partnership to create the associated disposal.

Corporation Tax

It was to be predicted that the Conservative element of the Coalition government would look to further reduce rates of corporation tax and the proposed reduction of the small companies’ rate to 20% from 1st April 2011 is to be welcomed. The main companies’ rate reduces to 27% from 1st April 2011, with an intention to reduce it by 1% per year until the rate is 24% from 1st April 2014.

This move will be beneficial for most businesses, but farms are typically run as a partnership, rather than a company, so this will not benefit most farmers, although it will make them consider (or reconsider) incorporation.

Incorporation looks very attractive if profits retained in the business are only subject to 20% tax, rather than 50% or even an effective rate of 60% within a partnership. However, farmers need to consider whether the tax saving can justify both –

- increased administration, disclosure and professional costs from a company structure; and

	Pre 5.4.10 40%FYA £	Year to 5.4.11 £100,000.00 AIA £	Post 5.4.12 £25,000 AIA £
Year 1 – AIA WDA	100,000.00 (40,000.00)	100,000.00 (100,000.00)	100,000.00 (25,000.00) (13,500.00)
Year 2	60,000.00 (15,000.00)	0.00 0.00	61,500.00 (11,070.00)
Year 3	45,000.00 (11,250.00)	0.00 0.00	50,430.00 (9,077.40)
Year 4	33,750.00 (8,437.50)	0.00 0.00	41,352.60 (7,443.47)
Year 5	25,312.50 (6,328.13)	0.00 0.00	3,909.13 (6,103.64)
	18,982.38	0.00	27,805.49

Table 1

	Pre 5.4.10 40%FYA £	Year to 5.4.11 £100,000.00 AIA £	Post 5.4.12 £25,000 AIA £
Year 1 – AIA WDA	200,000.00 (80,000.00)	200,000.00 (100,000.00) (20,000.00)	200,000.00 (25,000.00) (31,500.00)
Year 2	120,000.00 (30,000.00)	80,000.00 (14,400.00)	143,500.00 (25,830.00)
Year 3	90,000.00 (22,500.00)	65,600.00 (11,808.00)	117,670.00 (21,180.60)
Year 4	67,500.00 (16,875.00)	53,792.00 (9,682.56)	96,489.40 (17,368.09)
Year 5	50,625.00 (12,656.25)	44,109.44 (7,939.70)	79,121.31 (14,241.84)
	37,968.75	36,169.74	64,879.47

Table 2

- potential loss of inheritance tax business property relief on assets owned personally but used by the company.

A structure preferred by advisers may be to include a company as a partner within an existing partnership. The professional costs will be greater, but this should provide greater flexibility for the business.

Furnished holiday letting

Although the favourable tax treatment of furnished holiday letting (FHL) remains with us for 2010/11, a series of questions and answers published with the Budget notes advises that the Government is looking to introduce changes to the FHL rules from 6th April 2011 (1st April 2011 for companies). The proposed changes would:

- ensure the FHL rules apply equally to properties in the EEA;
- increase the number of days that qualifying properties have to be available for, and actually let as, commercial holiday letting; and
- change the way in which FHL loss relief is given.

Full details about the proposed changes will be published over the summer, for consultation.

Many farmers have other rental income, so that the way in which FHL loss relief is given may not have a significant impact. However, the current advantageous rules for capital gains tax reliefs mean that any changes will need to be carefully considered by farmers who have diversified into FHL.

VAT

The increased rate from 4th January 2011 will not directly affect farming operations, but will affect diversified property businesses either where VAT cannot be recovered due to exempt supplies or because it is difficult to pass on the increase to end users, such as with holiday accommodation.

Inheritance Tax

Apart from incidental mentions in the Budget Notes, there was mention in the Treasury notes that there will be consultation over the summer on bringing inheritance tax on trusts within the Disclosure of Tax Avoidance Schemes (DOTAS) regime. That will be one to watch.

Stamp duty land tax

Another one to watch is whether further changes will be made to the rules on stamp duty land tax on high value property transactions to "prevent avoidance in this area". It is not clear from the press notes how this will be 'examined' by government as to whether change is required.