

The Chancellor's Pre-Budget Report

Farming gets off relatively lightly – for now

By Paul Spackman

Agriculture may have escaped relatively lightly from Wednesday's (9 December) pre-Budget report by Chancellor Alistair Darling, but tax experts have warned farmers not to get complacent.

Many had feared that rules for Agricultural Property Relief from Inheritance Tax and Capital Gains Tax would be tightened, but both were noticeably absent from the full report which set out how the government would repay the country's £178bn of borrowing.

"Farming does seem to have got off quite lightly, but I think there could well be more to come next April," Catherine Vickery from Old Mill rural accountants said.

Carlton Collister from Landtax LLP shared a similar view. "It's really been a pre-election speech. We do expect government to change the CGT rate, but they can't do it until 6 April 2010, so they may hold back any announcement until next year's Budget."

A number of this week's announcements would affect farmers though; notably the decisions to increase National Insurance contributions by another 0.5% from April 2011 and the scrapping of favourable Furnished Holiday Let-

ting rules from 5 April 2010.

"FHL businesses will cease to be treated as a trade for Capital Gains Tax purposes, which is a serious blow for those who anticipated obtaining Entrepreneurs' Relief, rollover relief or gifts holdover relief on the disposal of the furnished holiday property," explained Mr Collister.

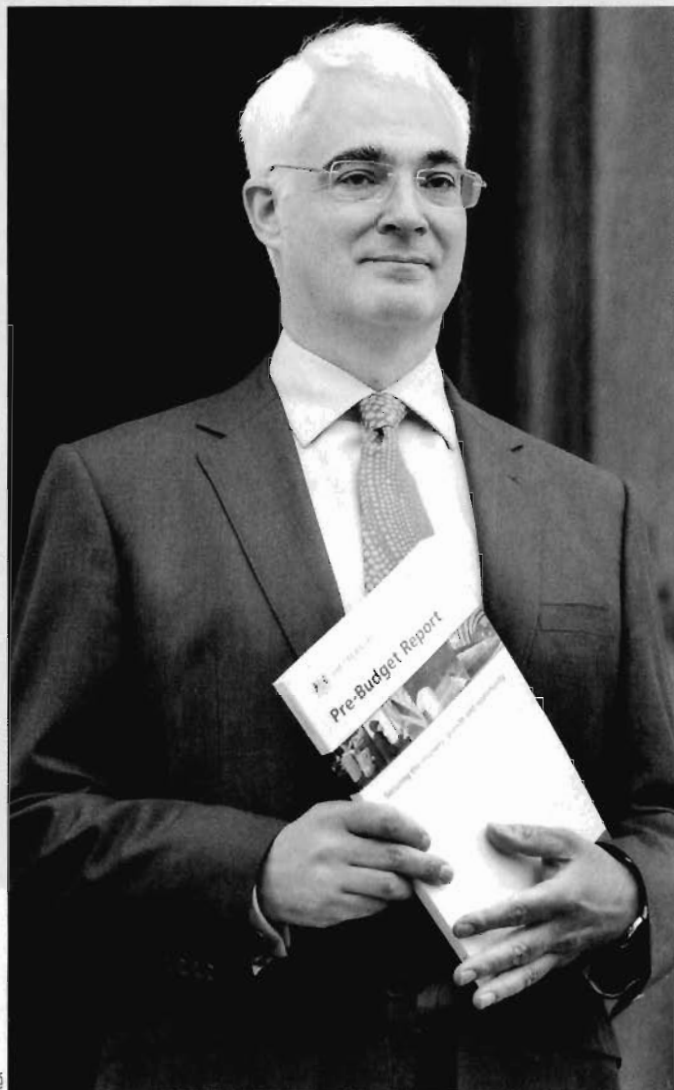
"However rollover relief will be allowed on a time-apportioned basis (with relief not due after 5 April 2010), so substantial relief may still be available in the short-term."

Mrs Vickery urged farmers with furnished holiday lets to think carefully about what they wanted to do with them well before April next year. "If you want to pass them on before that date, it will still be possible to defer the tax bill," she said.

She also reckoned the National Insurance rise would increase the attractiveness of running a farming business through a company that paid out profits as dividends, which do not attract NI contributions.

"Our research has shown that even a farm business making £40,000 profit with two partners will be better off going down the incorporation route. You have to remember there are additional fees involved in running a company, so it's important to weigh these up against the tax savings."

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HEADLINE CHANGES IN THE REPORT

- * VAT to go back to 17.5% from 1 January
- * Corporation tax to remain unchanged at 21% for small companies
- * Inheritance Tax nil rate band threshold to remain £325,000 for 2010/11
- * 0.5% increase in rates of NICs from April 2011
- * Increase in the point at which individuals start to pay NICs
- * Plans to repeal Furnished Holiday Lettings rules will go ahead
- * Income received by those who generate small-scale renewable electricity for their home through the clean energy cash-back scheme will be tax-free

CATCH UP ON OUR EXPERTS' ANALYSIS OF DARLING'S SPEECH AT www.fwi.co.uk/prebudget

A panel of agricultural tax experts provided a running commentary of the pre-Budget report as it happened live on Fwi.

You can read the full transcript, which details what it all means for farmers at www.fwi.co.uk/prebudget

Here is a selection of quotes from the day:

From the speech it seems a surprisingly positive Budget on the whole, however one worries if there will be problems in the detail issued later."

Gerald FitzGerald Smiths Gore

"If there will be no change in the agricultural property relief regime, the freezing of the nil rate band

for inheritance tax may be less detrimental for farmers than in other sectors."

Charlotte Brackley Withers LLP solicitors

"There seems very little in the headlines of the PBR that directly affects farmers, landowners and the rural economy that had not already

been previously announced."

Andrew Arnott Saffery Champness

"The real thrust of what we're seeing today is that future tax rise measures will centre on the big revenue earners of basic rate of income tax and national insurance."

David Douglas Clydesdale Bank