



# A Budget for Agriculture?

## David Missen, Head of Agriculture at MHA discusses the implications of the Budget 2014 for UK farming businesses

The Budget 2014 has been something of a mould breaker. In previous years, most topics have been well flagged in advance, but this time the Chancellor has pulled two rabbits out of the hat...

- 1) Extension of the annual investment allowance to cover periods up to 31 December 2015 and the doubling of the allowance with effect from April 2014. Giving businesses a real opportunity to plan their capital expenditure for the next 21 months in a tax effective way.
- 2) With almost immediate effect it will be possible for individuals taking drawdown pensions to access a larger proportion of their funds.

Such a relaxation in the rules comes at a price, and one can foresee that the Government might enjoy some rather better tax revenues in the future as pensioners are tempted “to raid the kitty” despite the potential increase in income tax.

The Chancellor announced that the pension exit charge currently set at a penal 55% will be replaced by a charge to income tax at the individual’s marginal rate. This overlooks the fact that the cash left after tax will form part of an individual’s estate

and, unlike the current position, may be subject to inheritance tax on death.

However, the changes do give rise to a number of planning opportunities. Farming profits are notoriously volatile and one can foresee the position where the pension pot is tapped from time to time in years of poor profitability when it may be possible to take out fairly large sums at quite a modest tax rate, or indeed to utilise farming losses against pension income. One could even foresee the position where a loss is created by large machinery purchases and then offset against pension fund withdrawals.

*“The changes do give rise to a number of planning opportunities.”*

It would appear that for any individual approaching retirement, pension contributions could potentially be a “win-win” choice. The combination of immediate tax relief on a contribution, a tax free lump sum and the potential to withdraw the fund on retirement will almost always leave an investor with an immediate “profit”. The Chancellor is adding the new Business Payment Entitlements to the list of assets eligible for rollover relief – a necessary amendment .

---

## Agricultural Property Relief Back Into The Spotlight

A preliminary report issued by the National Audit Office (NAO) has drawn attention to the value of Agricultural and Business Property Reliefs.



# A Budget for Agriculture?

The NAO comments that, for example, the value of Agricultural Property relief (APR) and Business Property relief (BPR) has almost doubled in five years. The statistic is hugely misleading since the reason these reliefs have doubled is because the value of the underlying assets has doubled. The reliefs were put there for a purpose and their increase in value merely reflects the fact that they are working. The NAO goes on to compare the value of APR/BPR relief with the IHT collected and comments that the “cost” of the relief is now over five times the tax at stake which is interesting but irrelevant given that the existence of these reliefs is a policy decision by Government.

The report draws a dangerous and misleading connection between the use of legitimate reliefs and tax fraud. A disturbing linkage, establishing in the public’s view, an inaccurate and misleading connection between legitimate and illegitimate ways of reducing tax liabilities.

---

## Historic Vehicle Tax

One of the less well flagged changes in the 2013 Finance Act was the extension of the vehicle excise duty (VED) exemption for classic vehicles so as to include those registered before 1 January 1974. This exemption applied with effect from 1 April 2014 and, in the 2014 Budget, the rules have been amended further to include all such vehicles which are more than 40 years old after January 2015 on a rolling cut-off.

This exemption will apply to some of the older Landrovers, horseboxes and farm runabouts. However a word of caution; the relief is not given

automatically and an annual VED reminder will be issued with the normal tax disc payment rates even if the vehicle qualifies for exemption.

In order to secure the exemption it will be necessary to file a form V10 with DVLA at Swansea together with the V5 logbook and insurance certificate. They will issue a new tax disc and change the V5.

*“A word of caution; the relief is not given automatically and an annual VED reminder will be issued with the normal tax disc payment rates even if the vehicle qualifies for exemption.”*

---

## City rules with rural consequences

Budget 2014 has unleashed yet another irritation for the rural landowner in the shape of the “annual tax on enveloped dwellings”.

This tax had been introduced early in the life of the coalition Government and was aimed at expensive city properties which were put into corporate ownership with a view to avoiding stamp duty charges (and no doubt other tax mitigation purposes).

Accountants had already expressed some concerns about the position where a farmhouse was held within a corporate entity. These concerns had largely been allayed by exemption for farmhouses (although this will not apply where there is a second farmhouse on the farm which itself is worth more than £2 million, but this should affect relatively few).



# A Budget for Agriculture?

It is therefore with some concern that we note that the threshold is to be reduced to:

- £1 million from 1 April 2015
- £500,000 from 1 April 2016

The consequences of a property falling within the HMRC scheme is:

- The company will be subject to an annual charge (broadly based on the capital value of the property) together with an enhanced stamp duty charge on purchase.
- An enhanced corporation tax charge on sale.

Fortunately there are reliefs for farmhouses, but unfortunately a return will need to be made annually and the relief will have to be claimed and justified.

Clearly this new tax is a powerful disincentive against holding valuable residential property in a company. It also appears manifestly unfair for those entities where, for historical reasons, the residential property has ended up inside the corporate structure. If this is the case it must now make sense to consider extracting the farmhouse whilst the thresholds are relatively generous.

---

## The Budget - An Interesting Opportunity...

Chancellors are fond of making flamboyant statements within the Budget speech. George Osborne was able to score political points by

reducing the tax rate on the lower income tax band to nil, and extending it to £5,000 of interest income.

Hitherto the 10% band for interest income has been of relatively little importance having previously been worth no more than a tax saving of £271. Now that the tax band has been increased to £5,000 and the tax rate has been reduced to nil, it becomes more valuable.

For example, HMRC have sometimes in the past questioned the deductibility of “spouses wages” within a business. However, if the spouse provides the capital for that business, there would seem to be no bar to paying commercial interest rates on that capital which would effectively be deductible in the hands of the main business but possibly not taxable in the hands of the recipient. Similarly, in some small companies, substantial parts of the business capital are provided by directors’ loan accounts and, depending on circumstances, it may be possible to pay interest on these in a very tax-effective way in future.

The relief will not be relevant for all, but it could have a significant proportional impact on the tax cost for some small businesses.

---

## Contact

For further information, please contact your local MHA member firm, or email: [info@mha-uk.co.uk](mailto:info@mha-uk.co.uk).

[www.mha-uk.co.uk/](http://www.mha-uk.co.uk/)



# MHA Member Firm Offices

## **Bloomer Heaven**

[www.bloomerheaven.co.uk](http://www.bloomerheaven.co.uk)

Birmingham (**Head office**)  
Rutland House,  
148 Edmund Street,  
Birmingham  
B3 2FD  
Tel: 0121 236 0465

## **Broomfield & Alexander**

[www.broomfield.co.uk](http://www.broomfield.co.uk)

Cardiff (**Head office**)  
Ty Derw  
Lime Tree Court  
Cardiff Gate Business Park  
Cardiff, CF23 8AB  
Tel: 02920 549939  
Additional offices: Swansea, Newport

## **Carpenter Box**

[www.carpenterbox.com](http://www.carpenterbox.com)

Worthing (**Head office**)  
Amelia House  
Crescent Road  
Worthing, BN11 1QR  
Tel: 01903 234 094  
Additional offices: Gatwick

## **Henderson Loggie**

[www.hendersonloggie.co.uk](http://www.hendersonloggie.co.uk)

Dundee (**Head office**)  
Royal Exchange  
Panmure Street  
Dundee  
DD1 1DZ  
Tel: 01382 201234  
Additional offices: Aberdeen, Edinburgh, Glasgow

## **Larking Gowen**

[www.larking-gowen.co.uk](http://www.larking-gowen.co.uk)

Norwich  
King Street House  
15 Upper King Street  
Norwich  
NR3 1RB  
Tel: 01603 624181  
Additional offices: Ipswich, Dereham, Diss, Fakenham, Holt,  
Colchester, Cromer, Bungay

## **MHA MacIntyre Hudson**

[www.macintyrehudson.co.uk](http://www.macintyrehudson.co.uk)

London City  
New Bridge Street House  
30-34 New Bridge Street  
London EC4V 6BJ  
Tel: +44 (0)20 7429 4100  
Additional Offices: Bedford, Canterbury, Chelmsford, High Wycombe,  
Leicester, Maidstone, Milton Keynes, North London, Northampton,  
Peterborough, Reading, Rochester

## **Moore and Smalley**

[www.mooreandsmalley.co.uk](http://www.mooreandsmalley.co.uk)

Preston (**Head Office**)  
Richard House,  
9 Winckley Square,  
Preston,  
Lancashire, PR1 3HP  
Tel: 01772 821021  
Additional offices: Blackpool, Kendal, Kirkby Lonsdale, East Midlands,  
Lancaster, Southport

## **Monahans**

[www.monahans.co.uk](http://www.monahans.co.uk)

Swindon (**Head office**)  
38-42 Newport Street  
Swindon  
Wilts  
SN1 3DR  
Tel: 01793 818300  
Additional offices: Bath, Chippenham, Glastonbury, Trowbridge

## **Tait Walker**

[www.taitwalker.co.uk](http://www.taitwalker.co.uk)

Newcastle (**Head office**)  
Bulman House . Regent Centre  
Gosforth . Newcastle Upon  
Tyne . NE3 3LS  
Tel 0191 285 0321  
Additional offices: Northumberland, Tees Valley

