May 2016

Agricultural and Rural Affairs Bulletin

Welcome to the Lamont Pridmore Agricultural and Rural Affairs Bulletin, our regular publication keeping you up to date with the latest developments relevant to this sector. For further information on these or any other farming or agricultural-related issues, please contact us on **0800 234 6978** or visit **www.lamontpridmore.co.uk**

Farming: An industry under pressure

During the last 12 months the UK's agricultural industry has experienced extremely volatile markets and the number of farms in the UK is in decline, particularly in the milk sector where historically low farmgate prices have led to many farmers paying more for inputs, such as feed, than they have received from outputs.

To get an idea of the kind of pressures faced by those in farming, the latest Agricultural Price Indices produced by the Department for Environment, Farming and Rural Affairs (Defra) showed that the price index for all crop products was 0.2% lower in September 2015 compared to September 2014.

However, the price index for all crop products fell 1.2% between August and September 2015 compared to a 0.1% rise between the same two months a year earlier.

In comparison, the livestock markets and milk markets have seen consistent decline. The price index for animal products was 13% lower in November 2015 compared to the same time last year.

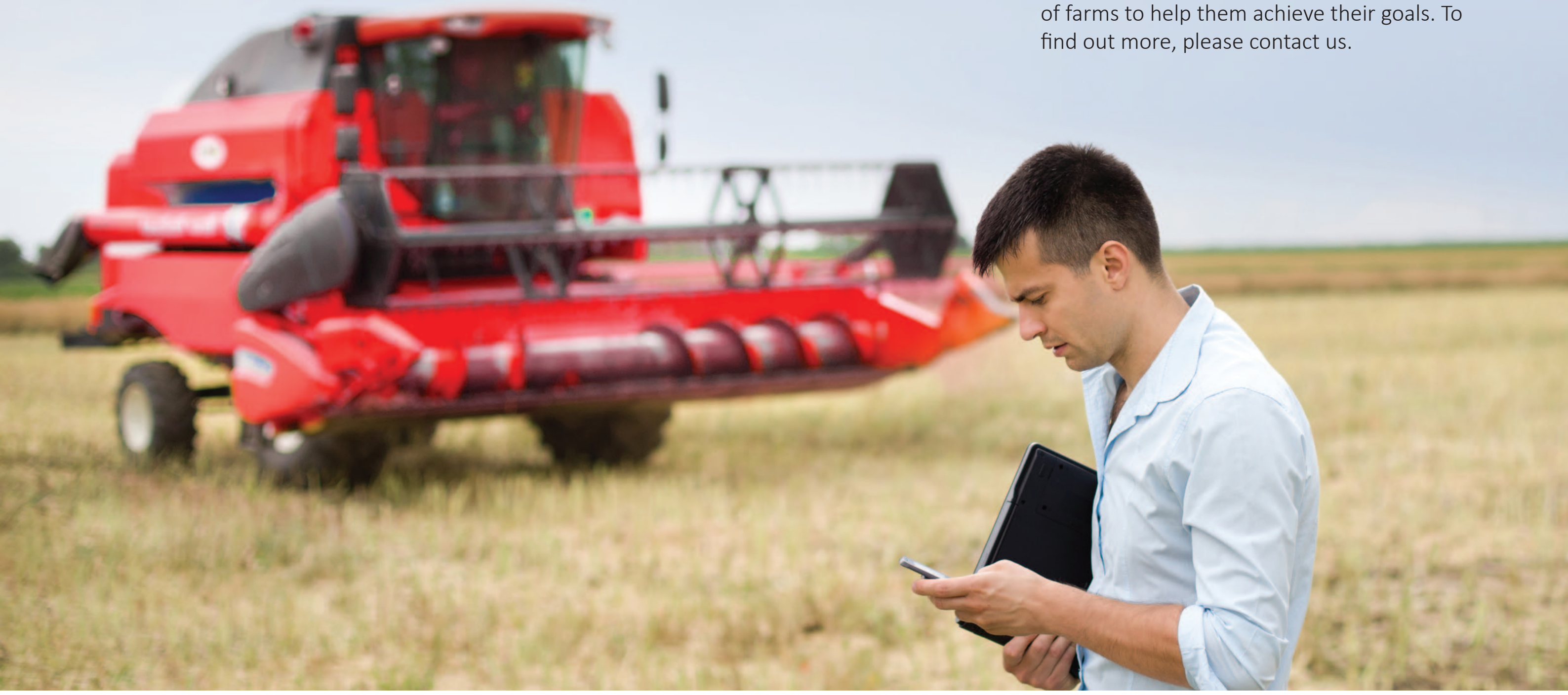
However it is the milk sector which has suffered the most. Following the usual seasonal drop in production in September and the move by a number of milk companies to introduce winter contracts, the price index for milk rose 1.5% between August and September 2015. This was the first real increase in the milk price since November 2013.

However, the price index subsequently fell by 0.7% between October and November, meaning the price index in November 2015 was still 16% lower than November 2014.

In view of the decline in profitability within farming, business owners may wish to postpone the payment of certain taxes on account for as long as they can to reduce their tax liability.

Luckily, the Government has begun to act and is currently preparing to introduce new rules that will allow farmers to average their claims over five years. This will allow them to better take into account years with high profits followed by subsequent years of low profits or losses.

If you would like assistance minimising your farms tax liabilities or would like advice on maximising profits then our team at Lamont Pridmore can help. We have expertise in both these areas and have worked with a number of farms to help them achieve their goals. To find out more, please contact us.

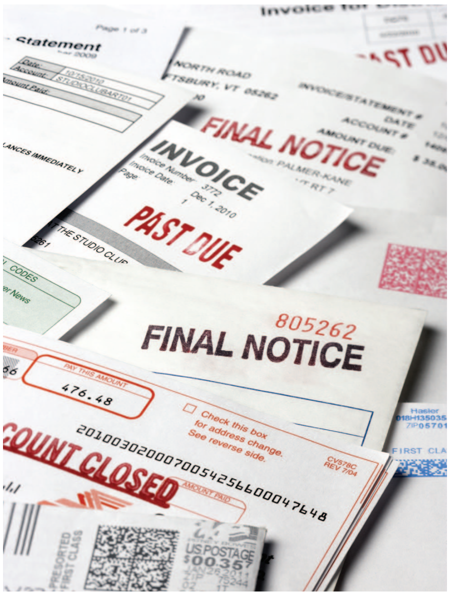


Top tips for avoiding unexpected bills following a farm restructuring

Restructuring a farm, either through reducing stock or selling land, can carry with it costs in the form of capital gains tax (CGT) and additional income tax.

CGT in particular can come back to haunt farmers that sell off land that has been held by them or their family for some time, especially where the value of the land has increased significantly.

The top rate of tax for land sales has been reduced to 20% but this still means that a fifth of the money that farmers hope to realise in a sale could be lost in payments to HM Revenue & Customs.



However, there are a number of ways to reduce CGT liability including:

- Each individual has an £11,100 CGT annual allowance. If the land in question is owned by an individual, then a transfer of part of the land to a spouse before the sale could help reduce the CGT payable.
- Entrepreneurs Relief is another option which can help reduce capital gains by 10%. This is not the easiest option and requires careful planning well in advance of a sale. Land owners can also defer the CGT by claiming roll-over relief. This results in the capital gain being deducted from the cost of the replacement asset. However, this relies on re-investment in a new asset and may not be an option for those that are forced to downsize quickly.
- For very small sales, a claim under 'small part disposals' can completely eliminate CGT. To qualify, proceeds from all sales in a tax year can be no more than £20,000 per person or £40,000 for a married couple and any consideration must not exceed 20% of the market value of the holding. If applicable the sale proceeds are deducted from the cost of the holding in computing a gain arising on any later disposal.
- Due to the current nature of farming and its low profitability it may be possible to use a trading loss to offset the capital gain.

Farmers also need to consider their income tax as well if they are selling breeding stock.

In most cases the sale of livestock will be considered part of a farm's profits. However, where all or a significant part of a herd or flock is sold, the resulting profits can be tax free under the herd-basis rules.

In order to take advantage of the herd basis it is necessary to make an election within two years of first taking on the new livestock. Every time there is a change in the partners running a farm, HM Revenue & Customs classifies them as new farmers, creating the opportunity to get onto the herd basis.

If at least 20% of the mature breeding animals in a herd or flock are sold in a 12-month period, the resulting profits can be tax-free under herd basis. However, if young stock is also sold in the transaction the price paid for these animals needs to be apportioned. If a farmer replaces some of the sold animals within five years, the profit becomes taxable, unless a new farmer or partner joins the business as aforementioned.

Minimising the tax liabilities on a farm's restructuring can have a massive impact on the farm's future growth and survival. Failing to take full advantage of the reliefs available could mean that you face a larger tax bill, which may negate the purpose of the restructuring.

At Lamont Pridmore we have helped a number of farm enterprises restructure their operations in a tax efficient manner. To find out how we can help you and your business, please contact us.

Working tax credit changes delayed

During last year's Summer Budget in July George Osborne announced significant changes to the UK benefit system.

Among the changes was a decrease to the thresholds for working tax credits. Currently any household earning up to £6,420 a year earns the full amount of working tax credits they are allowed to claim.

However, under the new rules this amount will be nearly halved to £3,850 a year, meaning that the amount of tax credit received will be reduced more drastically as you earn more.

To compound matters further, the Government also announced a change to the taper rate, which calculates the amount of working tax credits a person receives above the threshold, from 41% to 48%.

However, following the Autumn Statement delivered on 25 November 2015 these rules have changed again and the impact to working tax credits has been deferred until the Universal Credit System has been fully implemented nationwide.

For more information about how the change to tax credits may affect you, please contact us.

Rule changes open Countryside Stewardship to more farmers

Under new rules more farmers are now able to apply for the mid-tier Countryside Stewardship scheme, Defra has announced.

The removal of a £5,000 minimum claim value for applications has opened up the scheme to farmers who were previously excluded. The move is part of a campaign by Defra to bust some of the myths about the scheme in a bid to attract more applications.

Natural England, the organisation responsible for issuing the Countryside Stewardship scheme, received just 2,314 mid-tier applications last year, with many farmers commenting on the short application window and tough rules.

In response, the Government has revised the scheme's guidance notes and some of the rules in a bid to make them less off-putting to potential applicants.

One of the most significant changes is the suspension of the requirement for a £5,000 minimum application value – making it easier for smaller, upland farmers to apply.

The changes have also extended the application window, which is now running from 14 March to 30 September 2016.

Other changes being considered include minimising the administrative burden on applicants by reducing the portfolio of photos needed to support an application and changes to when the soil sampling results needed to be submitted.

"For capital works you do need a 'before' and 'after' photograph to demonstrate the item was needed and then delivered," it said. "For capital items involving ground works you also need a 'during' photograph showing foundations.

"For land management options you may need photographs at critical stages to demonstrate that the work has been delivered, but this should not require thousands of photos to be taken."

Claire Robinson, NFU countryside adviser, welcomed the rule changes but said there was still more improvements that could be made to the scheme to increase uptake.

Budget introduces new Lifetime ISA

In March the Chancellor rose in Parliament to deliver his latest Budget announcement, declaring it a Budget for the 'next generation'. As part of his speech George Osborne introduced an innovative new Lifetime ISA designed to help those under 40 save towards their retirement or a first home.

Under the scheme, savers will be able to deposit up to £4,000 each year, and receive a Government bonus of 25 per cent, or £1,000 a year, in return.

Savers will benefit from the bonus if they use some or all of the money to buy their first home, or keep it until they are 60, to support their retirement income.

Anyone between the ages of 18 and 40 can open a Lifetime ISA and put savings into it up until their 50th birthday. The new ISA will be available from April 2017 and there will be no maximum monthly contribution.

Savers can save as much as they want each month, but will only receive the bonus on the first £4,000 a year. Accounts are limited to one per person rather than one per home, allowing two first-time buyers to receive the bonus when buying together.

Those with a Help to Buy ISA can transfer those savings into the Lifetime ISA in 2017, or continue saving into both, but couples will only be able to use the bonus from one of the ISA types to buy a house.

After a saver's 60th birthday they will be able take out all of the savings tax-free. However, should a person wish to withdraw the money before they turn 60, they will lose the Government bonus and any interest or growth on this. They will also have to pay a five per cent charge.

This new ISA follows on the back of similar ISA ideas proposed in previous Budget statements including the Help to Buy ISA, which allows savers to obtain £50 from the Government for every £200.

Our team at Lamont Pridmore Asset and Wealth Management can help you with all of your saving and investment requirements, including advice on the best ISAs for you and your family. To find out more, please contact us.

The importance of Partnership Agreements

A partnership allows two or more people to go into business together and share the profits and losses between them, creating a flexible approach to running a business.

Partnerships benefit from the fact that they do not have to be registered at Companies House and have no statutory requirement to maintain records, file accounts or submit annual returns, unlike a more formal limited liability company.

Those who decide to form a partnership together should have a business partnership agreement, which formalises their business relationship and safeguard the interests of all parties should their relationship end.

Partnerships are an extremely popular business model for agricultural enterprises, particularly those that are based around family members.

The written partnership agreement, also known as a partnership deed or deed of partnership, is used to structure a business partnership. There is no legal requirement to have a partnership agreement but it's a good idea to have one in place because it can help avoid misunderstandings and disputes further down the line.

Where a deed of partnership is not present, the Partnership Act 1890 governs the powers and rights of each partner, which may result in a number of undesirable situations.

A partnership agreement is suitable for use by either a traditional partnership or a limited liability partnership (LLP), although the contents may vary slightly. Typically, a partnership agreement will include:

- The names of the partners
- The nature of the business
- The name, address and duration of the business
- The amount of capital contributed by each partner
- How decisions are made
- Details of the businesses' financial and accounting arrangements
- Details of how profits and losses will be shared
- Whether partners will be paid a salary and are entitled to holidays
- How to manage changes to the partnership

However, traditional business partnerships are not without their problems. The primary issue is that under these agreements partners don't have any protection if the business runs into trouble. All parties will remain jointly liable for all debts and creditors can claim a partner's personal assets to pay off a debt, even if the debt was incurred by another partner.

In comparison a limited liability partnership (LLP) offers many of the benefits of a traditional partnership along with limited liability if something goes wrong.

As part of the trade-off an LLP has to be registered with Companies House and must be administered according to Companies House rules, including publishing annual accounts.

A partnership agreement is important for both forms of partnership, which is why it is essential that any parties wishing to form or enter into a partnership, whether 'traditional' or LLP should seek professional advice.

At Lamont Pridmore we have years of experience helping with the establishment of new partnerships and can help businesses of all size.

To find out more about our business advice and accountancy services, please contact us.