



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

Prepare for cuts to working tax credits

During the Summer Budget in July the Chancellor, George Osborne, announced significant changes to the UK benefit system.

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

However, under the new rules that come into force in April 2016 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 reduces the

amount of working tax credits a person receives where earnings are above the threshold. The taper rate has been increased from 41% to 48%.

As an example, under the new system a family earning £15,000 a year will be £11,150 above the threshold and will see 48 per cent of £11,150 deducted from their tax credits, meaning that £5,352 will be removed from their overall entitlement.

In comparison under the old system they would have only had £3,517 removed from their tax credit entitlement – a difference of £1,835.

If you are currently receiving working tax credits you could see a significant reduction in the amount you receive. Speak to Lamont Pridmore so we can help you plan your finances in advance and mitigate the negative impact on your income.



Are farmers offering what customers want?

The ten top factors that would encourage consumers to buy more UK produce have been revealed in a new study by Barclays.

The research conducted by the bank found that two thirds of British consumers were willing to support UK farmers and that they would be willing to pay up to 17% extra on average for UK goods, which they felt were “better quality” than imports.

Despite this positive news, the research also revealed that there was a wide gap between what UK farmers are producing and what consumers desired. The study showed that the main factors influencing purchasing decisions for UK consumers were price and convenience. It found that two in five (40%) of UK adults shopped for value over origin, followed by 31% making decisions based upon convenience.

However, only 5% of farmers believe there is a significant business opportunity to produce more low value produce, whereas over a quarter (27%) think growth could come from producing high value produce such as specialist and organic ranges.

Mark Suthern, Head of Agriculture at Barclays commented: “Our research shows that while support for UK produce exists, consumers are very cost conscious and when it comes to what drives choice of produce it is principally value and convenience.

“The findings suggest the market for higher cost or niche produce is small, yet only a small number of farmers identify farm gate produce of lower cost as part of their growth plan.

“This gap presents an opportunity for a quick and low cost producer mentality needed for future growth and the challenge will be production of quality produce in a price conscious market. With this in mind, perhaps now is the time for the industry to think differently, to ensure that UK farming remains competitive at family firm level and can compete with global players providing cheaper imported produce.”

The research also showed four out of five people (79%) would purchase more UK produce if it had ‘better taste or flavour’ than rival produce, whereas only a third of farmers (33%) think it would encourage more purchases.

Mark Suthern at Barclays continued: “Following the on-going difficulties that UK agriculture has experienced over the last few years, it has never been a more important time to support the growth of a vital sector of the UK economy.

“The UK has a global reputation for high-quality, high welfare farmed produce at competitive prices, and the evidence shows that UK consumers value the access they have to such domestically produced food, but must look beyond just price and convenience to support the industry. Continued improvements in labelling and traceability can help consumers make the choice in selecting UK produce.”

Using economic analysis to assess the opportunities for farmers, researchers found that the market for UK farmed produce could grow to £8.4 billion by 2020 if more consumers chose domestic products.

Based upon this estimate and the 17% price premium, which consumers said they would be willing to pay for UK produce, there could be an additional £4.7 billion economic growth prospect for farming or £13.1 billion in total over the next five years.

At Lamont Pridmore our profit improvement and business advice services can help you so please contact us.



Holiday Lets made subject to Inheritance Tax

A recent First Tier Tribunal (FTT) case may have significant implications on the inheritance tax of furnished holiday letting (FHL) businesses.

In the case of *Green vs HMRC* the FTT assessed whether the activities conducted by Anne Green were extensive enough to rebut the assumption that her FHL business was an investment.

The taxpayer claimed 100 per cent business property relief (BPR) on the life-time transfer of her FHL business into a trust settlement.

Mrs Green argued that there was a wide spectrum of businesses involving the use of the property, ranging from the granting of a tenancy to running a hotel.

The management and maintenance of her FHL was similar to that of a hotel and unlike traditional investments, the income was not generated passively, as she provided services to her guests.

However, The FTT looked at the activities associated with her FHL business, such as management and maintenance and concluded, on balance, that BPR should be denied because the activities

performed by Mrs Green were ancillary to the business and did not override the assumption that the FHL business was one of investment.

The Inheritance Tax Act 1984 (s104 and s105) provide that an interest in a business transferred on death is relieved from inheritance tax at 100 per cent, subject to this being "relevant business property". A relevant business property is qualified as:

"A business or interest in a business... [is] not relevant business property if the business... consists wholly or mainly of... making or holding investments."

It is worth noting that the legislation which deems income and gains from furnished holiday lets should be regarded as "trading" in nature, has no application to inheritance tax.

If you own or manage an FHL business as part of your farm's diversification strategy, then you need to be aware of the implications of these findings, as they may have an effect on the amount of inheritance you pass on to your relatives.

Our team of tax advisers at Lamont Pridmore can help you assess whether your business is eligible for BPR and advise you on your overall inheritance tax position so please contact us.



Farm profits continue to sink

Farm gate prices across the farming industry have taken a slump in recent months due to a number of factors beyond the control of the individual farmer.

A strong harvest and a ban on Western Products in Russia have caused a glut of produce to hit the market all at once, which has driven down the price of farm goods.

The most significant decline has been in the milk market, which has fallen from 31.5p per litre (ppl) in July 2014 to 23.35 ppl in July of this year – a significant 25% drop in price.

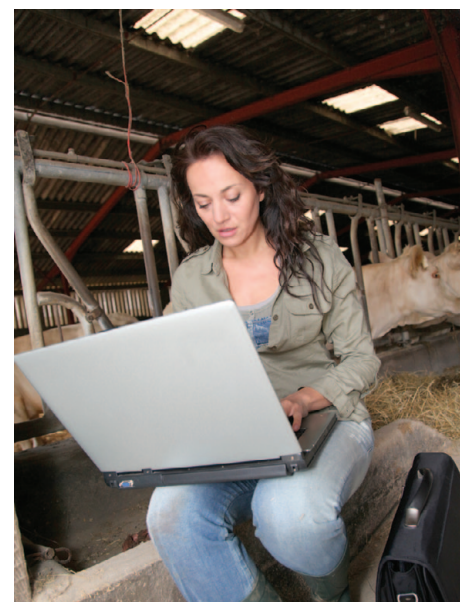
The same can be seen in the livestock market. Output prices of animals for slaughter fell by 3.3% in March 2015

compared to the same month in 2014. This was a 1.3% decrease in prices compared to the previous month.

Pig prices saw the most significant decrease in price dropping 18.9% year-on-year, while chicken prices also dropped 2.6% and lamb prices 0.5%.

During this same period, prices for feed and other farm essentials have increased, with only slight relief in the drop of fuel prices. This has led to many farms experiencing a significant downward trend in their profits.

Reductions in the payments on account need to be considered in these circumstances. Contact one of our specialist advisers at Lamont Pridmore for further advice.





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Making the most of changes to the Annual Investment Allowance

Farming businesses seeking investment in machinery and equipment will be delighted to hear that the annual investment allowance (AIA) has been increased to £200,000.

Currently businesses are allowed to deduct up to £500,000 from pre-tax profits towards the cost of investment in new equipment, but this amount was set to plummet to £25,000 at the start of next year.

However, the Chancellor, George Osborne, announced during the Summer Budget that the allowance will now be set at £200,000 "this year and every single year". While this is still a reduction on the amount that businesses can currently claim back, it is still well above the previous allowance for next year.

The Allowance is designed to encourage investment by deducting the full value of an item that qualifies for AIA from a business's pre-tax profits.

It applies to all plant and machinery equipment bought by a business, and includes integral features within buildings.

Businesses that have accounting periods ending on 31st December 2015 will be entitled to an AIA of £500,000 for accounts ending on that date and £200,000 for subsequent accounting periods. However, for those where an accounting period straddles the date of change transitional rules will apply and the maximum you can claim is calculated using time apportionments of the old and new AIA before and after the date of change.

For example, for an accounting year ending on 31st March 2016, the maximum AIA will be calculated as follows:

- The period 1st April 2015 to 31st December 2015 is 9 months:
 $9/12 \times £500,000 = £375,000$
- The period 1st January 2016 to 31st March 2016 is 3 months:
 $3/12 \times £200,000 = £50,000$

However the cost of purchases which exceed the time apportioned amount, won't qualify for AIA. In the above example expenditure exceeding £50,000 in the period 1st January 2016 to the 31st March 2016 would not attract AIA.

Speak to Lamont Pridmore so we can help you to maximise your claims for capital allowances.