

# New ISA Limits

**From 6 April 2008 the structure of the individual savings accounts (ISAs) have been simplified and higher annual investment limits have been introduced.**

The main benefit of investing in an ISA is that the money accrued within them is free of income tax and capital gains tax. Since their introduction in 1999, they have been a popular way of investing money.

The old rules allowed individuals to invest:

£3,000 each tax year in a cash mini ISA

£4,000 each tax year in a stocks and shares mini ISA

Or £7,000 each tax year in a maxi ISA, of which up to £3,000 may be in cash.

Since the 6 April 2008, the distinction between a mini and maxi ISA has been removed and instead people can save up to

£3,600 in a cash ISA and up to £7,200 in a stocks and shares ISA, within an overall annual savings limit of £7,200.

Hopefully, the removal of the distinction between the mini and maxi ISAs will mean that more people understand the ISA rules and encourage more to invest.

If you would like further help or advice on this matter, please contact Dodd Murray Limited on 01228 522258.

# Child Trust Funds

Child Trust Funds are available to all children born after 1 August 2002 for whom child benefit is payable.

The idea is that the amount invested on behalf of these children will grow tax free and then be available to them as a lump sum when they reach 18 years of age.

The government makes the initial contribution to the fund of



either £250, or in situations when the family income is under about £15,000 per annum they invest £500. Given the poor farming profits in recent years, there may be a number of farming families who could benefit from the £500.

The government will then add a further payment to the fund when the child reaches 7 years of age, and are considering making another payment when

the child reaches secondary school age. Up to £1,200 per annum can be added to child trust funds by family and friends of the child.

For anyone who is looking at saving some money for their loved ones, this might be a viable option for you, if you would like to know more about Child Trust Funds please contact Bevan Osgood on 01228 530913.

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# Farmers!

## Know how this year's budget affects you.

By Rachel Lamb

Technical Tax Specialist

Alistair Darling delivered his first and, widely considered by many, uninspired budget speech on 12 March 2008. Many of the issues had already been announced in the pre budget report in October 2007, but the changes that are most likely to affect farmers are explained below by tax specialist Rachel Lamb, Tax Manager from Dodd & Co's Penrith office.

### Income Tax

From 6 April 2008, individuals will pay income tax in excess of their tax free personal allowance at a rate of 20% up to £36,000. Thereafter income will be taxed at 40%. Companies will pay tax at 21% (and this will increase to 22% from 1 April 2009). Consider how you can keep your annual tax bills as low as possible by being aware of the changes to the capital allowances regime:

A new annual investment allowance (AIA) for the first £50,000 of a business's expenditure on qualifying plant and machinery is to be introduced, upon which 100% tax relief will be available. The relief will be available from 1 April 2008 for companies and 6 April 2008 for sole traders and partnerships. The good news is that if you spend £50,000 on new equipment the full cost will be deducted from your trading profit in the year of purchase. Under the old system, only £25,000 on expenditure of £50,000 would be set off against profits in the year of purchase with the balance of the cost being relieved later on.

Care will need to be taken with year-ends other than 31 March and 5 April because the new relief will be time apportioned for other year-ends. For example, if your year-end is 31 July, then in the year to 31/7/08, you will only be eligible for 4/12 of the £50,000



AIA, i.e. £16,667. Any expenditure incurred in excess of this in this four month period will

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# Capital grants available from DEFRA

April 2006, DEFRA, in partnership with Natural England and the Environment Agency introduced an initiative snappily titled the "England Catchment Sensitive Farming Delivery Initiative".

The aim of the initiative was to raise awareness of diffuse water pollution from agriculture and encourage early voluntary action by land managers to tackle it. On 1 April 2007 a one year capital grant scheme was launched. The scheme gave grant aid to land managers for the improvement or installation of facilities that would benefit water quality by reducing diffuse pollution.

Because of the success of the scheme, DEFRA has announced that there should be a further 1 year capital grant



scheme for the period 1 April 2008 - 31 March 2009.

In order to be eligible for a grant, the land on the agricultural holding must lie within a "priority catchment" on the English side of the Borders. To find out if you are in one of the areas please go to the website link at the bottom of this article.

Some of the capital items that will be favoured by the grant application process are:

- Roofing of manure storage and livestock gathering areas.
- Yard works for clean and dirty water separation.
- Roofs for slurry and silage stores.
- Livestock and farm machinery tracks.
- Resurfacing of gateways.
- Cross drains on or in farm tracks.
- Watercourse fencing.
- Water provisions for grazing livestock.

If you would like to apply for a grant, the applications must be received by Natural England no later than 30 June 2008 and work should not be started before your application has been approved. You can only submit one application for a grant per holding and there is a grant ceiling of £10,000. The scheme ends on 31 March 2009. In order that all the forms can be processed before the end of the scheme, it would be expected that if your application is to be successful, the claim forms should be submitted by 27 February 2009.

If you would like to know more about this grant scheme, you can look on the website [www.defra.gov.uk/farm/environment/water/csf](http://www.defra.gov.uk/farm/environment/water/csf) or contact CSF Section, Natural England, Block 7, Government Buildings, Chalfont Drive, Nottingham NG8 3SN. (Telephone number: 0845 602 4091)



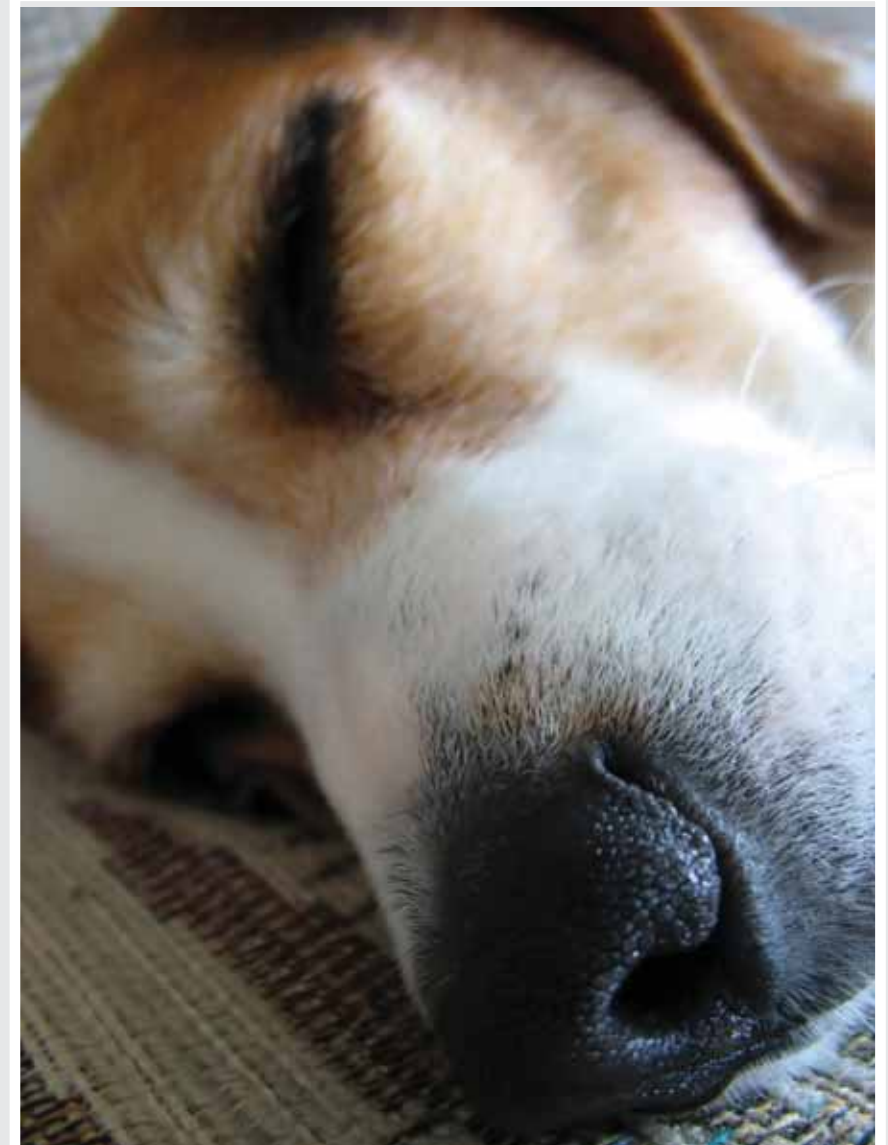
# It's a dog's life

You have heard the saying "A dog is for life not just for Christmas".

Well when it comes to the taxation treatment of sheepdogs this is true.

A sheepdog qualifies for capital allowances, and in particular the annual investment allowance, in the same way plant and machinery qualify. This is because the animal functions as a piece of machinery with which the farming trade is carried on and the expected life is more than two years.

So remember to include your working dog as part of your fixed assets and not on your trading valuations.



# Bring your dog to work!



Did you know?

Some employers require the worker to bring their dog to work. For example the shepherd will need his sheepdog to help perform his normal duties.

According to the Agricultural wages board this is then worth an extra £6.58 a week for each dog. In Scotland it is worth an extra £4.52 per dog, up to a maximum of four dogs. Please

note the dog has to be a working dog so no poodles please and also it does not qualify the dog for any benefits such as, free eye tests. ■

# Exchange Rate Risk

The delivery of Single Farm Payments over the last few years has been frustrating to everyone working in the agricultural industry. Thankfully, the Rural Payments Agency seems to be getting to grips with the administration of the scheme.



**It is now the responsibility of every producer to make sure that they are making the most of these payments.**

Some have already opted to take their payments in euros. This is usually to service a euro loan, which currently offers cheaper interest rates than the UK equivalent. For the rest however, who do not need euros on a day to day basis, the majority understandably have opted to take the payment in sterling. Unfortunately, in doing so they are effectively adding to the annual currency exposure element of their business.

just one day's trading. This is an extremely narrow conversion window on which to base a year's Single Farm Payment income.

To put this issue into context the table below illustrates how the exchange rate movement over the last 18 months would impact on a single

	Date	Exchange Rate	For €50,000	For €75,000	For €100,000
2006 SFP	30/09/06	0.67770	£33,885	£50,828	£67,770
2007 SFP	30/09/07	0.69680	£34,840	£52,260	£69,680
	31/10/07	0.69626	£34,913	£52,370	£69,826
	30/11/07	0.71434	£35,717	£53,576	£71,434
	31/12/07	0.73688	£36,844	£55,266	£73,688
	31/01/08	0.74287	£37,144	£55,715	£74,287
	29/02/08	0.76221	£38,111	£57,166	£76,221
	31/03/08	0.79136	£39,568	£59,352	£79,136

**Exchange rate risk and the Single Farm Payment**

This is because Single Farm Payment is calculated in euros and then converted back to sterling before it is paid to UK producers. The conversion rate which is used is based on 30 September;

farm payment income of €50,000, €75,000 and €100,000.

The table shows that a €100,000 Single Farm

Payment is worth in the region of £9,500 more in March 2008 than it was in September 2007. For a more modest €50,000 payment the difference is still a significant £4,700.

There is no guarantee where rates will go before 30 September. For those who like to gamble, take a chance; wait until 30 Sep

For others, forward contracts and exchange rate options may be a method of managing the exchange rate risk and thus give certainty to the value that you will receive, (The timing of the receipt will still be at the whim of the RPA!). All major banks will have various products available to assist this, and it will cost nothing to discuss the options with your bank manager. As always, if you have any further questions on this matter you can contact any member of the farming team who can explain the process in more detail to you, but cannot advise you as to which rates you should commit yourself to (if at all).

..Continued from cover then enter the capital allowances pool and will only be eligible for 20% tax relief, which is much lower than the 100% relief you can get if you time your expenditure carefully.

You will probably be aware that Agricultural Buildings Allowances (ABAs) are being withdrawn over the next three years until April 2011 when they will be withdrawn altogether. Allowances will be due at a rate of 3% for 2008/09, with a 1% reduction taking place each year until they are withdrawn. It will therefore be crucial for new farm buildings in the future to ensure that invoices are accurate in the split of the cost of the new building between those costs that may qualify for 100% tax relief such as

the slurry handling element, cubicles, gates etc compared to the actual cost of the bricks and mortar on which no tax relief will be available as a deduction against annual profits

Here at Dodd & Co we know how to help you to maximise capital allowances to reduce your tax bill. If you are planning any investment in buildings and machinery you should get professional and knowledgeable advice before committing to the expenditure.

### Capital Gains Tax

**From 6 April 2008 the new capital gains tax regime will work as follows:**

There will no longer be any indexation allowance. This was an allowance for

inflation from March 1982 to April 1998. This was worth 104.7% of the March 1982 value where an asset had been held throughout that time. This effectively doubled the base cost in any CGT calculation and it will now be unavailable for future calculations. This will hit farmers hard for any future disposals of land.

There will be no taper relief. Taper relief was introduced in March 1998 and

there were two rates. If the asset being disposed of was a business asset, then the maximum rate was 75%, reducing the gain to a ¼ of what it would have been. For a 40% taxpayer this effectively reduced the tax rate from 40% to 10%. For non business-assets, the maximum relief was at 40%, reducing the rate of tax for a 40% taxpayer down to 24%.

All gains will simply be taxed by deducting cost from sale proceeds and taxing the gain at 18%

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...This is a lower rate than was paid on non-business assets but higher than on business assets, for higher rate taxpayers.

There is still an annual allowance so that any gains within the annual allowance will not suffer any tax. The annual allowance for 2008/09 will be £9,600.

A new "Entrepreneur's relief" will give tax relief in limited cases. For gains during an individual's lifetime up to £1million on business assets, the tax rate will be reduced to 10%, putting us back to where we were with Business Asset Taper. However the conditions are much stricter, for example, you will no longer pay a tax rate of 10% where you make a part disposal of land used in your trade. For the lower tax rate to be available, you will need to sell all of your business.

These changes mean that anyone planning a sale of business assets such as land should seek advice before the sale. Dodd & Co know how to minimise tax due on sales. We have advised many farmers in this position and can assist you through the whole process.

### Inheritance Tax

**The IHT threshold will be £312,000 from 6 April 2008 but it is set to rise to £350,000 by 2010/11.** The value of estates above this nil rate band will be taxed at 40% after assets qualifying for Agricultural Property Relief (APR) and Business Property Relief (BPR) have been excluded.

One positive change is

that where someone dies after 9 October 2007 and their spouse or civil partner died before them, then the unused proportion of the nil rate band of the first to die can be used against the estate of the second spouse.

For example, if someone died in 2005 and left all of their estate to their spouse, and so did not use any of their nil rate band, then when the second spouse dies they will have the benefit of 2 times the amount of the nil rate band at the time of their death. This may prove useful with the recent challenges H M Revenue & Customs have started to target on farmhouses where they have tried to argue that APR is not available either because the farmhouse is not of a character appropriate to the size of the farming operation or the farmer was not actively involved in running the farm.

### VAT

**The 2008 Budget has introduced a short transitional period, which runs**



**until 31 March 2009,** regarding the three year cap on claims for overpayments of VAT. For the next 12 months, any business which was registered for VAT between 1 April 1973 and 1 May 1997 can make a claim for overpaid VAT which accrued before the introduction of the three year cap. However, H M Revenue & Customs will also have new powers during this period to allow the raising of assessments where claims are made during this transitional period which are later found to have

been incorrectly claimed by a business.

A further change is that there has been an increase to the limit below which errors discovered on previous VAT returns can be corrected on a later return. The new limit will be the greater of £10,000 or 1% of net VAT turnover (the figure in box 6 of the VAT return), subject however to an upper limit of £50,000. This limit will be effective for accounting periods beginning on or after 1 July 2008.

Dodd & Co are specialists in minimising the amount of tax that you need to pay. We are currently helping more than 700 farming businesses throughout the region. If you would like to know how we can help your business contact me, Rachel Lamb, on 01768 864466.



**For more general information and expert knowledge on accounting and our business services please take a look around our website**

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

# Diversification

## Property Development

In our previous article on diversification we looked at using surplus farm buildings in a holiday letting business. We are also seeing a significant number of clients looking to develop property and then sell it at an increased value.

There are several options available for property development. The right course of action depends on your individual circumstances and how involved you want to be with the project. It is important to emphasise that you should seek advice as soon as possible in the development process – not after planning permission has been obtained. When you get to that stage, valuable tax planning opportunities may already have been lost and the overall tax liability on the project may be higher than it could have been.

**Selling the property or site before development starts**

This is the more straightforward option. The sale can take place before or after planning permission is obtained. You should consider the following points carefully, and always come to us for advice as early as possible before selling:

Capital gains tax is normally payable on the sale.

The rate is usually 18% but in certain circumstances can be 10%.

If the proceeds are reinvested in certain types of assets, the gain can sometimes be held over, and the tax charge deferred.

If planning permission has been obtained, the proceeds will be higher, but so will the tax.

If the land has planning poten-



tial, consider inserting a provision in the sale contract so that you receive an additional lump sum if planning consent is achieved.

**Developing the property, either personally or within a limited company**

Income tax and National Insurance will normally be due on the profits. In certain circumstances, you may be able to get relief for current year losses.

If you instruct people to do work for you, you must ensure that you comply with Construction Industry Scheme rules. See us for advice first.

The VAT position on property development is very complicated. You should always come to us for specialist VAT advice before you start work.

Development within a company offers some protection if things go wrong due to limited liability status. Tax rates for companies can also be lower. However, you should consider the following points:

There will be a tax charge if you transfer the property to the

company. This is normally capital gain, though you may have an income tax charge if you have already started development. Stamp Duty Land Tax will also be payable.

The value of the property increases when you obtain planning permission. This will increase the tax and possibly also the rate of Stamp Duty Land Tax. So it can be better to transfer a property to a company as early as possible in the process.

You also need to consider what will happen to the profits which the company makes. Will the company reinvest the money in further development projects, or will you want to draw the money out and spend it?

As you can see, there is a lot to think about, if you are moving into property development. Although the issues outlined in this article give you an indication of the matters that you need to consider, we would always recommend that you contact our tax specialists at Dodd & Co to ensure that you make the most of the tax planning opportunities available.