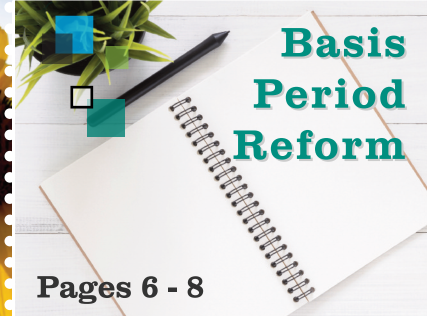
in The Know
Farming
Spring 2023



What's on the horizon?

Another tax return deadline is done and dusted and as spring approaches (I'm sure many of you will agree, it seems to have been a long winter!), we are turning our focus to tax planning ahead of the 5 April tax year end.

Despite rising costs, particularly with fertiliser, feed, fuel and energy (see our article on Page 3 'Is the sun still shining on solar?') we are seeing some healthy profits coming through, particularly with our dairy farming clients who look to have had the best year in many. However, results have been polarising with some agricultural industries having had a tough year. We've seen those who have had a good year building up cash balances or repaying debt over the last twelve months. Cashflow is as important a focus as ever though and unfortunately, as seems to always be the case, a number of factors look set to put pressure on cashflows over the next twelve months - falling milk prices, variable selling prices, increasing costs, the reduction in Basic Payment (which is making a noticeable difference to bank balances as it diminishes year on year) and compounding this for some is the fact that tax credits are expected to cease to exist completely in 2024.

Given that cash is king and that tax rates are currently relatively low (19% for companies, or potentially 29% for unincorporated businesses) should the tax be paid on any profits this year and cash retained as a buffer for the future, rather than looking to tax plan and spend up taxable profits in order to avoid a tax bill?

Rising interest rates are also hitting those businesses with variable rate finance, and those looking to refinance. On the flip side, there are some lucrative grants out there to assist with fencing, slurry and rainwater handling and other improvements on the farm – definitely worth getting your hands on them if you can.

One big change on the horizon for unincorporated businesses that currently do not have a 31 March/5 April year end is Basis Period Reform – see Page 6 for further details. This could affect tax bills for 2023/24 and we will of course be in touch with our affected clients to discuss their options.

Farming looks set to have as interesting a year as ever and, as is always the case, Dodd & Co will be on hand to advise and guide you and your business through any opportunities and challenges that may come your way. ■

By Joanne Thomlinson
Partner (Editor)
Joanne@doddaccountants.co.uk

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Risks and Rewards of Partnership

Sam Bell
Chartered Accountant

The day has come where you have been asked if you would like to become a partner in the family business, but what does this really mean and what should you be thinking about before you agree to joining the partnership?

Being a partner in an unincorporated business, i.e. a partnership, comes with big responsibilities as you then become liable for what that partnership does. This covers:

- Debts
- Health and Safety
- Environmental Considerations
- Filing VAT Returns
- Submitting Tax Returns

As well as sharing in the risks of the business, as a partner you would also share in the rewards if the business does well with a share of the profits at the end of the year.

You should consider drawing up a partnership agreement, or if there is an existing partnership agreement, updating this. This is something which your solicitor would be able to help you with and should cover issues like:

- How income/profits are to be shared?
- How capital is held?
- How capital profits/losses are shared/ borne?
- What are to be included as partnership assets?
  - Is the farm/land to be treated as a partnership asset?
  - Are any assets to be put into property capital accounts?
- What level of contribution is expected of each partner?
- In the event of a voting deadlock, who gets the deciding vote?
- The level of drawings each partner is to get
- At the end of the day, what are the buy out terms to be?

As a partner, you would no longer take a salary/wage from the business, and instead you would get a share of the profits (or losses!), which would be declared on your personal tax return. These profits or losses would be added to/deducted from your capital account in the business and from this you can take drawings. Any personal tax due on these profits would also be deducted from your capital account if the partnership covers the tax bill.

We would strongly recommend seeking advice from your accountant and solicitor before becoming a partner in your family business to ensure you make an informed decision as to how this may affect you and your personal circumstances. For example, taking a share of profits instead of a salary/wage can sometimes make it more difficult to secure a mortgage/re-mortgage as your income becomes less reliable/more prone to fluctuations – but the flip side is you have the opportunity to build up capital in the business. If you have any queries on the implications of partnership, please get in touch with your usual Dodd & Co contact. ■

Is the sun still shining on solar?

The recent unprecedented rising cost of energy has put an extra strain on many farming businesses. Those with energy contracts which have recently expired and have therefore been forced to renew their deals during a period where prices are at an all-time high have been affected the most. Increases on current tariffs have ranged from 100% up to 400% in worst-case scenarios. It is therefore unsurprising that there has been a noticeable increase in mounted solar panels appearing on both existing and newly built shed roofs, giving them a particularly useful dual purpose in the current climate.

Roof top solar panel installations are commonly most attractive to farmers who operate in dairy, poultry and arable sectors which all require a high use of energy. Those that use the majority or all the electricity they produce are able to benefit from the best rate of return on their investment with many payback periods being within 5 years. Using the energy produced in house will currently save paying anywhere up to 50p per kWh whereas any surplus exported to the grid will only pay a reduced rate of 6p – 9p per kWh into your pocket.

Struan Kyle
Chartered Accountant

Solar panels are classed as plant and machinery and thus qualify for capital allowances; therefore a business can claim 100% of the costs of equipment and installation against its taxable profits in the year they are purchased. This, in some cases, will create substantial tax savings and help reduce the payback period even further.

Not only can solar panels save cash in the long run but will also reduce the carbon emissions produced by your business, thereby creating a valuable business asset now and in the future. Many mainstream banks currently offer discounted finance to businesses for initiatives that are more sustainable by offering lower interest rates or 0% arrangement fees.

With the goal of reaching Net Zero across the whole of agriculture in England and Wales by 2040, future incentives, not only by banks but by supermarkets and produce buyers alike, are most likely to be offered to those businesses who have taken active steps to reduce their carbon output.

Something to consider as the saying goes 'make hay whilst the sun shines', perhaps making electricity would also be equally beneficial to your business.

Capital Allowances
The sum of many parts

Obtaining capital allowances (tax relief) when investing in long term assets (those which are expected to stay in use by the business for longer than 12 months) can be a minefield!

Claiming capital allowances means you can deduct part, or all of the costs of the asset from your profits, arriving at a lower taxable profit and therefore less tax to pay.

There are however various types of capital allowances, with different rules and criteria, and some assets, in particular farm sheds and buildings, can qualify for a number of different allowances depending on their components.

Structures & Building's Allowance (SBA)

Structures & Building's Allowance provides tax relief on the costs of physically constructing new non-residential structures and buildings for use in the day-to-day trade. This also includes any fees for design and preparing the site for construction. A new farm shed, for example, would be eligible for SBAs which is unfortunately a relatively low level of relief for a construction of relatively high cost.

Tax relief is given at 3% per year, with the relief given at the date the building is first used.

Annual Investment Allowance (AIA)

Some components of a building, such as silage and slurry handling facilities, may qualify as plant and machinery (P&M) and therefore attract 100% tax relief up to a £1m limit. HMRC has stated that storage tanks, both above and below ground, qualify as plant and machinery. Therefore 100% relief is available as long as expenditure is within the Annual Investment Allowance (AIA) of £1 million. For those trading through companies, a 130% super deduction is available until 31 March 2023 on purchases of brand new plant and machinery.

A further complication is that the tax position regarding a roof or cover over the store is not as clear. If HMRC considers that the roof is not integral to the operation of the item, they will restrict allowances on this part of the expenditure to SBAs of 3%.

Integral Features (IF)

In general terms, Integral Features are items of capital expenditure which are integral to a building/structure. This includes electrical and cold water systems, ventilation systems and external solar heating (however, the list is extensive.) Both P&M and IF receive AIA on expenditure of up to £1 million per year. If the expenditure is above this, then a further annual writing down allowance (WDA) of 18% and 6% is given to P&M and IF respectively.

There is a lot to consider in terms of capital allowances, so it is important to get in touch with us if you have any upcoming projects to discuss what tax relief may be available - it isn't as straightforward as it may first seem!

Callum Hind
Qualified Accountant

How changes to INVESTMENT TAX could impact you!

dodd&co WEALTHCARE

Ainslie Cowie
Independent Financial Adviser
ainslie@doddwealthcare.co.uk

Capital Gains Tax - what did the chancellor say? While he announced that Capital Gains Tax (CGT) rates will remain unchanged, the Annual Exempt Amount (AEA) will reduce from its current level of £12,300 to £6,000 from April 2023 and to £3,000 from April 2024.

It's also been announced the dividend allowance will be reduced from £2,000 to £1,000 in tax year 2023/24 and then £500 in tax year 2024/25.

Ahead of the April deadline, you should review your arrangements and make sure you are holding and managing your investments in the most tax-efficient way possible.

The first thing to consider is: Are you making the most of your individual savings account (ISA) allowance? Given that gains made within an ISA are tax-free and ISA investments are not subject to dividend tax either – this one is a no-brainer. Moving investments into an ISA, with a generous £20,000 allowance, protects future dividends and gains from the clutches of HMRC, and there is no requirement to declare them on a tax return.

If you own investments outside an ISA and have not used all your allowance, you can consider a "Bed & ISA", which entails selling your non-ISA investments and buying them back within an ISA. You can also do the same with a personal pension, pensions remain a highly tax efficient way to invest.

Before proceeding with a "Bed & ISA" or " Bed & Pension" transaction, there are a few things to consider. Firstly, these transactions are not exempt from CGT, you will still have to pay CGT if you generate gains above the allowance. But since the allowance will be reduced from next year, acting now is a way to protect future gains and minimise the bill. With markets, in many cases, still lower than last year, the timing might prove reasonable, before a recovery boosts your gains.

Rebalancing portfolios while restricting capital gains to the AEA will become more challenging, especially for larger portfolios e.g. a portfolio of £120,000 will only take a capital gain of 5% to use up their AEA in 2023/24 and 2.5% from 2024/25.

The announced changes will also impact trustee investments. Trustees are entitled to an annual exempt amount of half that available to individuals. So, while currently trustees have an AEA of £6,150, going forward this will reduce to £3,000 in 2023/24 and £1,500 in 2024/25.

For individuals and trustees who are going to end up paying more CGT under the new regime it is perhaps worth considering other investments which are not subject to CGT. Investment bonds for example provide more flexibility around when gains arise and who they are assessed against. Is it even more important to get independent financial and tax advice now!

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Basis Period Reform

Many of us will have breathed a sigh of relief when the Government announced that the introduction of Making Tax Digital for Income Tax Self Assessment (MTD ITSA) was being delayed until April 2026 (it had been scheduled for introduction from April 2024). However, one side effect of MTD ITSA that was not delayed was Basis Period Reform.

Jonathan Ridley
Tax Partner

Basis periods dictate the way in which the profits of an unincorporated trading business (sole trades and partnerships) are allocated to tax years. Historically the basis period has been determined by the accounting period which ends in the tax year in question. So by way of an example, a sole trader who prepares her accounts for the year to 30 June 2022 would report those profits in her 2022/2023 tax return and they would be taxed accordingly.

However, for the 2024/2025 tax year onwards, the basis period rules are being reformed such that all unincorporated businesses will be taxed on their trading profits in line with the tax year. So in the case of our sole trader, if she continues to prepare her accounts to June each year, the 2024/2025 tax year would include 3/12 of the profits for the period to 30 June 2024, and then 9/12 of the profits for the period to 30 June 2025.

Arguably the main difficulty with these changes lies in the 'transition year' of 2023/2024. This will require a business to not only assess profits to its normal accounting date, but to also identify additional "transitional' profits". The transitional profits will be calculated by taking the profit covering the period from the end of the 'normal' accounting period through to 5 April 2024, and then deducting any overlap profits available (which are essentially profits that were taxed twice at the outset of the business).

Sarah's sole trade business has a 30 June year end and now consistently makes a profit of £50,000. The business was not as profitable at the outset, and she has £7,500 of overlap profits brought forward.

Sarah's transitional profits are calculated as follows:

Period 1 July 2023 to 5 April 2024 - 9/12 x £50,000 =	£37,500
Less overlap profits available	(£7,500)
Transitional profits	£30,000

The default position is that the transitional profits will be spread over 5 tax years in order to mitigate the cashflow impact of the additional tax charge which could arise.

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Assuming Sarah's 'ordinary' profits remain consistent at £50,000, her assessable profits and income tax liability would be as follows for the 6 tax years beginning with 2022/2023.

Tax Year	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
Ordinary profit	£50,000	£50,000	£50,000	£50,000	£50,000	£50,000
Transitional profits *(£30,000 / 5)*	£0	£6,000	£6,000	£6,000	£6,000	£6,000
Personal allowance	(£12,570)	(£12,570)	(£12,570)	(£12,570)	(£12,570)	(£12,570)
Taxable income	£37,430	£43,430	£43,430	£43,430	£43,430	£43,430
Tax due at 20% *(first £37,700 of taxable income)*	£7,486	£7,540	£7,540	£7,540	£7,540	£7,540
Tax due at 40% *(taxable income over £37,700)*	£0	£2,292	£2,292	£2,292	£2,292	£2,292
Total income tax due	£7,486	£9,832	£9,832	£9,832	£9,832	£9,832

What we can see here is that Sarah, who previously had no exposure to higher rate (40%) tax, will suffer higher rate tax on almost all of the transitional profits.

Thankfully HMRC took on board concerns that the transitional profits could result in taxpayers suffering a High Income Child Benefit Charge (which applies where the household's higher earner's income exceeds £50,000), and made some technical changes which remove this risk. However the changes they made do not prevent the transitional profits from causing the tax-free personal allowance to be tapered where income exceeds £100,000, and so higher earning businesses may suffer further increased tax charges because of this.

It is however possible to elect to accelerate the additional profits, and the taxpayer can pick any figure to bring forward into an earlier tax year. This may be helpful if for example the business has reduced taxable profits in one of the 5 years during the spreading period.

Sarah has decided she will simply draw up her accounts to 5 April with effect from the year ended 5 April 2024. In the year to 5 April 2025 she spends £25,000 on equipment which qualifies for the Annual Investment Allowance (100% tax relief) which reduces her 2024/2025 taxable profit to £25,000. She decides to elect to accelerate the assessment of the transitional profits so that all of the remaining transitional profits are assessed in the 2024/2025 tax year.

Continued...

Tax Year	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
Ordinary profit	£50,000	£50,000	£25,000	£50,000	£50,000	£50,000
Transitional profits	£0	£6,000	£24,000	£0	£0	£0
Personal allowance	(£12,570)	(£12,570)	(£12,570)	(£12,570)	(£12,570)	(£12,570)
Taxable income	£37,430	£43,430	£36,430	£37,430	£37,430	£37,430
Tax due at 20% *(first £37,700 of taxable income)*	£7,486	£7,540	£7,286	£7,486	£7,486	£7,486
Tax due at 40% *(taxable income over £37,700)*	£0	£2,292	£0	£0	£0	£0
Total income tax due	£7,486	£9,832	£7,286	£7,486	£7,486	£7,486

By making the election to accelerate the transitional profits, Sarah has significantly reduced the level of profits that are subject to higher rate tax.

Naturally it will not always be practical or desirable for large sums to be spent on equipment. There are however other alternatives that could be considered to mitigate the impact of the transitional profits, such as making personal pension contributions (which extend the basic rate tax band and reduce the amount of income that is exposed to higher rate tax), or using farmers' averaging.

From a practical viewpoint, we would envisage most businesses changing their accounting date to 31 March or 5 April in order to avoid the complication of having to apportion two different accounting periods to a tax year. However there may be some businesses which have year ends other than 31 March or 5 April for good commercial reasons, perhaps because a certain time of year is more appropriate to carry out a stocktake. These businesses may decide to retain their current accounting year end, and simply accept the additional administrative burden that these changes have caused.

Finally, although MTD ITSA has now been delayed, the Basis Period Reform does still highlight the importance of maintaining 'real time' accounting/management data. For example a profitable partnership which may have historically drawn up accounts to 30 April each year so that the partners had 11 months to draw up the accounts and tax computations for the tax year in question and consider making a personal pension contribution (before 5 April the following year) will no longer have that luxury. However, if the business keeps accurate accounting/management data then they should be able to plan their tax affairs on a real time basis without needing to rely on the benefit of hindsight.

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For queries please contact our Information Partner Heidi Marshall at Dodd & Co, Clint Mill, Cornmarket, PENRITH CA11 7HW or email heidi@doddaccountants.co.uk

FIFTEEN Rosehill
Montgomery Way
Rosehill Estate
CARLISLE CA1 2RW

T: 01228 530913
F: 01228 515485

Clint Mill
Cornmarket
PENRITH
CA11 7HW

T: 01768 864466
F: 01768 865653