in The Know

Autumn 2021

Farming

Best foot forward

I trust you have all summered well, ready for Autumn and the coming Winter months. Although COVID is still lingering, as things become a little more normal, I hope you have managed to grab some time away from the farm - whether it be staycations, livestock sales, one or two agricultural shows or just a trip out to visit the family.

We are glad to be back out and about on farms carrying out accounts meetings after a period of Zoom meetings (other virtual platforms are available) and being confined to barracks.

On the farming front, livestock and milk prices have been good, but as always, costs have tried to keep pace and eat into any extra margins (feed, fuel, fertiliser etc). In addition, this December we will see the first deductions of the Basic Payment Scheme.

On the other side of the coin, we await further details of what will replace BPS, namely ELMS, the Environmental Land Management Scheme. The offerings that this will provide will be key to many farm businesses.

The last time I drafted the editorial we were entering the Making Tax Digital phase which covered businesses with turnover over £85,000.

This was a massive change for all businesses but I am pleased to say that you have all coped and took the new software on board by working closely with our CAT (Cloud Accounting Team).

We are now nearing the next MTD stage with the remaining VAT registered businesses needing to be MTD compatible by April 2022. As always, Dodd & Co will be there to help!

Although the agricultural shows were a miss this year (again), I hope to see some of you at Borderway Beef expo in October.

Until then, we look forward to having our usual events back up and running, and fingers crossed a year of seeing faces again in 2022!

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The chill of the Autumn Budget

For those of us working in Tax, the start of Autumn not only reminds us that the year is passing by but also that another Budget is looming. The Autumn Budget is due on 27 October this year.

As we know there were no changes to Inheritance Tax (IHT), or Capital Gains Tax (CGT) announced in the last Budget, in March but this may have simply been a stay of execution. Certainly, some farmers have taken the opportunity to pass on property to the next generation while the existing favourable tax regime for capital taxes still exists.

An increase in CGT rates has been anticipated for some time now and it does just seem a matter of when. The existing rates of 10% and 20% for assets other than residential property are historically low rates. Even the residential property rates of 18% and 28% compare favourably with current income tax rates of up to 45%. It would be no surprise to see the rates more closely aligned with income tax rates.

Of course, many farmers can potentially benefit from Business Asset Disposal Relief formerly called (Entrepreneurs' Relief) enabling them to pay CGT at a rate of 10% on qualifying disposals. Apart from the name change, the relief has also seen some restrictions, not least the reduction in the lifetime allowance of qualifying gains from £10 million to £1 million for disposals from 11 March 2020.

We already know that the CGT annual exemption is frozen at its current rate of £12,300 up to and including the 2025/26 tax year. Similarly, the IHT nil rate band is frozen at £325,000 and the Residence Nil Rate Band at £175,000 for the same period. The big question with IHT is whether the Chancellor really is prepared for a major shake-up of the tax which some would say is long overdue. Of course, freezing the nil rate band with rising asset values will bring many more estates within IHT without any further action. Agricultural Property Relief (APR) and Business Property Relief (BPR) are hugely important IHT reliefs for farming families and we cannot rule out some changes.

The current, some might say generous, capital taxes regime with the availability of APR and BPR for IHT, combined with CGT reliefs including holdover relief for gifts of business and agricultural property isn't going to get any better. Of course, it is precisely this favourable tax landscape which in many respects has encouraged families to put off their succession planning. However, time may finally be running out if you have a clear succession path and want to ensure that your family is not disadvantaged by anything that the Chancellor may have in store.

Our Budget update will be available on our website soon after the announcements are made. If you have any queries, please speak to your usual Dodd & Co contact.

Dairy update

Dairy performance & contracts

The financial year ending March 2021 saw a welcome return to profit for our average dairy farms. This was as a result of a slight increase in output driven by an increase in milk prices and a small reduction in costs.

Given the recent turmoil in feed and fertiliser markets it looks likely that costs will increase again this year. In fact, the breakeven milk price dropped by 0.54ppl to 28.14ppl. With rising wage costs, fertiliser and feed costs this will be much nearer 30ppl by next spring.

Whilst the average figures look well, we are aware that the range of milk prices has been quite large in 2020/21. Everybody knows the best payers have been quite a bit above 30ppl but, at the same time, some farmers have received less than 25ppl in the same period.

To date some of the poorer payers have had the upper hand as contracts have not given much clout to farmers. We may however be at a turning point with DEFRA about to press go on new dairy contract legislation.

All of this raises some potentially interesting questions for the industry. Will the various farming unions and processors be able to agree acceptable terms, how will it change the requirements for farmers and will some of the poorer payers end up with contracts for a specified volume? We have already seen top paying contracts attracting value when firms have changed hands. Will differentiation between contracts make this more likely? And, more importantly, will revised contracts lead to a rise in prices in the liquid sector?

Minimum wage compliance

One of the issues farmers have to contend with is complying with minimum wage legislation. For hourly paid employees this is fairly straightforward.

For those, particularly in the dairy sector that have salaried staff, ensuring the amount they are paid is at least equal to minimum wage is important. If the contracted hours are 50 per week then an annual salary would have to be £23,166.

This is fine but it has been brought to our attention that HMRC are checking hours of employees, as if in the above example an employee effectively does 60 hours then they are being underpaid significantly.

Whilst you can count the value of some benefits, such as accommodation, towards this minimum it is important that salaried payments reflect the hours that people are working to avoid failing to comply with minimum wage legislation.

Let's talk about inflation

Inflation is a relatively simple concept, used to describe the gradual rise in the cost of goods and services. For example, a loaf of bread or the cost of petrol. Inflation is generally healthy if it's in the 2-3% per year range, but it is considered to be unhealthy if it falls too low or rises too high (the idea is that we make steady progress over time). For this reason, the Bank of England will adjust interest rates to control it.

Inflation is important today because it is currently rising from a very low base, but it's perhaps rising too quickly right now. This is understandable, given the reopening of the economy, yet is garnering headlines and has caused some volatility among certain assets.

We should also keep in mind that the job of an investment portfolio is to increase your purchasing power over time. Some assets we hold will do better in a period of higher inflation and some will do better in a period of lower inflation. The key is to strike the right balance for your long-term goals and risk tolerance, which is a core part of your financial plan.

The return on cash (interest) typically fails to keep pace with the rising prices of goods (inflation). Therefore, as a long-term strategy, cash is actually a very bad investment. Hence, unless we have absolute certainty that the markets are nearing the peak, which is extremely difficult, putting everything in cash is rarely a good idea.

We therefore use cash selectively as an investment tool. This is already done within a portfolio, where cash is treated as any other asset class available for allocation. This means that as the attractiveness of other available assets rises relative to cash, cash allocations should fall and vice versa.

Therefore, cash plays both offense and defense, by being used as 'dry powder' for adding undervalued assets to the portfolio and by buffering against rich valuations.

This brings us to a crucial aspect of wealth creation and preservation – we need to be a step ahead of our own emotions as well as other participants' emotions. So yes, cash may feel like the best place in the darkest moments (so-called "cash is king"), but it is a poor choice when considered as a long-term pursuit and only tends to work if we increase it before the market decline occurs.

At Dodd Wealthcare, we work to ensure that portfolios are well positioned to navigate different inflation environments. We can't rule out the odd setback (whether due to inflation, covid, or otherwise), but wealth creation is often about avoiding the biggest mistakes, which is why we diversify across different assets. We want to "be greedy when others are fearful and fearful when others are greedy", but we also want to manage risks along the way.

Bringing this together, we are always aware of the current inflation discussions and a personal tailored portfolio with Dodd Wealthcare is always thoughtfully considered, to manage your risks and maintain the best investment decisions according to your personal situation and that of the market.

To begin planning your own tailored investments, contact Nathan, Phil or Ainslie on 01228 530913 or 01768 864466 or email hello@doddaccountants.co.uk

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MTD for VAT

Are you VAT registered? If so, you might want to read on as Making Tax Digital for VAT definitely affects you!

Making Tax Digital (MTD) is a key part of the government plans to make it easier for businesses and individuals to get their tax right and keep on top of their affairs. The first phase was rolled out in April 2019 and now we're onto phase two.

If you are a VAT registered business with a turnover of over £85,000, you can put your feet up for now as you should already be registered for MTD and filing your VAT returns in an MTD compatible way.

If you are a VAT registered business with a turnover of under £85,000, from April 2022 you will also need to be registered for MTD and filing your VAT returns in an MTD compatible way. Your first MTD VAT return will be for your first full VAT period after 1 April 2022.

- **Monthly VAT returns = ME April 2022**
- **QE Mar/Jun/Sep/Dec = QE June 2022**
- **QE Jan/Apr/Jul/Oct = QE July 2022**
- **QE Feb/May/Aug/Nov = QE August 2022**

If you already use a Cloud Accounting Package such as Xero or QuickBooks there is only one more step to take, and that is to register with HMRC for MTD. How you currently prepare your VAT return could indicate that you're not MTD ready.
The following methods will not be MTD compatible:

- **Use of pen and paper**
- **Use of out of date, unsupported software**
- **Use of spreadsheets (without a bridging tool)**

So your options are to;

- **Move (or upgrade) to software that is MTD compatible**
- **Use a bookkeeper (ensure they are MTD ready)**
- **Use Dodd & Co spreadsheet and we submit your VAT**
- **Dodd & Co prepare & submit your VAT on your behalf**

Don't worry, if you are affected someone from Dodds will be in touch soon to discuss your options with you and come to a solution which is right for you and your business. Also, in some cases exceptions can be allowed by applying for an exemption to HMRC, again if this is suitable to your circumstances, we will support you through this process. Please note, MTD for Income Tax was coming in April 2023, but has now been delayed to April 2024.

Back to basis

HMRC have published a consultation document proposing a change to the way in which the profits of unincorporated trading businesses (sole traders and partnerships) are allocated to tax years (known as a 'basis period'). Whilst these changes are being billed as a simplification measure, they could have some quite unsavoury tax consequences for businesses which prepare accounts to a date other than 31 March or 5 April each year.

In general terms, the basis period will be 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 2021 would report those profits in her 2021/2022 tax return and they would be taxed accordingly.

The proposed change would see all unincorporated businesses taxed on their trading profits in line with the tax year, and this would take effect from the 2023/2024 tax year onwards. So in the case of our sole trader who prepares her accounts to June each year, the 2023/2024 tax year would include 3/12 of the profits for the period to 30 June 2023, and then 9/12 of the profits for the period to 30 June 2024. Whilst there may be good commercial reasons for retaining a June year end, our expectation is that most businesses would change their year end to 31 March or 5 April once the new rules have been implemented.

The main difficulty with these changes lies in the 'transition year' of 2022/2023. This will require a business to not only assess profits to its normal accounting date, but to also assess additional 'transitional' profits covering the period from the end of the accounting period to 5 April 2023. So for example, the partners in a partnership which prepares accounts to 30 April each year would not only be taxed on profits to 30 April 2022, but would also be taxed on 'transitional' profits covering the period from 1 May 2022 to 5 April 2023 (i.e. they would be assessed on 23 months' worth of profit!). Whilst there may be some "overlap relief" available by reference to profits that were taxed twice when the business commenced, in many cases this relief will be significantly lower than the additional profit that is being subject to tax.

On a slightly more positive note, HMRC have indicated that they would allow the taxpayer to elect to spread the additional 'transitional' profit over a 5 year period in order to assist with cashflow, and this may in some cases allow for tax-planning measures to be put in place to reduce the impact of the changes.

The consultation period closed on 31 August 2021, and the timing of the proposed changes have been met with resistance, in particular by the leading accountancy and tax professional bodies, which have signed a joint letter to the government urging them to delay their introduction. We are hopeful to receive clarity in terms of timescale sooner rather than later so that we can advise our clients accordingly and help them navigate this change.

Tax increases for Social Care Levy

A new social care levy is to be introduced by the government from April 2022 to fund social care and help the NHS recover from the pandemic. The new levy is expected to raise revenue of £12bn a year.

This measure will temporarily increase National Insurance contributions for employees, employers and the self employed by 1.25% for the 2022/23 tax year with the revenue raised going directly to support the NHS. From April 2023 onwards National Insurance contributions will return to their 2021/22 levels and the new tax will then become a separate 1.25% Health and Social Care Levy, with the revenue ringfenced for health and social care.

Individuals over State Pension age who are still working do not pay National Insurance contributions and will not therefore be affected by the temporary increase in 2022/23. However, they will be liable to pay the levy from April 2023.

The higher an individual's earnings, the more they will pay. In 2022/23 an individual earning £25,000 will pay an additional £193. An individual earning £50,000 will pay an additional £505.

Dividend tax rates will also be increased by 1.25%. Currently the first £2,000 of dividends received are tax free. Dividends are then taxed at rates of 7.5%, 32.5% or 38.1% depending on which tax band applies to the income. Following the increase, the rates will become 8.75%, 33.75% and 39.35% from April 2022.

These changes will affect employees, employers and the self- employed but will have a greater impact on the tax cost of employment which already exceeds that of self-employment. This is only likely to increase the issues surrounding the classification of workers as employees or self- employed.

It is also curious that although the levy is extended from employment and business income to dividends, other types of income such as property letting and pensions are unaffected. It appears in some respects that the earnings and business income of working age people are being more heavily taxed to protect the wealth and property of older people.

During the first year when National Insurance is being used to raise the levy HMRC will update their systems to collect the new Health and Social Care Levy from April 2023 in effect as a separate tax. It will be interesting to see how this develops and whether future governments will be able to resist increasing the rate if further funding is required.

Meet your farming team

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If you would like to sign up to regular industry updates from the Dodd & Co farming team please email hello@doddaccountants.co.uk

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