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Addition

AGRICULTURAL

issue 34 • Summer/Autumn 2024

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FARM BOOKKEEPING – HINTS AND TIPS

With businesses generally VAT registered, the vast majority of our farming clients have already adopted modern cloud based accounting software, and most are maintaining it to a good standard.

However, there is usually at least some room for improvement and we list below a number of suggestions to help you keep the records in better order, more easily:

- Little and often: Instead of making a big job every quarter, please update the records at least once a month (and ideally more often).
- Use a bank feed: Linking the business bank and credit card accounts to the software enables the statement transactions to be entered automatically, reducing your work and helping to keep the accounts reconciled.
- Reconcile the control accounts regularly and correct any errors immediately:
    - Each time you receive a bank statement, run a bank reconciliation report and make sure the balance matches. If it doesn't, find and correct the error(s) straightaway – the task will only get more difficult if it is left until next time.
    - At least a few times a year (and certainly at the year end), run an aged payables (creditors) report and an aged receivables (debtors) report and check that each supplier's and customer's account balance are correct. Again, if an error is identified, this should be investigated and corrected straight away.
    - Where debtor or creditor balances appear incorrect, run an account transaction report to help identify misposted or duplicated transactions.
- Call for help when needed: If you are unable to resolve reconciliation errors, please contact us for assistance. Remember that a stitch in time saves nine!
- Keep the coding consistent: Please use the same nominal ledger code for all transactions of the same type. Even if it will require adjustment in the annual accounts, it is much quicker and easier for us to deal with a block of similar misposted transactions in a single code, than to have to correct the same transactions scattered throughout the nominal ledger.
- Record good transaction descriptions: Clear informative descriptions are invaluable in minimising our need to raise queries and/or inspect invoices when preparing the annual accounts. For example:
    - For transactions involving livestock movements (eg purchases and sales), always please record the number and category of animals.
    - For other sales, always please record the quantity and product (eg '101,366 litres milk' or '65 tonnes wheat').
    - For building repairs and improvements, please identify the building and summarise what was done.
    - For contracting, please summarise what was done (eg 'silaging' or 'slurrying').
    - For fuel, please identify whether it was DERV, gas oil or heating oil.
- Use bank rules (judiciously): Deliberately setting up bank rules can save bookkeeping work by automatically coding transactions. This is particularly useful for (eg) HP payments (to ensure that each one is allocated to the correct HP account) and for costs that do not require detailed description (eg monthly bank charges, bank interest, loan interest, etc). But please be wary of using rules proposed by the software (which are sometimes inappropriate) or of omitting necessary descriptions. Please contact us if you require help with bank rules.
- Consider uploading pdfs of your bills and invoices into the software. This is great for future reference and is an acceptable alternative to paper for long term document storage. Uploading documents manually is slow, but various apps can help – including Hubdoc (which is included free with Xero Standard), Dext, and Auto Entry.

BPS ENTITLEMENTS – DON'T LOSE THE LOSS

2023 was the final year for Basic Payment Scheme (BPS) subsidy based on entitlements.

The subsidies for 2024 to 2027 are 'delinked payments', based on historic BPS receipts (less a reduction factor) rather than the area of land or number of entitlements held. Therefore, from the 15 May 2023 closing date for 2023 claims, entitlements are worthless.

This gives some farmers the opportunity to claim a capital gains tax (CGT) loss on:

- The historic cost of purchased entitlements.
- The probate value of inherited entitlements.
- Any CGT base cost on gifted entitlements.

Relief cannot be claimed on entitlements that were allocated free of charge to you or to another person who gifted them to you with holdover relief.

Our experience is that most farmers do not have a CGT loss to claim, but a sizeable minority do.

Capital gains tax negligible value claim

Where entitlements have a CGT cost, a negligible value claim can be made in the 2024 tax return and the loss will then be available for offset against capital gains of 2023/24 onward.

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HARVESTING NEW SKILLS: INCOME TAX RELIEF FOR TRAINING COSTS

HMRC has recently revised its guidance on income tax relief for training costs and, arguably, there is a slight relaxation.

Staff training

The cost of staff training is (almost) always tax deductible, but it should be noted that 'staff' means employees paid under PAYE, and not contractors, family members or business partners.

Wholly and exclusively

To qualify for income tax deduction, any expenditure must be incurred 'wholly and exclusively' for the purposes of the business. Staff training will normally satisfy that test, but university degrees and other new qualifications for family members will not!

Capital v revenue

Another general principle is that 'capital' expenditure is normally disallowed for income tax relief, except where it is of a specific type that qualifies for capital allowances.

Proprietor training: ineligible costs

The following examples of proprietor training would not qualify for income tax relief:

- Training for a proprietor to start a separate business or activity (eg a farmer intending to go into residential or holiday letting).
- A farmer taking a general finance course that does not directly relate to farm management or operations.
- An HGV driving course, unless it directly supports the farm's business activities (eg haulage to market).
- A course in personal development or hobbies, such as photography, unless it is directly for promotion of the farm's produce (eg marketing farm products online).

Proprietor training: eligible costs

The training costs that are income tax deductible for a sole trader or partner are those incurred to keep current skills up to date or to keep up with technical changes and matters that are ancillary to the existing trade.

These income tax deductible training costs include:

- Bookkeeping and digital skills courses for the business.
- Training required by new regulations to continue existing work (eg spraying and fork lift certificates).
- An arable farmer learning about organic farming techniques to meet rising consumer demand.
- A livestock farmer taking a course in animal nutrition to improve herd health and productivity.

Conclusion

HMRC's updated guidance is welcome in that it now acknowledges that training costs incurred for a sole trader's or partner's existing business activity can be tax deductible even where new expertise is being acquired. However, the training must be directly for the existing business activity.

Photo by Yurii Khomitskyi on Unsplash

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BUYING THE HOUSE (OR SMALL FARM?) NEXT DOOR

There are different sets of Stamp Duty Land Tax (SDLT) rates for 'residential' and 'non-residential' property. The current (September 2024) rates are:

'Residential' property	
First £250,000	0%
Next £675,000	5%
Next £575,000	10%
Thereafter	12%
Plus additional 3% on the whole price for a second or subsequent dwelling	

'Non-residential' property	
First £150,000	0%
Next £100,000	2%
Thereafter	5%
'Mixed use' property qualifies for the 'non-residential' rates.	

Traditionally, farm purchases have been accepted as 'mixed use' property but, like the SDLT rates, HMRC's stance has toughened in recent years and their current guidance asserts that 'residential' SDLT rates are often payable on 'a cottage with fields'.

The legislation provides that land is 'residential' for SDLT purposes where it forms part of the 'grounds' of a dwelling.

HMRC's position is that the SDLT status of land is unaffected by its capital gains tax (CGT) status or whether it is necessary for reasonable enjoyment of the dwelling. Instead, the following factors should be considered:

- Layout and use: does the land include domestic outbuildings, small orchards, stables or paddocks suitable for leisure or hobby use; or is there good evidence of commercial use over time?
- How does the land area compare with the size of the dwelling, and how close and accessible is it?
- Are there legal constraints, such as agricultural land classification by the rates office, or lengthy tenancy agreements which prevent the occupier of the dwelling from accessing the land?
- Does the land provide amenity for the house, perhaps in terms of setting or view (eg parkland)?

This multi-factorial approach was endorsed in a 2021 Upper Tier Tribunal case [Hyman] and claims for 'mixed use' status have failed in several reported cases over recent years. Recent (2024) failed Tribunal cases include Lynch and Holding, both of which concerned large houses with around 20 acres of agricultural land that had been used under informal agreements by neighbouring farmers. In both those cases, the Tribunal concluded that the property purchase was 'residential'.

Both Lynch and Holding involved very substantial houses and the 'setting' provided by their lands was more problematic than usual. Nevertheless, any farmer buying a neighbouring house with a modest acreage should be prepared for the possibility of having to pay 'residential' rates of SDLT or should seek expert advice before committing to the purchase.

Our tax specialists would be glad to assist you with SDLT advice and planning.

VAT DIY SCHEME UPDATE

The VAT DIY scheme enables input VAT to be reclaimed on costs of constructing a new family home. Typically in a farming family, this might be for mother and father to retire to, or for a son or daughter on the farm.

Since covid, HMRC's processing of paper-based VAT DIY scheme claims had become very slow. Our experience is that recent changes have dramatically improved the turnaround times.

Eligibility

The VAT DIY scheme is only for new builds (including barn conversions) for family residential purposes. It cannot be used for dwellings constructed for business (eg house for letting or farm worker).

Only VAT on standalone purchases of building materials can be reclaimed under the scheme. Contractors working on the build must instead zero rate their invoices for their work and the materials they supply and incorporate.

HMRC have guidance at https://www.gov.uk/guidance/goods-and-services-you-can-claim-for-under-the-vat-diy-scheme on what constitutes 'building materials'. The guidance is detailed: furniture cannot be claimed unless it is fitted kitchen furniture, nor can consumables or tools – so paint can be claimed, but not the paint brushes or sandpaper!

HMRC's recent changes

The recent changes include:

- Extended time limit for claims: For dwellings completed on or after 5 December 2023, the deadline to submit claims has been extended from 3 months to 6 months after completion.
- Online application process: The application form is similar, but can now be completed online, rather than on paper. The online claims we have seen so far have been processed much faster by HMRC.
- Invoice paperwork: Previously, all original invoices had to accompany the paper application. They are no longer submitted with it, but must be retained, and HMRC will often ask for a selected sample of invoices before they issue the refund.
- Agent authorisation: The online process has now been updated to permit applications by agents.

It is still possible to make applications on paper but, given our experiences with HMRC's turnaround times, we strongly recommend using the online facility. Delays can also be reduced by ensuring that the schedule of invoices is clear and has good descriptions, that no ineligible costs are included, and that the invoice records are well cross-referenced and ordered so that any invoices and further information required by HMRC is provided to them quickly.

We would be glad to assist if you have a VAT DIY scheme claim to make.

HOLIDAY HOMES

Holiday homes are a popular farm diversification activity and many farmers were disappointed by the new Chancellor's confirmation that the special tax regime for furnished holiday lettings (FHLs) will be abolished in April 2025, albeit with transitional measures so that, where an existing holiday home will continue to be let:

- There should be no clawback of capital allowances previously claimed under the FHL tax regime. And any remaining pool of capital allowances expenditure up to March 2025 should continue to be eligible for writing down allowances until it is used.
- Any unused FHL losses carried forward at March 2025 should remain eligible for deduction from subsequent profits.

For existing FHLs, these measures may (depending on the 2025 Finance Act) provide a final opportunity to secure capital allowances on fixtures and equipment expenditure incurred by March 2025.

Income tax

From April 2025, the special tax treatment of FHLs (as compared with other residential lettings) will cease to apply:

- Plant/machinery capital allowances will no longer be available for new expenditure. Up to now, capital allowances have often provided up front tax relief for the full capital costs of kitchen units, sanitaryware, electrics, heating and water systems, and other fixtures, furnishings and systems in holiday lets.
- Interest costs will cease to qualify for income tax relief at the taxpayer's marginal rate. Instead, only basic rate income tax relief will be available for interest.
- FHL profits will cease to be counted as 'earnings' for pension contribution purposes.

The loss of these advantages will increase owners' income tax liabilities – especially where there are borrowings or when improvements are undertaken.

Capital gains tax

From April 2025, FHLs will also cease to qualify for CGT reliefs such as holdover relief, rollover relief and business asset disposal relief (BADR).

An anti-forestalling rule will block the availability of BADR for some transfers from 6 March 2024 that are uncommercial or between connected persons. In other cases, where a FHL business ceases in 2024/25, CGT business asset disposal relief (BADR) may still apply on a disposal of the property within 3 years after the business cessation date.

Please contact us if you would like to discuss your property.

SimpkinsEdwards
presents

Reserve your FREE place now!

"YOUR FARMING FUTURE"

Tuesday 22nd October
9:30am - 3pm, Lunch included
Fingle Glen Golf Club, Tedburn St. Mary,
Pathfinder Village, Exeter, EX6 6AF

Do you own a farm or are you a tenant farmer? Are you responsible for the future of a farm? We'll be joined by our expert industry partners to discuss a range of topics including:

- Tax planning & Partnership agreements
- Effects of changes to Furnished Holiday Lettings
- Grants and insurance for business health
- Practical tips with property assets

See the full line-up and reserve your place today via Eventbrite, or by contacting our team on 01392 211 233.

Supported by industry partners:

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NICE TO SEE YOU! AGRICULTURAL SHOWS 2024

It was excellent to see so many clients at this summer's Agricultural Shows. These shows are a great opportunity to catch up with clients in a relaxed setting, meet professional contacts and get out there in the communities we call home. We attended Chagford, Holsworthy, Honiton, North Devon and Okehampton, and were pleased to report much less mud than 2023!

CONTACTS

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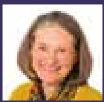

Mary Jane Campbell

Mary Jane specialises in advising rural businesses on tax and accountancy issues.

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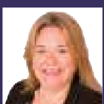

Julie Rose

Julie has experience of working with farmers and rural businesses and can offer practical advice on business and tax issues.

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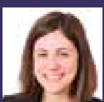

Jo Tope

Born and raised in the Holsworthy area, Jo is a general practitioner with an emphasis on the agricultural industry. She also advises on tax issues and estate planning.

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Sebastian Beard

Sebastian acts for a wide range of owner managed businesses across Devon and Cornwall and offers a high level of business and tax advice.

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Lisa Wonnacott

Lisa has over 20 years' experience and is a general practitioner with a great deal of experience in the agricultural sector.

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NEW EVENT

"YOUR FARMING FUTURE"

A new event focused on the latest updates in finance, law, property and insurance – all for the agricultural industry.

22nd October

9:30am – 3pm

Fingle Glen Golf Club

Details on pg. 10