



Should farming businesses now be incorporated?



This is a question increasingly being asked by the more profitable farmers as personal tax rates in the higher band are currently at 40 per cent and set to increase next year to 50 per cent for the very top earners. This compares unfavourably with corporation tax rates at 21 per cent, for profits up to £300,000. In addition there is a saving in national insurance costs which can be avoided by taking income above the threshold as dividends rather than salary.

Unfortunately it is not just a simple matter of doing the maths, deducting the set up and additional running costs of a company and arriving at the correct answer. The taxation treatment of the private use of farm vehicles and the farmhouse is more onerous for companies than for unincorporated businesses and needs to be calculated in.

Even if the taxation of profits produces a saving sufficient to warrant incorporation, this may be undermined by the immediate and longer-term impact of capital taxes. The tenure of the farm needs to be considered. If there is an agricultural holding act tenancy then this in itself is likely to be a barrier to incorporation. If the farm is freehold, a decision needs to be made as to whether it should be transferred to the company along with the trade or retained personally and let under a tenancy agreement.

If agricultural property relief for inheritance tax is to be maintained on the farmhouse, it needs to be occupied, together with the land. Capital gains tax legislation favours ownership of the farmhouse outside the company so normally the land would follow. This decision in itself can, under certain conditions, affect future capital gains and inheritance taxes.

These are just some of the tax considerations to be taken into account before a decision to incorporate can be taken. The circumstances and longer-term intentions of each family farm are different and therefore the business medium that is beneficial for one may be detrimental to another, even if profit levels are similar. Trading through the right medium can save a significant amount of tax but there is no shortcut to a proper review to arrive at the correct decision on whether to incorporate or not.

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Grants –

The RDPE Northwest Livestock Programme

The Rural Development Programme for England, which is jointly funded by the EU and the Government, has awarded the Northwest Regional Development Agency £75 million of funding to invest in the North West. Of this £75 million, £18 million has been allocated to the livestock programme which has been made available to support livestock farmers in the North West.

What areas does the funding target?

Funding is potentially available for three core areas:

1. Animal health and welfare
2. Nutrient and manure management
3. Resource efficiency

Under animal health and welfare, the funding will provide for a health plan to be constructed using your participating vet and an advisor from the Scottish Agricultural College. The purpose of the plan is to identify any animal health issues and a corresponding list of actions.

Through nutrient and manure management, Promar will produce a tailored nutrient and management plan for your farm, to help make more efficient use of nutrients and therefore saving costs whilst reducing the impact on the environment.

Under resource efficiency, Promar will carry out a resource audit and make recommendations based on water and energy saving opportunities, including any options for renewable energy.

A contribution from the farmer of approximately £150 is required for each of the above plans.

Are capital grants available?

Yes. Capital grants are available to help fund recommendations which have been identified as a priority in any of the above three plans.

What type of expenditure may be eligible?

Nutrient and manure management plan recommendations could help secure funding for projects such as:

- Roofing middens, silage pits and dirty yard areas.

- Slurry aerators / separators.
- Equipment for the precision placement of manures and fertilisers such as GPS.

Animal health and welfare plan recommendations could help secure funding for:

- Specialist equipment to improve livestock performance recording and handling e.g. turning crates or weighing crates. Standard livestock handling facilities are not eligible.
- EID technology.
- Calf welfare housing and computerised feeding systems.
- Ventilation improvements.
- Small scale animal welfare building enhancements, e.g. comfort cubicles, grooving, slats and cow brushes.
- Heat detection systems.

Resource efficiency audit recommendations could help secure funding for:

- Roof water recycling equipment such as tanks, pipes and filters.
- Heat recovery systems, ice builders and other energy saving equipment, such as bulk milk tank upgrades.
- Farm scale renewable energy facilities (business use only), such as wind turbines, solar panels and wood fuel / biomass boilers.
- Incinerators and digesters for carcasses disposal.

What grant rate is available?

The maximum grant rate is 40 per cent of the eligible cost incurred. The minimum grant is £2,000 per application, subject to a maximum of £8,000. Where a farmer has made more than one application then no more than £12,000 per business may be claimed.

Are there any grant conditions I should be aware of?

Large infrastructure projects, such as buildings and slurry stores or milking parlours which are seen as standard requirements of a farm business will not be grant aided. However, specialist equipment which is part of a larger development may be eligible.

Any expenditure incurred prior to the date of the grant offer letter will not be eligible.

Grant applications are reviewed on a quarterly basis and will be considered for three years from 2009 to 2012, subject to sufficient funds remaining.

More information can be found at www.livestocknw.co.uk

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Regular reviews

If you are a farmer with pensions or investments, you are probably aware that volatility in the investment markets has been particularly conspicuous over the last few years, and it is only over recent months that investments have begun to settle down.

The uncertainties associated with stock-market investment mean it is essential, even for farmers with smaller portfolios, to be comfortable with the investments that you hold. It is therefore crucial that you hold a diversified portfolio, appropriate for your risk profile.

For the majority of investors this usually involves investment in a diversified portfolio of equities, property and fixed interest investments, both in the UK and abroad. This is sometimes referred to as the “asset allocation” approach.

Generally speaking, each of these asset classes will be affected differently by prevailing market conditions, and as such, performance will vary between each asset class, throughout the various stages of the economic cycle. Equities, for example, tend to perform well when the rate of economic growth is increasing, whilst fixed interest investments generally outperform equities as economies slow.

Within each asset class, investments can be further broken down, for example geographically, in terms of the size of the underlying holdings, or by investment objective. The exact weighting to each area is something you should discuss with your advisor to ensure that the resulting portfolio is appropriate for your risk tolerance.

The advantage of this approach is diversification, and by holding a series of investments whose performance is not directly correlated, our farming clients should be able to achieve portfolio returns which are less volatile than they would be by investing solely in one area. Your advisor can also help you to build a balanced portfolio which takes into account your other assets and exposure, for example agricultural property and other business assets.

With this kind of approach it is essential that investments are reviewed on a regular basis, to ensure that outperformance in one area does not end up skewing the balance of the portfolio over time. This allows you to re-balance your portfolio both in response to market conditions and to changes in your circumstances and objectives.

However while asset allocation is deemed by many to be the greatest driver of overall investment performance, at the same time reviews of investments at a fund level should not be neglected.

The difference in performance between the best and worst Balance Managed pension fund for example, was more than 74 per cent over the last five years. Whilst past performance can never be considered as a guide to future performance, what this does highlight is the potential for adding value to investments via active fund selection and review.

Many farmers are invested in “legacy” funds with insurance companies, i.e. funds which are still holding monies but are no longer accepting any new investments. It is these funds that can often be neglected by insurance companies, and which may then begin to fall behind their peers in terms of investment performance.

A review of your pension and investment portfolio could help you to identify such investments, and, where appropriate, make changes to help your investments work harder for you.

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“Diversify or die” – but what about VAT?

Too many unwelcome VAT bills are being sent to farming families for VAT on diversified farming activities as a result of a recent push by HM Revenue & Customs to increase VAT receipts.

Where farms carry on separate businesses, such as bed and breakfast, it is common for the business to be run and registered in different ownership from the farm business. The income from the other businesses is typically less than the VAT registration threshold, so no VAT is charged or paid to HMRC. VAT inspectors are now seeking to treat the farm as a single business, using as 'evidence' the farm website or advertising leaflets. This would mean that VAT is assessed on all the additional farm activities, resulting in a large VAT bill for the farm.

The VAT bill can take the form of a written direction that all income should be treated as vatiable from a current date – or worse still backdated so that all income should be treated as vatiable from the start of any diversified activity.

VAT bills of this type are nothing new but up until now have almost always been in “easy” targets like pubs, where one spouse runs a

VAT registered pub business for drinks and the other, non VAT registered spouse runs a catering business for food, but customers share the same premises. This is quite different from a farm where bed and breakfast customers are hardly likely to take their breakfast in the milking parlour!

Needless to say, VAT bills of this type are appealable and much can be done to avoid problems if timely professional advice is taken. Please do get in touch if you would like to discuss any of these points in further detail.

At the time of writing, the official annual budget deficit was £178 billion and HM Revenue & Customs are under pressure to find new sources of income. We can expect more “discoveries” in the future – watch this space.

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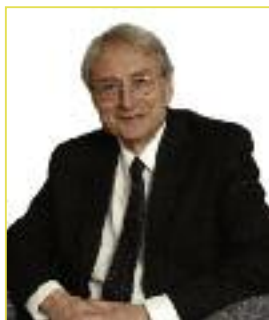
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