

The Hutchinson Partnership

Chartered Accountants and Business Advisers

The Bull Pen, Amberley Court, Sutton St Nicholas, Hereford, HR1 3BX
Tel: 01432 882080 Fax: 01432 882081 Email: farmbusiness@hutchpartners.co.uk

The 2020 Budget for farmers and landowners

Entrepreneurs' Relief restricted from budget day

Entrepreneurs' relief reduces the rate of Capital Gains Tax typically from 20% to 10% on sales of businesses, including interests in partnerships and companies. From budget day, the lifetime limit of Capital Gains that receive the 10% tax rate is reduced from £10 million to £1 million per person.

Comment: It is very good news that ER has been retained as it was rumoured to go. This is a very valuable, albeit complicated, relief especially for those farmers and business owners looking to retire or exit from their company or unincorporated business. With the rises in farmland values over the last 15 years, it is relatively common to have Capital Gains exceeding £1 million on just a few hundred acres. It is essential to plan at least 2 years in advance of any disposal if you want to secure this relief.

Annual Investment Allowance temporary increase ending

The Annual Investment Allowance of £1 million per annum will end on 31 December 2020 and will continue at £200,000 thereafter.

Comment: The reduction in December 2020 will impact those who have large projects underway or those agricultural businesses which regularly replace a lot of equipment. For a March year end, expenditure of only £50,000 will be allowable in the period from 1 January 2021 to 31 March 2021.

National Minimum Wage increases to be significantly above inflation for next 4 years

From 6 April 2020 the minimum wage for those aged 25 and over will increase by 6.2% to £8.72 / hour. Further increases are likely as it is expected to reach £10.50 / hour by 2024 by which time it will apply to all workers aged 21 and over.

Comment: Whilst this is not a tax it will have a significant impact on many agricultural sectors. Aligning the minimum wage age groups may make it difficult and expensive to show staff wage progression between the ages of 21 and 25. The increasing minimum wage could price unskilled labour out of the market and accelerate the growth of technology in agriculture.

Agriculture still entitled to use Red Diesel

The Chancellor has announced certain industries will have their entitlement to use red diesel removed. Fortunately agriculture, horticulture, forestry and fishing will be allowed to continue to use red diesel – for now. This is an effective 47 pence per litre duty reduction for farmers.

Comment: Without this exemption, farm fuel prices overall could well have doubled in the short term. Lobbying from the CLA and NFU has helped. However, given the move away from diesel towards alternative electric technologies, we should not expect this exemption to last for ever.

Directors: J M Hutchinson FCA S R Bennett FCA J Hutchinson FCA

The Hutchinson Partnership Limited trading as The Hutchinson Partnership - registered in England No. 4550038
Registered to carry on audit work by The Institute of Chartered Accountants in England and Wales

Capital Gains Tax (CGT) on residential property sales to be collected within 30 days

From 6 April 2020, CGT on the sale of any residential property will be due within 30 days of completion of sale. The current due date for the payment of tax is 31 January following the tax year of sale.

Comment: This is a significant acceleration of tax for anyone selling residential property, other than their main residence. It will be vital to let us know before you complete a sale, so we can calculate the CGT arising in time.

NIC Employment Allowance to increase from £3,000 to £4,000 per employer

The employer's National Insurance rebate will increase by £1,000 to £4,000 from 6 April 2020.

Comment: Typically, employers with 3 or more full time employees will qualify for the full rebate through the payroll. Companies where the director is the sole employee are unable to claim this.

Significant rise in the National Insurance Tax Free thresholds from 6 April 2020 for the employed and self employed

The National Insurance Threshold has been increased from £8,632 to £9,500 from 6 April 2020 for both Class 1 (employees) and Class 4 (self-employed).

Comment: This increase is a tax saving of £104 for employees and £78 for the self-employed or partners.

Pension tax relief improved

Despite indications to the contrary before the budget, higher rate tax relief for pension contributions has been maintained, together with the annual allowance of £40,000. For those with higher profits, exceeding £110,000, who may have seen their annual allowance restricted in the past, the threshold has been increased to £200,000 from 6 April 2020.

Comment: Higher rate tax relief continues to make pension contributions tax efficient, especially where income exceeds £100,000 and personal allowances are otherwise lost.

UK Government commits to keeping the Basic Payment unchanged for this year

The UK Treasury have confirmed that 2020 direct payments to farmers will be unchanged from the 2019 year.

Comment: Now that we have left the EU, direct payments to farmers are set by the UK Treasury for the first time. It remains to be seen exactly how this will play out over the next few years.

Directors: J M Hutchinson FCA S R Bennett FCA J Hutchinson FCA

The Hutchinson Partnership Limited trading as The Hutchinson Partnership - registered in England No. 4550038
Registered to carry on audit work by The Institute of Chartered Accountants in England and Wales

Tax relief on buildings accelerated

The Structures and Buildings Allowance (SBA) is to increase from 2% per annum to 3% per annum from April 2020. This tax relief came in for expenditure on new and renovated non-residential buildings from October 2018.

Comment: Additional tax relief on farm buildings is welcome and is consistent with the Government's aim to boost infrastructure. Full tax relief for new buildings will still take 33 years, but this is an improvement on 50! It is not as generous as the 4% per annum relief for the old Agricultural Buildings Allowance that was phased out in 2011 and which in our opinion should never have been removed.

HMRC tax avoidance focus

The budget announced additional funding for HMRC to recruit 1,300 more staff to "improve collection of tax from personal and corporate taxpayers focusing on smaller debts."

Comment: HMRC are continuing to step up measures to combat tax avoidance and the apparent shift away from targeting large companies may well make enquiries more likely.

Inheritance tax – no changes, yet

There were no changes to reliefs from inheritance tax such as Agricultural or Business Property Relief which have been under scrutiny in recent times. The Balfour case judgement of an estate qualifying for APR where its activities are mostly (51% or more) farming has remained unchanged.

The main residence nil-rate band has been increased to £175k meaning a total inheritance tax nil-rate band of £500k for most estates with assets below £2 million.

Comment: The Balfour test is under scrutiny after the Office for Tax Simplification report last year which recommended moving to a "significantly" (80% or more) trading test. Planning around IHT remains a key area for farmers and landowners and is always best carried out as early as possible.

Interest rates reduced by 0.5%

On the morning of the budget, the Bank of England announced an emergency reduction in its base rate from 0.75% to 0.25% in response to Coronavirus. This is the joint lowest interest rate in its 325-year history. Those with overdrafts and variable rate loans should benefit immediately.

Comment: This is the last act from the Bank of England Governor Mark Carney, who will be succeeded next week by Andrew Bailey, arguably at one of the more sensitive times for a Governor to take over.

Freeze on duties

The duty on beer, spirits, wine and cider has been frozen. Fuel duty rates will also remain frozen.

Directors: J M Hutchinson FCA S R Bennett FCA J Hutchinson FCA

The Hutchinson Partnership Limited trading as The Hutchinson Partnership - registered in England No. 4550038
Registered to carry on audit work by The Institute of Chartered Accountants in England and Wales

Additional funds for Infrastructure investment

The Budget included many infrastructure measures, some of which are relevant for agriculture:

- A Nature for Climate Fund of £640 million to support the reinstatement of 30,000 hectares of woodland and 35,000 hectares of peatland;
- A fund of £120 million for repairs to flood defences in areas affected by the recent storms as supported by the MP for Ludlow;
- A £12 billion fund for affordable housing with pledges to build 70,000 houses over the next 5 years.

Comment: The affordable housing pledge came with the suggestion of a relaxation on planning rules in future, and this may offer significant opportunities to landowners.

R&D tax credit claims targeted

In response to recent fraudulent R&D claims by some companies, the budget announced a cap on claims for small and medium enterprises from April 2021. Industry tax experts are also highlighting this as an area where fraud is occurring and taxpayers should expect increased scrutiny in this area.

Comment: We have seen a significant increase in companies offering to produce R&D tax credit claims which appear overly aggressive. Although R&D is an area which can provide a useful tax relief for certain companies, we would urge clients to be wary of making claims that look too good to be true.

Coronavirus measures announced

A number of measures have been announced including:

- Any businesses eligible for Small Business Rates Relief or Rural Rate Relief will be eligible for a £3,000 grant from the Government. Larger businesses in the hospitality, leisure and retail sector, who do not qualify for SBRR but whose rateable value is under £51,000 will not pay business rates for 2020/21;
- HMRC has set up a dedicated phone line for businesses who are struggling with cash flow and need more time to pay their taxes, in response to flooding or coronavirus issues;
- Statutory Sick Pay (SSP) for employees who self-isolate will be payable on day 1 rather than day 4. Employers will be able to reclaim SSP for up to 14 days for self-isolated employees.

Comment: SSP is payable at only £94.25 / week and may leave staff in financial difficulty. Employers will need to consider how to deal with the difference.

Disclaimer

The information contained in this note is of a general nature and is not a substitute for professional advice. Please speak to us to obtain specific professional advice before you take any action. No responsibility for loss to any person acting or refraining from action as a result of this budget note is accepted.

Directors: J M Hutchinson FCA S R Bennett FCA J Hutchinson FCA

The Hutchinson Partnership Limited trading as The Hutchinson Partnership - registered in England No. 4550038
Registered to carry on audit work by The Institute of Chartered Accountants in England and Wales