The Hutchinson Partnership

Chartered Accountants and Business Advisers

The Bull Pen, Grove Farm, Portway, Burghill, Hereford, HR4 8NF
Tel: 01432 882 080 Email: farmbusiness@hutchpartners.co.uk

The 2021 Budget for farmers and landowners

130% tax relief for new plant and machinery investment by companies

Companies investing in new plant and machinery on or after 1 April 2021, for the next 2 years, will receive a 130% "super deduction" against their profits. This applies for new plant and machinery only, not second-hand purchases.

This deduction is not available to partnerships or sole traders. In the event the machinery is sold, the taxable profit will be 130% of the proceeds, so each asset will need to be tracked separately. This relief looks most attractive for fixed plant, including dairy and poultry units and renewables in the next two years, where the investment is unlikely to be sold.

Corporation tax rates to rise – but not for two years

The current 19% rate of corporation tax on company profits will increase to 25% from 1 April 2023. For those companies with profits below £50,000, the rate will remain at 19%. However, what was not clear from the announcement is that for companies with profits between £50,000 and £250,000, a 26.5% marginal rate of tax will apply.

Also note these limits will be shared by companies under common control. It will be important to identify any companies associated with each other, to correctly calculate the tax due. For farming companies with fluctuating profits, without the ability to average, this could cause tax issues.

Reduced VAT for holiday accommodation extended

The current reduced 5% rate of VAT for businesses which provide holiday accommodation will continue to apply until 30 September 2021. From 1 October 2021 until 31 March 2022 the VAT rate for supplies of holiday accommodation will be 12.5% and it will revert to 20% from 1 April 2022.

This will be welcome news for many. Note that deposits taken before 1 April 2022 will benefit from the lower rates even where the holiday falls after that date.

Income Tax by stealth - allowances frozen from April 2022 for 4 years

The levels at which individuals start to pay tax, of £12,500 for basic rate tax and £50,000 for the higher rate, will only be increased marginally this April, to £12,570 and £50,270 respectively and will then be frozen for the next 4 years.

If we do see general inflation rise in the near future, which looks possible, then the freezing of personal allowances will increase tax as a percentage of income for many.

Annual Investment Allowance of up to £1 million to continue until 31 December 2021

The 100% tax relief on plant and machinery expenditure up to £1 million per year will continue until 31 December 2021 and then drop back to £200,000.

This benefits those farming as partnerships, sole trades or companies but now looks less generous than the 130% allowance available to companies only.

We advise those with a 31 March year end to time capital expenditure carefully. Due to the way the relief works, only £50,000 of the allowance will be available for expenditure in the 3 months from 1 January to 31 March 2022 – expenditure outside these 3 months might be advised in this case.

3 Year carry back of losses against the same trade

Companies, sole traders and partnerships who make losses in the tax or financial years ending in 2021 and 2022 will now be able to carry these losses back against profits of the same trade for up to 3 years, rather than 1 year as at present.

This may result in significant tax refunds for those affected, although carrying forward losses for offset at higher tax rates may be more beneficial.

Stamp Duty relief on Property extended to 30 September 2021

Due to COVID, a temporary concession to purchasers of residential property relieved Stamp Duty up to £500,000. This concession was due to be withdrawn on 31 March 2021 and will now be extended for a further 3 months to 30 June 2021. After that, there will be a further 3-month period to 30 September 2021 with the first £250,000 exempt. Thereafter, purchases will revert to the existing rules where only the first £125,000 is exempt.

This concession is worth up to £15,000 to buyers to the end of June 2021 and up to £2,500 for purchases between July and September 2021.

Self-Employed Income Support Scheme Extension and Repayments

The self-employed income support scheme has been extended until September 2021 by the addition of two further grants payable in May and August 2021. These are the fourth and fifth instalments of this scheme and are the first to apply to those who registered as self-employed after 6 April 2019.

The first two instalments of this scheme in July and October 2020 had fewer qualifying conditions and were taken up by many. Grant 3 was stricter, requiring claimants to show a significant reduction in profits due to COVID. This condition will apply to grant 4 and further restrictions apply to grant 5, including proving a 30% turnover fall due to COVID.

HMRC have confirmed that all of these instalments will be subject to income tax in the year of receipt. Therefore, the first three grants will be taxed in 2020/21 and grants 4 and 5 will be taxed in 2021/22.

HMRC have announced they will seek to recover any grants where a claimant ceases to be eligible by a 100% tax charge via the tax return. This is likely to most significantly impact those who claimed from grant 3 onwards where the stricter eligibility criteria apply.

Making Tax Digital for VAT – the rollout continues

As previously announced and confirmed with this budget, Making Tax Digital for VAT will apply to VAT registered businesses with turnover below £85,000 from 1 April 2022.

For those who currently prepare manual records, suitable accounting software will be required, together with re-registration with HMRC. We recommend this should be done well in advance of the deadline - please contact us if you need assistance.

As part of the wider rollout of making tax digital for income tax, all partnerships, sole trades and property rentals with income above £10,000 will be required to use appropriate accounting software from 6 April 2023.

New VAT Penalty System from April 2022

HMRC will replace the default surcharge system for late VAT returns and payments with a points-based system for each offence, for VAT periods beginning on or after 1 April 2022.

Early indications look like this could significantly impact those who regularly make late returns even where returns normally generate repayments.

Inheritance Tax and Capital Gains Tax allowances frozen until 2026

The freezing of IHT and CGT tax free allowances until 2026 will bring significant tax rises in real terms over the years.

However, we were expecting much worse news on this front. A substantial increase in CGT rates, possibly to match income tax rates, was widely expected, as were changes to the IHT "Balfour" rules that would affect diversified farm businesses. Thankfully no changes have been made – yet.

Company cars and vans

This budget has continued the generous position on taxable benefits in kind for fully electric vehicles. Cars with no emissions have a benefit value of 1% of the list price for 2021/22 and 2% for 2022/23. Vans with no emissions have a 0% taxable benefit for 2021/22. Fully electric cars also benefit from the provision of electricity charging points being exempt from benefits in kind.

The position for hybrids is less generous where the benefit increases on a sliding scale depending on the electric only range of the vehicle. For example, a hybrid vehicle with a range of 29 miles or less results in a benefit of 14% of the list price for 2021/22 and 2022/23.

Purchases of new cars with emissions of less than 50g/km can be relieved from tax in full in the year of purchase, even where the Annual Investment Allowance limit has been exceeded.

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.