# 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 2016 Budget for farmers and landowners

### Reduction in the top rate of Capital Gains Tax from 28% to 20%

The top rate of Capital Gains Tax is cut from 28% to 20%, from 6 April 2016, and the basic rate cut from 18% to 10%. These lower rates will apply to sales of land, commercial property and investments. However the higher rates of 28% and 18% will remain in place for sales of residential property. In a welcome move, it is confirmed trustees will also benefit from the reductions. The CGT annual allowance is unchanged at £11,100 for individuals for 2016/17, and £5,550 for trustees.

*Comment:* With land values at all-time highs, sales frequently generate significant Capital Gains. Some Capital Gains can be mitigated through Rollover Relief, or Entrepreneurs Relief, but many cannot. For those, this is a welcome reduction in CGT. However there are now 4 rates of CGT in force, bringing unnecessary complexity to an already over-regulated tax.

### Further reduction in corporation tax to 17% and more flexibility in using company losses

The current rate of corporation tax for company profits is 20%. Before this budget, the rate was due to fall to 19% from 1 April 2017, with a further fall to 18% in April 2020. Following this budget, a new lower rate of 17% will apply, but not until April 2020 – a month before the next likely election date!

Company losses can currently only be carried forward against the same trade. So farming losses cannot be carried forward against profits from property letting. From 1 April 2017, there will be more flexibility and losses made by a company can be carried forward and used against any activities.

*Comment:* These measures are both welcome, particularly with the current depressed level of farming profits and losses, although we note that the newly imposed 7.5% dividend tax has made companies less attractive than previously. Sadly these measures do not extend to losses of partnerships and sole traders, which is where the majority of the farming losses are currently made.

### Income Tax free allowances extended

The following extensions are made to existing income tax free allowances:

- An individual's tax free personal allowance increases from £11,000 on 6 April 2016 to £11,500 on 6 April 2017;
- The threshold at which an individual pays 40% higher rate tax will increase from £43,000 in on 6 April 2016 to £45,000 on 6 April 2017, with a commitment to increase the threshold to £50,000 by 2020;
- Rent a Room relief increases from £4,250 to £7,500 from 6 April 2016. This is the amount of rent you can receive tax free, from letting rooms in your home, and is the first increase for nearly 20 years.

*Comment:* The extension of the income tax bands will save a maximum of £520 in tax and NIC annually per partner by 2018, provided profits exceed £45,000 per partner.

**Increases of 1% in Stamp Duty on Land and commercial property purchases**

For purchases completing after budget day, Stamp Duty Land Tax (SDLT) will be charged at 5% on the purchase value over £250,000. Currently the top rate is 4%.

*Comment:* At current land values this increases land prices by £100 / acre! The current disconnect between the cost of land and the economic returns that can be made, continues.

---

**Class 2 National Insurance to be abolished – eventually**

Effective from 6 April 2018, Class 2 National Insurance, payable in 2016/17 at £11.20 every 4 weeks by the self- employed, will cease. Entitlement to the state pension, maternity and other benefits will instead be earned through the payment of Class 4 NICs, payable by the self-employed with their income tax.

*Comment:* This is a long overdue simplification of the current regime

---

**ISA thresholds increased to £20,000 pa and lifetime ISA introduced. Pension tax relief unchanged.**

The annual ISA allowance is increased from £15,240 to £20,000, but not until 6 April 2017.

For those aged 18 to 40, a new lifetime ISA will be introduced from 6 April 2017. Up to £4,000 per annum can be invested and a 25% bonus of up to £1,000 will be added, akin to a pension. The funds can be used to either fund a house purchase (provided the purchase is less than £450,000) or the funds withdrawn for retirement from age 60. Higher rate tax relief on pension contributions are left unchanged, despite strong rumours to the contrary.

*Comment:* For basic rate tax payers, the new life time ISA looks to be an attractive and potentially more flexible alternative compared with a pension. If parents or grandparents have spare cash to give to the younger generation it could look very attractive all round.

---

**Small Business Rate relief to be made permanent**

Effective from 1 April 2017, businesses with a rateable value of £12,000 or less will not pay business rates. There will be a gradual relief available for those businesses with a rateable value between £12,000 and £15,000. This measure applies to English businesses only.

*Comment:* This is a valuable boost to many rural businesses, for example farm shops, pubs and hotels and tenants occupying commercial premises on farm.

---

**New income tax allowances for occasional trading and property income**

Two new income tax allowances are introduced, aimed at exempting small profits from property income or trading:

- Individuals receiving less than £1,000 of property income, from 6 April 2017, will not have to declare the income ;
- Individuals receiving less than £1,000 of trading income, from 6 April 2017, will not have to declare the income.

*Comment:* These measures are aimed at exempting small traders from tax. HMRC's costs of administering the small amounts of tax can outweigh the tax yield, so this is a sensible exemption.

---

**Insurance Premium Tax (IPT) increased to 10%**

Following the rise in IPT from 6.5% to 9.5% last year, a further small rise to 10% will be effective from 1 October 2016

*Comment:* The estimated £700 million of funds raised from this tax on all insurance premiums will be used for improving flood defences in England only. We hope that the NFU and CLA will continue to lobby for flood protection for farmland as well as more populated areas.

---

**Small increase in the VAT registration threshold**

The annual turnover limit at which a business must register for VAT increases from £82,000 to £83,000.

*Comment:* This is the annual inflationary uplifting of the VAT registration level. The turnover level continues to be tested each month on a rolling 12 month basis, and it is all too easy to miss the 30 day subsequent window to register for VAT and avoid penalties.

---

**Freeze on ciders, spirits, wine and also on fuel**

The duty on beer, spirits, wine, still cider and perry, and sparkling cider and perry of a strength not exceeding 5.5% have been frozen.

Fuel duty rates will remain frozen for 2016 to 2017

***AND A REMINDER OF SOME PREVIOUSLY ANNOUNCED MEASURES COMING INTO FORCE NOW:***

---

**Continued attack on residential property landlords**

This April brings a variety of additional taxes that will hit residential property landlords:

- Stamp Duty Land Tax (SDLT) will increase by 3%, from 1 April 2016, for purchase of second homes, buy-to-let property and holiday homes;
- For partnerships and sole traders owning let property, tax relief on any associated loan interest will begin to be restricted;
- For companies owning residential property valued at over £500,000, the “Annual Tax on Enveloped Dwellings” (ATED) regime will apply, and an annual £3,500 tax charge will be levied unless exemptions are claimed.

*Comment:* This Government have targeted the buy to let market and second home owners. Unfortunately this is having unintended consequences on traditional farming Estates, with significant potential tax rises. We can help you to understand the significant exemptions that are available.

---

**Pension tax relief restricted for high earners with income exceeding £150,000**

From 6 April 2016, the tax relief on pension contributions for those earning in excess of £150,000 will be restricted to 20%, on a sliding scale as income reaches £210,000.

---

## Averaging of farming profits to be extended to five years

From April 2016 farmers who trade as a partnership or as a sole trade will be able to average their farming profits over five years rather than the existing two years.

*Comment:* Guidance on this measure has been issued by HMRC, but it remains to be seen whether the costs involved in the calculations will bring the initial benefits envisaged.

## Abolition of the furnished property "Wear and Tear" allowance

Until 5 April 2016, owners of fully furnished let property could claim an allowance of 10% of the rent, to compensate them for wear and tear of the initial fixtures and fittings for which they could not claim relief.

From 6 April 2016, this allowance is abolished. However it is replaced by tax relief for the replacement of fixtures, fittings, furnishings and integral and free standing white goods.

*Comment:* HMRC have previously argued no tax relief could be claimed on replacement of free standing white goods. This now puts the issue beyond doubt from 6 April 2016.

## Retention of the £200,000 Annual Investment Allowance

The Annual Investment Allowance of £200,000 remains in place, having reduced from £500,000 on 31 December 2015.

*Comment:* The Annual Investment Allowance has varied over the last 7 years from nil to £500,000 with 5 separate changes. We understand the £200,000 allowance should remain in place now for the remainder of this parliament, which will help with machinery replacement planning.

## NIC Employment allowance to increase from £2,000 to £3,000 per employer

The employer's National Insurance rebate will increase by £1,000 to £3,000 from 6 April 2016.

*Comment:* Typically, employers with 2 or more full time employees will qualify for the full rebate, through the payroll. However companies where the director is the sole employee will no longer be able to claim the allowance from April 2016.

## New tax free Personal Savings Allowance from 6 April 2016

As previously announced, a new Personal Savings Allowance will exempt the first £1,000 of interest income for basic rate tax-payers, or £500 for higher rate payers, from 6 April 2016. From this date, banks, building societies and National Savings and Investments will cease to deduct tax at source on interest. For taxpayers receiving this level of interest, there will be a maximum £200 annual tax saving.