

# Rural Update 2020

**Azets is proud to act for a large rural client base. Our advice to rural clients is built around experience and knowledge.**

## Tax Considerations and Succession Planning for Farming Businesses

If you are considering succession planning or a restructure of your farming business, now would be a good time to put those plans in place while the reliefs are available to use for efficient tax planning. The reliefs may not be around if you put off or delay.

With the Autumn budget cancelled, tax increases were taken off the table. However, the pandemic has resulted in increased borrowing levels and subsequently brought about rising debt levels. To offset this, there have been reports as to how Capital Taxes might be reformed.

Many farmers have traditionally dealt with passing on the farm through their will on death and with the availability of 100% Agricultural Property Relief there can often be no inheritance tax due with the added attraction of the farm passing to the next generation at market value on death for Capital Gains Tax (CGT) purposes. The suggestion is this CGT uplift should be removed meaning that beneficiaries could face a large CGT bill if they wish to sell. IHT Reliefs for Agricultural and Business Property may be reduced or removed, but as these both play key roles in avoiding the breakup of farming businesses, this may save them.

If considering selling or giving away assets in the near future you may wish to accelerate the disposal to take advantage of the current low rates and reliefs available, particularly if it is an asset which may not qualify for a CGT relief, such as a let cottage or stocks and shares.

## Agri-Tech – The Recipe for Growth

Agri-Tech refers to the development and application of technology and technological innovation to improve the efficiency and output of agriculture. It boosts the efficiency of production, increases crop yield and drives profits in the sector. Technology and data can create opportunities and help solve problems with production, traceability, and the preservation of scarce natural resources. Despite its traditional image, agriculture is adopting new mechanical and robotic innovations, cloud utilisation, big data, and web-based solutions, to mention just a few, to increase productivity while protecting our environment.

HMRC's R&D Tax Credit Scheme enables innovative SME's to access tax relief and cash credits to further invest in their research, or indeed help fund working capital. To qualify for R&D Tax Relief a project must seek to make an appreciable improvement in its field in order to resolve a 'scientific or technological uncertainty'. The tax relief can be worth up to 33% of the amounts invested in R&D.

Azets is one of the UK's leading advisors to the agricultural sector and we see growing opportunities for our farming and agricultural-based clients to take advantage of the tax relief as new technologies evolve. Tim Croft, Head of R&D for Azets said:-

"Farming and the agricultural sector is at the heart of what the R&D Tax Relief legislation was designed for. Investment and innovation in Agri-Tech is so important in a world that is increasingly reliant on technology and smart solutions, and those who don't adapt may find themselves left behind. I would urge any businesses in the sector developing new concepts and processes, or seeking to improve upon existing technologies, to come and speak to us".

## Changes to Taxation 2020

April 2020 saw major changes in the CGT rules most notably sales of residential property must be reported to HMRC within 30 days, in order to avoid unnecessary penalties please keep your usual Azets contact informed from an early stage if you are considering selling or giving away property.

Much of the Spring Budget 2020 was dedicated to helping businesses to survive the impact of Coronavirus, however this was not all that was announced. One of the less reported areas of the budget was the investment in HMRC to recover taxes. In addition to targeted campaigns such as those into Housing Benefit and the construction industry; the government is looking into linking grants and licences to tax compliance.

The Chancellor's recent economic update did not provide any firm indication of how the spending as a result of the Coronavirus will be met; however it is clear that it must be paid for, and ultimately by the taxpayer.

## Annual Investment Allowance

Annual Investment Allowance reverts to £200,000 on 1 January 2021. The Annual Investment Allowance (AIA) provides businesses with 100% relief on qualifying plant and machinery expenditure. This AIA was increased to £1m for two years from 1 January 2019 to 31 December 2020 and is due to revert to £200,000 on 1 January 2021.

If your accounting year end is not 31 December 2020 consideration will need to be given as to the timing of capital expenditure, as the amount of relief available will be apportioned. Many businesses review their tax efficient expenditure in February or March we would recommend businesses consider doing this well in advance of 31 December 2020 to avoid missing out on valuable relief.

It was announced by the Chancellor on 12 November that the temporary £1m AIA is to remain in place until 31 December 2021 to provide additional support to businesses. The extension should allow businesses the time and flexibility to budget and plan for significant capital expenditure without the need to stretch financial resources or rush through purchases just to save tax.

## Partnerships

A partnership is where two or more people work together with a view to making a profit. The only legal requirement to register the business is for tax and VAT purposes, there is no obligation to draw up a formal Partnership Agreement.



Many family businesses in particular do not have a Partnership Agreement and often don't see the point when they know and trust the people they are in partnership with so well. Few realise that where there is no agreement in place the partnership is automatically governed by laws written 130 years ago, specifically the Partnership Act 1890.

All partnership agreements are different as they are tailored to the wishes of the individual business. They often set out how profits and losses are shared, deal with the income and capital, set out how money can be taken out of the business, what the partners will do and will not; and crucially, what happens if a partner dies, becomes incapacitated or wants to leave the business.

Partnership agreements can often be most helpful when something unexpected happens. Having an agreement in place helps to manage expectation of those involved and helps to avoid uncertainty and arguments at sometimes difficult times.

Partnership agreements can assist with tax planning and whilst there is a cost involved in having one professionally drafted the fees are invariably far less than the expense of resolving a dispute.

## Employing EU Nationals in a Post-Brexit World

Latest statistics show that EU migration to the UK has fallen to its lowest level since 2003, with Brexit likely to be a contributing factor. For some of our rural businesses this may have a significant impact on the availability of a cost-effective work force.

For the first time, many European workers relocating to the UK or engaging in short term work in the UK will need to apply for a sponsored visa before travel. Therefore where relevant you may want to consider ensuring any EU workers you use have taken steps to enable them to remain in the UK. You also need make sure you are familiar with the new rules when considering recruiting EU nationals as the penalties for getting it wrong can be very severe.

The new system will prioritise 'skilled' migrants over 'unskilled'. Therefore if this will give rise to issues with recruiting you may need to consider alternative talent pools going forwards. Under the Withdrawal Deal, EU nationals in the UK will retain residency rights to move and live within the UK during the transition period until 31 December 2020. EU citizens who have lived in the UK for five years by the end of the transition period will be able to continue to reside in the UK permanently.

For those individuals who haven't resided in the UK for five years by that date, they will still be able to acquire permanent residency by completing five years living in the UK, as long as they are legally resident by 31 December 2020.

In both scenarios, the individuals need to apply for their new residence status using the EU Settlement Scheme for settled or pre-settled status. The deadline for this is 30 June 2021.

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## Buying Goods from Outside the UK

The UK withdrew from the European Union on 31st January 2020 and is currently in a transition period until 31st December 2020. Inevitably, the trading relationship between UK and the EU will change and one of the key changes anticipated relates to Customs obligations placed on businesses going forward into 2021.

For those businesses which buy from (or sell goods to the EU, this may result in an increased administrative burden any potentially increases in costs associated with the physical movement of the goods. In anticipation of these changes, it is important for businesses to carry out a review of their end-to-end supply chain. This type of review is often overlooked. However, with the departure of the UK from the EU Customs Union and Single Market, it will become more important than ever to ensure the correct customs treatment and declaration of goods when they reach their final destination. Some of these considerations may also extend to your global supply chains from countries outside of the EU.

One key issue is using accurate commodity codes for your goods, as this determines the level of any import duties the business may have to pay. For example, the rate of import duty from non-EU countries on fresh figs is currently 5.6%, however dried figs are levied at a rate of 8%, and as such selecting the correct code is essential to ensure the correct amount of import duty is paid.

Our specialist National Customs Duty Team can assist with all aspects of Customs and Excise Duties and the associated considerations. We can also provide other support in the form of training to businesses, or reviewing existing supply chains to consider any options, which may be available to mitigate or reduce some of the anticipated impact.

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Farmers Weekly Awards  
Young Farmer of the Year 2020



# Help Service for Farmers & Landowners

**Azets have teamed up with the SIA Group, the UK's leading valuation & appraisal company, to form a dedicated agricultural & horticultural package.**



## Package includes:

- Restructuring valuations and advice.
- Planned and time sensitive disposals to maximise realisations, to include crops and livestock.
- Machinery, property and land valuations.
- Advice on grants and agricultural tax breaks, to include financial help.
- Wellbeing support.

We are happy to work with existing accountancy practices to maximise our dedicated package to aid the industry in these difficult times and to bring this unique offering to the restructuring & insolvency industry.



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