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Farming

Tax considerations

Karen Scholes BA CA

Value Added Tax (VAT)

Inheritance Tax (IHT)

Corporation Tax

Capital Gains Tax (CGT)

Income Tax

National Insurance

Land & Buildings Transaction Tax (LBTT)

Stamp Duty

What is IHT?

Tax on transfers of value (i.e. intentional gifts)

In lifetime or on death

Chargeable Lifetime Transfers

IHT at 0% (if reliefs apply) / 40% on Chargeable Transfers

IHT rate reduced to 36% if you leave at least 10% of your net estate to charity

IHT: Exempt gifts

- £3,000 'Annual Exemption' per year – if you use up all of this in one tax year, you can use any unused amount carried forward from the previous tax year, but only for one year.

- Wedding or civil ceremony gifts up to £1,000 per person (increased to £2,500 for a grandchild or great-grandchild, or to £5,000 for a child).

- Small gifts up to £250 per person per tax year, for as many people as you want – as long as you haven't used another exemption on the same person.

- Gifts to your spouse.

- Normal gifts out of income, for example Christmas & birthday presents, provided that you can maintain your standard of living after making the gift.

- Gifts to charities and political parties.

The Nil Rate Band

Nil Rate Band: £325,000

Residence Nil Rate Band – up to £175,000 by 2020/21

Transferable to surviving spouse if unused

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IHT on death

Calculating IHT on death:

1 WORK OUT the VALUE of the ESTATE (MARKET VALUE)

2 DEDUCT the VALUE of ANY UNUSED NIL RATE BAND

3 ANY PART of the ESTATE NOT COVERED by the NRB is normally TAXED AT 40%

4 WHO PAYS? DEPENDS ON WHAT TYPE(S) of ASSETS

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IHT: 7-Year Rule

- If you make a gift to an individual, and it’s not exempt, it’s known as a ‘Potentially Exempt Transfer’ (PET).
- No IHT is payable when the PET is made, but the asset continues to form part of your estate if you die within 7 years of making the gift.
- If you die more than 3 years after making the gift, ‘Taper Relief’ is available to reduce the Inheritance Tax payable:

Years between gift and death	Tax paid
Less than 3 years	40%
3-4 years	32%
4-5 years	24%
5-6 years	16%
6-7 years	8%
7 years or more	0% *(no longer part of your estate)*

- The Nil Rate Band may cover PETs as part of your estate.

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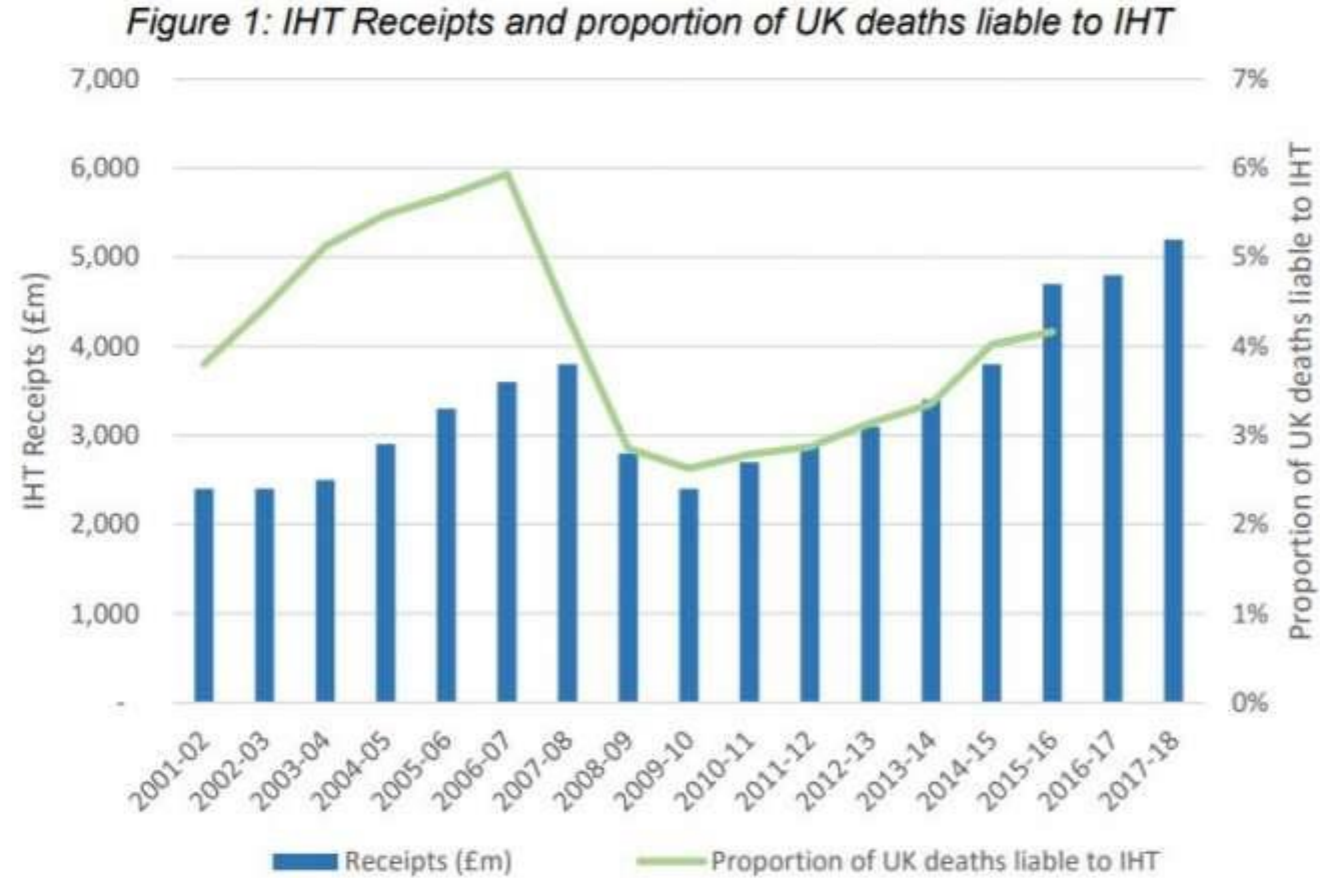
IHT Receipts are going up



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AGRICULTURAL and BUSINESS RELIEFS

The reduce the value of the gift for IHT purposes

Reduction of 50% or 100%

Very valuable

AGRICULTURAL PROPERTY RELIEF (APR)

BUSINESS PROPERTY RELIEF (BPR)

TIP: PROTECT AVAILABILITY of APR and BPR

AGRICULTURAL PROPERTY RELIEF (APR)

AGRICULTURAL LAND (incl. AGRI BUILDINGS, WOODLAND, CROFTING TENANCIES)

QUALIFYING ASSETS

CONTROLLING SHAREHOLDINGS (incl. spouse)

COTTAGES, FARM BUILDINGS – ‘character appropriate’

RELIEF is normally 100% of *AGRICULTURAL VALUE*

TRANSFEROR CONDITIONS:

- Themselves occupied the land for the purposes of agriculture throughout 2 years to date of transfer; or
- Owned for the last 7 years, during which they, or someone else, occupied for the purposes of agriculture

BINDING SALE CONTRACT – the land will not qualify for APR

What if Market Value exceeds Agricultural Value?

BUSINESS PROPERTY RELIEF (BPR)

BUSINESS PROPERTY (incl. SHARES)

100% BPR
- BUSINESS owned by SOLE TRADER/ PARTNER
- SHARES in UNQUOTED TRADING COMPANY

50% BPR
- ASSET owned by INDIVIDUAL but USED in a PARTNERSHIP, or TRADING COMPANY they CONTROL

TIP: OWNERSHIP of ASSETS can IMPACT BPR AVAILABILITY

OTHER CONDITIONS: OWNERSHIP PERIOD; BINDING SALE CONTRACT

EXCEPTED ASSETS (those not used or expected to be used)

BUSINESSES consisting “WHOLLY or MAINLY” of “MAKING or HOLDING INVESTMENTS” (including LET LAND)

TIP: UK TAX SYSTEM often favours ACTIVE TRADING over PASSIVE INVESTMENT ACTIVITIES

EXAMPLE 1 – APR and BPR – FULL RELIEF

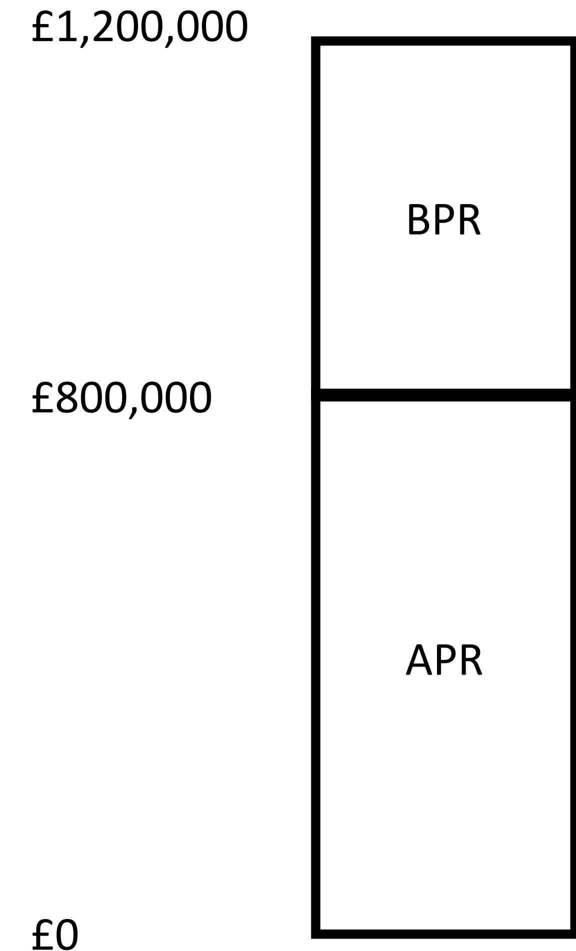
Jimmy dies unexpectedly. His estate includes 200 acres of farmland which he owned and farmed for many years up to his death.

The agricultural value of the land is assessed at £800,000 in total, but one of the fields is in a 'development zone' so the open market value of the land is assessed at £1,200,000.

APR? The land has been owned and occupied by Jimmy for a qualifying agricultural purpose for at least the last two years, so it should attract APR.

However, **APR is restricted to the *agricultural* value of the land**, so we must then ask if BPR is available in respect of the part of the value not covered by APR.

In this case BPR should be available too because the land was all actively used in his farming trade.



Chargeable: £nil

EXAMPLE 2 – APR and BPR – NO BPR

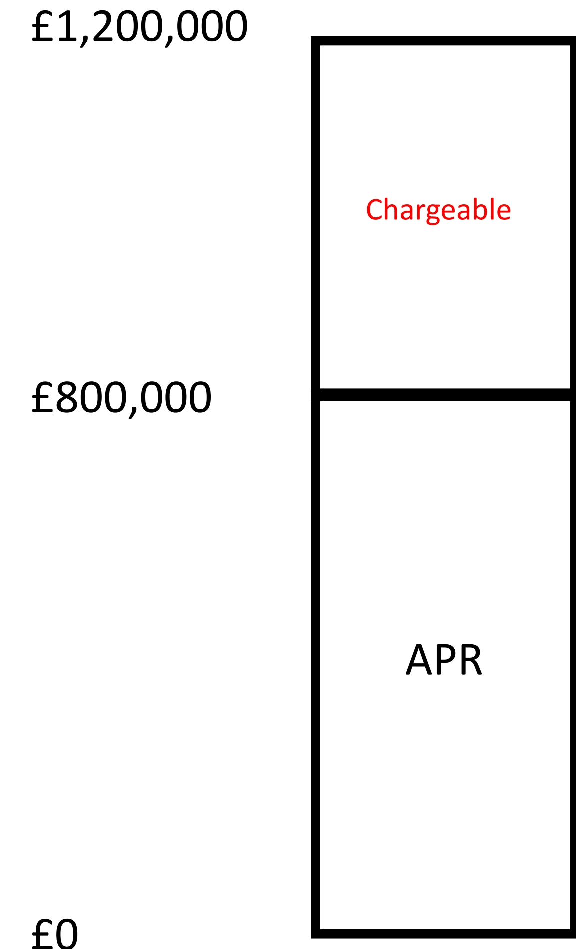
Johnny dies after a long period of ill health. His estate includes 200 acres of farmland which he owned for many years up to his death.

For the past 10 years the land has been rented out to Johnny's neighbour who has used the land for agricultural purposes, keeping livestock, taking grass for sileage etc.

The agricultural value of the land is assessed at £800,000 in total, but one of the fields is in a 'development zone' so the open market value of the land is assessed at £1,200,000.

APR? The land has been owned by Jimmy for at least the last seven years and occupied throughout that time for agricultural purposes so it should attract APR.

HOWEVER APR is restricted to the agricultural value. **BPR is not available as the business consists "wholly or mainly" of letting activities – there is no trade.**



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EXAMPLE 3 – APR and BPR – BPR at 50%

Freya dies. Her estate includes the following assets which she owned ever since inheriting them from her aunt 20 years ago:

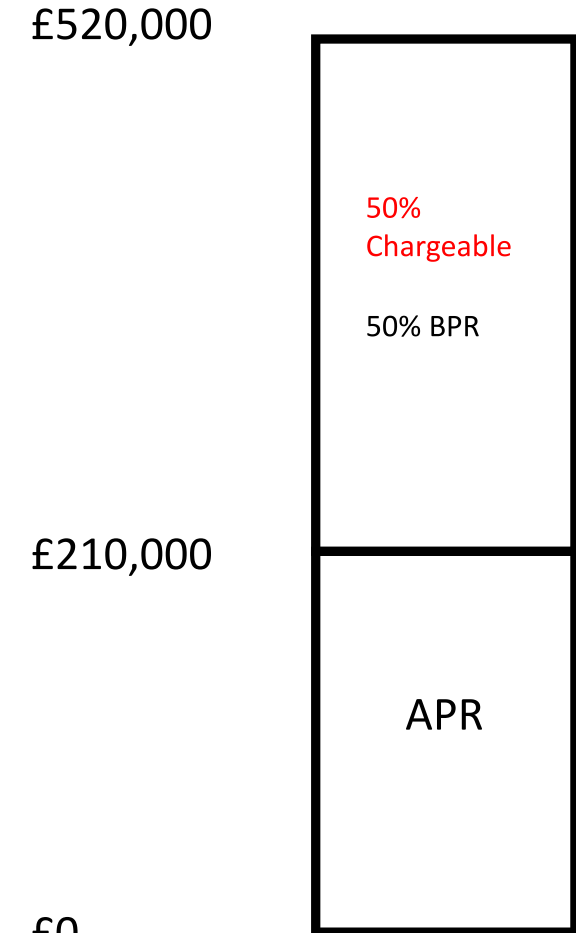
- 50 acre field, agricultural value/ market value £170k
- 10 acre field, agricultural value £40,000/ market value £350,000

Both fields have been occupied and used by the family farming partnership for rearing livestock since the 1990's and therefore qualify for APR.

But – **BPR is restricted to 50% because the land is owned by Freya personally and not by the partnership.**

Would it be different if Freya had only inherited the land from her aunt five years ago?

Would it be different if Freya had inherited the land from her late husband five years ago?



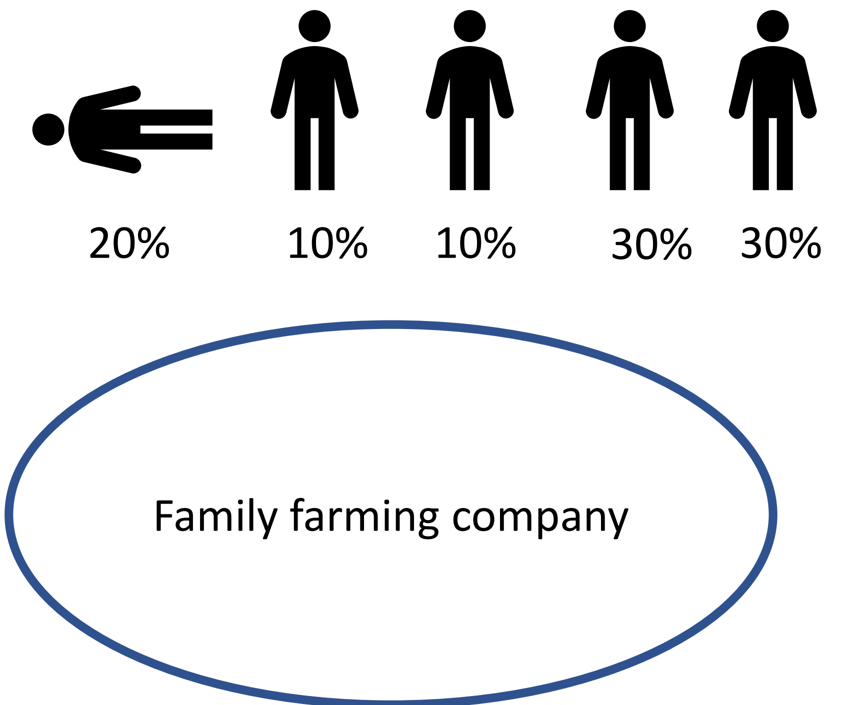
Chargeable: £155,000

EXAMPLE 4 – APR and FARMING COMPANIES

Michael, who never married, dies. His estate includes 20% of the issued shares in the company which owns the family farm.

No APR will be available as the 20% holding does not amount to a controlling interest.

BPR (100%) may be available if the company is actively trading and the business does not consist ‘wholly or mainly’ of making or holding investments, including land that is let out.



EXAMPLE 5 – APR on the FARMHOUSE?

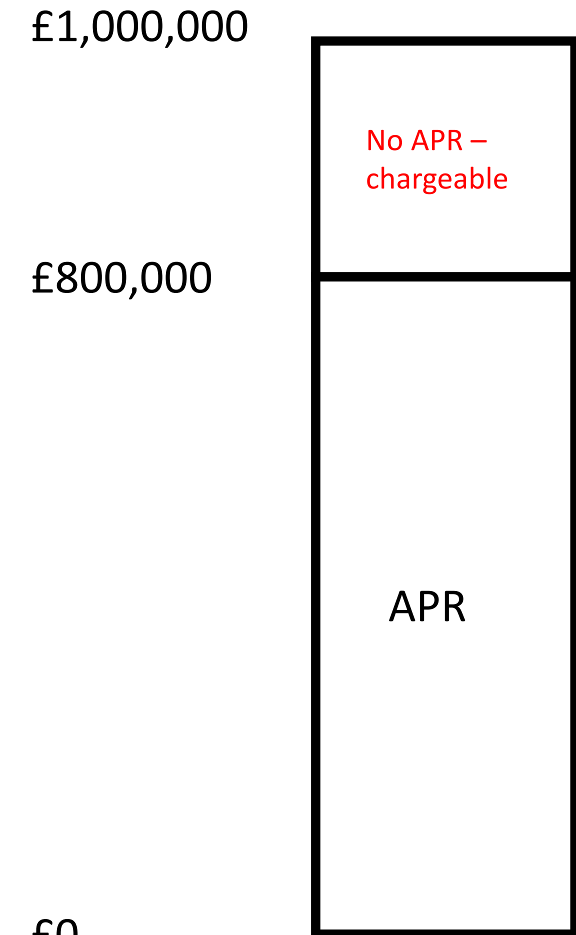
There must be active involvement in the farming business if APR is to be secured on the farmhouse (Arnander).

Sandra dies. At the time of her death, she owned the farm, including a farmhouse, having inherited everything from her husband who died fifteen years ago.

Sandra lived in the farmhouse until she died but, due to failing health, she completely stopped working a couple of years ago; her two sons have kept the farm going.

The value of the farm was £1m, including £200k for the farmhouse.

Although Sandra owned the farm and farmhouse, at the time of her death the farmhouse had ceased to be occupied for the purposes of agriculture. APR is unlikely to be available in respect of the farmhouse – though the NRB / RNRB may be available.



Chargeable: £200,000

EXAMPLE 6 – SPOUSAL TRANSFER ON FIRST DEATH – NOT ALWAYS THE BEST OPTION?

Joe and Mary were married for many years and ran a livestock farming partnership which owned the farm.

Joe died recently, leaving his £1m interest in the partnership and £500k of savings to his wife who is 60 years old but in good health.

They have two children who are not involved with running the business, having pursued careers and built lives in warmer, sunnier climes.

The transfer of assets to Mary under the terms of Joe's will is fully exempt from IHT as a "spousal transfer".

Ten years later, Mary is beginning to struggle with the farm so she decides to "sell up" and enjoy her remaining years. She dies three years later with an estate valued at £2m, mainly in cash and other investments.

Her estate is left to their two children; there is a significant IHT charge as Mary's assets do not qualify for APR or BPR.

Could a better outcome have been achieved?

DIVERSIFICATION CAN INCREASE EXPOSURE TO IHT

Businesses that consist “wholly or mainly of making investments (including land that is let out)” won’t attract BPR

But is it always clear whether a business consists “wholly or mainly of making investments”?

HMRC v Brander concerned whether a mixed agri estate In Scotland was eligible for BPR. There were significant letting activities. Was it mainly an investment business?

Tribunal considered

- what was the overall context?
- was there a single business or two separate businesses?
- turnover and net profit,
- time spent on the different activities,
- the capital.

Although the capital value of the let properties (£4.3m) exceeded the value of the other properties (£2.3m), it was held that this was not material and the business did not consist of wholly or mainly making investments, so BPR was allowed. There was another case Farmer v IRC which reached similar conclusions.

DIVERSIFICATION CAN INCREASE EXPOSURE TO IHT

There are regular cases about this before the tax tribunals. HMRC want to argue that businesses are investment businesses in order to deny BPR and thus collect more IHT. Pawson, McCall, and Zetland are three recent cases which the taxpayer lost.

TIP: To help protect your entitlement to BPR, if diversifying:

- make sure the investment activities don't overcome the trading activities; and
- make sure the books and records, the accounts, and the 'control centre of operation' all support the argument that it is one single business.

PROPERTY LETTING

When does the activity of property letting fall within the scope of BPR?

It is necessary to consider the business 'in the round' – viewed holistically, does the business consist more than 50% of investment activities?

If there is sufficient activity to support the contention that the letting activity is a trade, not merely a passive investment, BPR *should* be in point. HOWEVER there have been some very worrying decisions of late eg Executors of Marjorie Ross v HMRC (The Green Door Cottages case).

Mr & Mrs Ross operated eight holiday cottages in Cornwall opposite the hotel they once owned. As part of the operation they provided a huge range of services – cleaning, meals, use of internet, parking, arranging babysitters, on-site handyman, laundry, even fishing equipment for their guests!

Despite the obviously very high level of services provided, the First Tier Tribunal ruled that the business did not qualify for BPR on the basis that it still amounted to an investment activity.

In the current climate, is it best to assume for IHT planning purposes that furnished holiday letting activities, viewed in isolation, will not attract BPR?

IHT RISK INDICATORS?

- HIGH / INCREASING VALUE ASSETS
- HOPE VALUE on LAND (ESPECIALLY IF HELD OUTSIDE THE PARTNERHSIP/ COMPANY)
- HIGH LEVEL OF INVESTMENT (AS OPPOSED TO BUSINESS) ACTIVITIES / ASSETS
- UNCLEAR WHO OWNS WHAT?
- NO PARTNERSHIP OR SHAREHOLDER AGREEMENT?
- NO WILL IN PLACE? OR NOT UP TO DATE?
- ASSET OWNERSHIP CONCENTRATED AMONG OLDER FAMILY MEMBERS?
- HEALTH PROBLEMS?

IHT MITIGATION – FINAL THOUGHTS

- UK TAX SYSTEM GENERALLY FAVOURS ACTIVE TRADING OVER PASSIVE INVESTMENT ACTIVITY
- DOCUMENTATION IS KEY – LEGAL AGREEMENTS, PARTNERSHIP AGREEMENT, WILLS, BUSINESS PLANS
- HAVE GOOD ACCOUNTS THAT ACCURATELY REFLECT WHO OWNS WHAT
- REVIEW YOUR IHT PLANNING REGULARLY and IN THE EVENT OF ANY MAJOR CHANGE IN CIRCUMSTANCES
- DEED OF VARIATION
- GET YOUR ACCOUNTANT AND LAWYER INVOLVED EARLY

Land & Buildings Transaction Tax (LBTT)

LBTT is applied to residential and commercial land and building transactions where a chargeable interest is acquired.

Residential property transactions	
Purchase price	**LBTT rate**
Up to £145,000	0%
Above £145,000 to £250,000	2%
Above £250,000 to £325,000	5%
Above £325,000 to £750,000	10%
Over £750,000	12%
Additional Dwelling Supplement (ADS)	4% *(increased from 3% on 25th January 2019)*

Non-residential property transactions	
Purchase price	**LBTT rate**
Up to £150,000	0%
Above £150,000 to £250,000	1%
Above £250,000	5%

Residential property is a building that is used or suitable for use as a dwelling, and land that forms part of a garden or ground of a building suitable for use as a dwelling. Holiday homes are classed as residential property. A cleared site, with no buildings, would not be counted as a dwelling, even if it had planning permission for the construction of a residential property.

Capital Gains Tax: Gift Hold-Over Relief

- You may be able to claim relief if you give away business assets, or sell them for less than they are worth.

- The relief defers the capital gains tax until the person receiving the assets sells them.

- To qualify, you must be a sole trader or business partner, or have at least 5% of the voting rights in a company (known as your 'personal company), and the assets must be used in your business or personal company.

- If you are giving away shares, the shares must be in a company that is either: your personal company; or not listed on any recognised stock exchange. The company's main activities must be trading, rather than investment companies.

- When the person you give the asset to, sells the asset, they will need to include its cost when they work out the gain.

- For example, you gift a business asset worth £50,000 to your son. The asset originally cost you £25,000. You claim gift hold-over relief jointly with your son, and no capital gains tax is due by you. A few years later, your son decides to sell the asset to an unconnected party, and the value has since increased to £60,000. Your son will have made a gain of £35,000 for capital gains tax purposes, since his 'cost' will be your original cost of £25,000.

R & D Tax Credits (companies only)

- Research & Development tax credits allow companies to reduce their tax liabilities by claiming credits against a portion of their research & development expenditure.

- The project must relate to your company’s trade, and it must be looking to make an advance in science or technology. You can claim even if the project is ultimately unsuccessful.

- Small & medium-sized enterprises can deduct an extra 130% of their qualifying costs from profits. For example, £100,000 of qualifying costs = £230,000 deducted from profits.

- Technology is increasingly being used in the agricultural industry to overcome challenges, however, the industry accounted for less than 1% of all R&D claims submitted in 2017.

R & D Tax Credits (companies only)

- Example projects:
  - A project to develop a new feed or to grow crops that have substantially increased vitamin content, or produced better or more reliable yields.
  - A project to grow crops that are more tolerant to weather conditions.

- Other research & development areas:
  - AI & robotics
  - Biotechnology
  - Drones
  - New technologies and processes
  - Soil management & smart irrigation
  - Vertical farming

Business Structures

- Sole Trader
  - Personally responsible for the business's debts
  - Profit/loss is shown on the sole trader's personal Tax Return, and he is taxed on all of the profits

- Partnership
  - 2 or more people running a business together
  - Partnership agreement states how the partners have agreed to appropriate profits/losses
  - New partners can join the partnership – for example, adult children becoming involved in the business
  - The partners share responsibility for the business's debts
  - Profit/loss is shown on the partnership Tax Return, which also informs HMRC how it has been shared. Each partner prepares their own Tax Return, which shows all of their taxable income, and their share of the partnership profit/loss. Each partner is responsible for filing their own Tax Returns, and paying their own tax liability.

Business Structures

- Limited companies
  - A separate entity
  - Directors of the company are responsible for the management of the company
  - Shareholders own the company, and may have voting rights
  - The company pays Corporation Tax on the profits
  - Profits extracted by dividends paid to shareholders
  - Additional reporting responsibilities, e.g. filing accounts at Companies House annually

- Limited liability partnerships (LLP)
  - Liability limited to your investment
  - Profit/loss is shown on the partnership Tax Return, which also informs HMRC how it has been shared. Each partner prepares their own Tax Return, which shows all of their taxable income, and their share of the partnership profit/loss. Each partner is responsible for filing their own Tax Returns, and paying their own tax liability.
  - Additional reporting responsibilities, e.g. filing accounts at Companies House annually

Income Tax (Sole Trader & Partnership) vs. Corporation Tax (Company)

In sole trader structure, you are taxed on all of the profits. In a limited company structure, the company is taxed on all profits, at a rate of 19%, and you are only taxed on income taken by you, e.g. employment income or dividends. Careful tax planning ensures that you are able to balance your income and budget for personal tax.

	£		£
Self-employment profits			100,000
less Personal Allowance			(11,850)
Taxable income			88,150
Income Tax			
Starter rate	2,000	@ 19% =	380.00
Basic rate	10,150	@ 20% =	2,030.00
Intermediate rate	19,430	@ 21% =	4,080.30
Higher rate	56,570	@ 41% =	23,193.70
	88,150		
National Insurance			
Class 2 (flat rate due on profits ≥ £6,205)			153.40
Class 4 (@ 9% on profits £8,424-£46,350)			3,413.34
Class 4 (@ 2% on profits over £46,350)			1,073.00
Total income tax due			34,323.74

	£		£
Employment			8,424
Dividends			74,177
Total income			82,601
less Personal Allowance			(11,850)
Taxable income			70,751
Income Tax			
Dividend allowance	2,000	@ 0% =	0.00
Basic rate	32,500	@ 7.5% =	2,437.50
Higher rate	36,251	@ 32.5% =	11,781.43
	70,751		
Total income tax due			14,218.93
Employment income			8,424
Employee & Employer National Insurance due			0.00
Company profit before employment			100,000
Employment			(8,424)
Taxable profit			91,576
Corporation Tax due			17,399.44
Total tax paid			31,618.37

	£		£
Employment			8,424
Dividends			27,576
Total income			36,000
less Personal Allowance			(11,850)
Taxable income			24,150
Income Tax			
Dividend allowance	2,000	@ 0% =	0.00
Basic rate	22,150	@ 7.5% =	1,661.25
Higher rate	0	@ 32.5% =	0.00
	24,150		
Total income tax due			1,661.25
Employment income			8,424
Employee & Employer National Insurance due			0.00
Company profit before employment			100,000
Employment			(8,424)
Taxable profit			91,576
Corporation Tax due			17,399.44
Total tax paid			19,060.69

Income Tax (Sole Trader & Partnership) vs. Corporation Tax (Company)

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In a partnership structure, profits are appropriated between partners as agreed, and each partner is taxed individually. In a limited company structure, you may have multiple employees and shareholders. Each individual is taxed on their income from the company, along with taxable income from other sources. The company is taxed on profit after allowable expenses. Dividends are paid out of profit after tax.

		£		£
Partnership profits (50% share)				50,000
less Personal Allowance				(11,850)
Taxable income				38,150
Income Tax				
	Starter rate	2,000	@ 19% =	380.00
	Basic rate	10,150	@ 20% =	2,030.00
	Intermediate rate	19,430	@ 21% =	4,080.30
	Higher rate	6,570	@ 41% =	2,693.70
		38,150		
National Insurance				
	Class 2 (flat rate due on profits ≥ £6,205)			153.40
	Class 4 (@ 9% on profits £8,424-£46,350)			3,413.34
	Class 4 (@ 2% on profits over £46,350)			73.00
Total income tax due				12,823.74
Total income tax due (2 partners)				25,647.48

		£		£
Employment				8,424
Dividends				33,677
Total income				42,101
less Personal Allowance				(11,850)
Taxable income				30,251
Income Tax				
	Dividend allowance	2,000	@ 0% =	0.00
	Basic rate	28,251	@ 7.5% =	2,118.79
		30,251		
Total income tax due				2,118.79
Total income tax due (2 employees/shareholders)				4,237.58
Employment income				8,424
Employee & Employer National Insurance due				0.00
Company profit before employment				100,000
Employment				(16,848)
Taxable profit				83,152
Corporation Tax due				15,798.88
Total tax paid				20,036.46

		£		£
Employment				8,424
Dividends				9,576
Total income				18,000
less Personal Allowance				(11,850)
Taxable income				6,150
Income Tax				
	Dividend allowance	2,000	@ 0% =	0.00
	Basic rate	4,150	@ 7.5% =	311.25
		6,150		
Total income tax due				311.25
Total income tax due (2 employees/shareholders)				622.50
Employment income				8,424
Employee & Employer National Insurance due				0.00
Company profit before employment				100,000
Employment				(16,848)
Taxable profit				83,152
Corporation Tax due				15,798.88
Total tax paid				16,421.38

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Scottish tax rates vs. UK tax rates

New rates for basic rate tax – 19%, 20%, 21%. Higher-rate & additional rate taxes increase to 41% and 46%.

These rates only apply to pay/pensions/profit.

	£		£
Self-employment profits			50,000
less Personal Allowance			(11,850)
Taxable income			38,150
Income Tax			
Starter rate	2,000	@ 19% =	380.00
Basic rate	10,150	@ 20% =	2,030.00
Intermediate rate	19,430	@ 21% =	4,080.30
Higher rate	6,570	@ 41% =	2,693.70
	38,150		
National Insurance			
Class 2 (flat rate due on profits ≥ £6,205)			153.40
Class 4 (@ 9% on profits £8,424-£46,350)			3,413.34
Class 4 (@ 2% on profits over £46,350)			73.00
Total income tax due			12,823.74

The UK government continues to set the Personal Allowance; National Insurance rates and thresholds; Capital Gains Tax rates and band; and tax rates and bands for dividends and savings interest.

	£		£
Self-employment profits			50,000
less Personal Allowance			(11,850)
Taxable income			38,150
Income Tax			
Basic rate	34,500	@ 20% =	6,900.00
Higher rate	3,650	@ 40% =	1,460.00
	38,150		
National Insurance			
Class 2 (flat rate due on profits ≥ £6,205)			153.40
Class 4 (@ 9% on profits £8,424-£46,350)			3,413.34
Class 4 (@ 2% on profits over £46,350)			73.00
Total income tax due			11,999.74

Annual Investment Allowance (AIA)

- You can deduct up to 100% of the cost of an item that qualifies for AIA from your profits before tax.
- Maximum AIA: £1million per accounting period (increased from £200,000, for qualifying expenditure incurred from 1 January 2019).
- Qualifying items include most plant and machinery, but do not include cars.
  - A vehicle is classed as a car, unless it is:
    - constructed in such a way that it is primarily suited for transporting goods of any sort, or
    - of a type which is not commonly used as a private vehicle and is not suitable for use as a private vehicle.
      - Beware of the classification of double-cab pick-ups and kombi vans. A row of passenger seats takes up load space, and means that the vehicle will not be primarily suited for transporting goods, although double-cab pick-ups are specifically not classed as cars where the payload is one tonne or more.

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Capital Allowances: Cars

- New & unused, CO_2 emissions are 75g/km or less (or car is electric): First Year Allowances (up to 100% of the cost deducted from profits)
- New & unused, CO_2 emissions are 75-130g/km: Up to 18% per year
- Second hand, CO_2 emissions up to 130g/km: Up to 18% per year
- New or second hand, CO_2 emissions above 130g/km: Up to 8% per year

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Capital Allowances: Cars

Example 1:

- Car purchase price: £15,000
- Emissions: 110g/km
- Capital allowances rate: 18%
- Maximum deduction from profits in year of purchase: £2,700
- Any cost balance not used, is carried forward and can be claimed at up to 18% of the balance per year

Example 2:

- Car purchase price: £15,000
- Emissions: less than 75g/km (e.g. electric car)
- Capital allowances rate: 100% First Year Allowances
- Maximum deduction from profits in year of purchase: £15,000
- Any cost balance not used, is carried forward and can be claimed at up to 18% of the balance per year

Adjustments must be made for private use (sole traders & partnerships only). If a company purchases a car which is *available* for private use, no adjustments are necessary for capital allowances purposes, but there will be a taxable benefit, reported on annual P11ds. This can be costly!

Capital Allowances: Agricultural Buildings, etc.

- A new Structures & Buildings Allowance (SBA) was announced in the Autumn Budget 2018.
- Applies to the refurbishment of commercial buildings with effect from 29th October 2018 – but not where contracts have been signed, or work commenced, before this date.
- Relief is available for new commercial structures and buildings, including the cost of new conversions or renovations, and the costs of demolition or land alterations necessary for construction. Dwelling houses are not eligible for relief.
- Land costs or rights over land, or the cost of obtaining planning permission, are not eligible for this relief.
- Relief is at a rate of 2% per year of the original cost, for a period of 50 years. For example, for an agricultural building which costs £100,000, a deduction of £2,000 from profits each year is permitted.
- Claims for the allowance can only be made from when a structure or building first comes into use.
- If the asset is later sold, the purchaser takes over the remaining balance of the allowances not yet claimed, for the remainder of the 50-year period.

Capital Allowances: Integral Features

- Integral Features:

  - An electrical system (including a lighting system)
  - A cold water system
  - A space or water heating system, a powered system of ventilation, air cooling or air purification, and any floor or ceiling comprised in such a system
  - A lift, an escalator, or a moving walkway
  - External solar shading

- Capital Allowances:
  - Up to 100% of the cost in year of purchase
  - Up to 8% (6% from 2019/20 onwards) of the cost per year thereafter

- It's important to get a invoice breakdown, in case some works (e.g. electrical) qualify for additional capital allowances.

Property Income: Rent-a-Room Relief (individuals only)

- Letting out furnished accommodation in your home – you can let out as much of your home as you want, but you must live in the house at the same time, to qualify for this relief.

- The relief applies to long-term lets of rooms, as well as short-term holiday lets (e.g. Airbnb). It also applies to bed-and-breakfast or guest house income.

- You can earn up to £7,500 per year, tax-free (this threshold is halved if you share the income with someone else). If your gross income exceeds £7,500, you can either deduct the allowance (the remaining balance is taxable income), or deduct expenses instead.

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Property Income: Other property income

Finance cost relief

- The UK government introduced a restriction on relief claimed on finance costs for residential properties, to be introduced gradually with effect from 6 April 2017.
  - In 2017/18, only 75% of finance costs (e.g. mortgage interest) was deductible. The remainder was allowed as a basic rate tax deduction.
  - In 2018/19, 50% is allowable, and 50% is a basic rate tax deduction.
  - In 2019/20, 25% is allowable, and 75% is a basic rate tax deduction.
  - From 2020/21 onwards, none of the costs are deducted from profits, and instead 100% of finance costs are given a basic rate deduction.

	2016/17	2017/18	2018/19	2019/20	2020/21
Total income	42,000	44,000	46,000	48,000	50,000
PA	-11,000	-11,500	-11,850	-12,500	-12,500
Taxable income	31,000	32,500	34,150	35,500	37,500
Tax at X%	6,200	6,500	7,544	8,224	9,044
Less reducer	n/a	-400	-800	-1,200	-1,600
Tax payable	6,200	6,100	6,744	7,024	7,444
Someone earning £42k pays only	6,200	6,100	6,030	5,900	5,900

Profit increases each year, as mortgage interest gradually becomes non-allowable.

Property Income: FHLs

Furnished Holiday Let (FHL) income qualification tests:

- **Availability**: The property must be available for letting as furnished holiday accommodation letting for at least 210 days per tax year. You must exclude any days that you stay in the property.
- **Letting**: The property must actually be let commercially as furnished holiday let accommodation for at least 105 days per tax year. You must exclude any days when you let to friends or family for free, or at reduced rates. You must also exclude longer-term lets of more than 31 consecutive days, unless it's due to unforeseen circumstances (e.g. illness, delayed flight).
- **Pattern of occupation**: If the total of all lettings that exceed 31 continuous days is more than 155 days in the tax year, it will not qualify.
- *If you started letting during a tax year, these tests are applied to the first 12 months of letting. When you stop letting, the tests are applied to the final 12 months of the letting.*

If a property doesn't qualify as an FHL:

- **Averaging election**: If you let more than one property as an FHL, you can average the days over all of your UK FHL properties.
- **Period of grace election**: If you genuinely intend to meet the letting condition, but were unable to, it will be treated as a FHL provided that it qualified as an FHL in the previous tax year (either in its own right, or by averaging). If it also doesn't meet the conditions in the following tax year, you can claim the election once more, but you cannot claim the election for more than 2 consecutive tax years.

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Property Income: FHLs

Why does it matter if it qualifies as an FHL?

- **Capital Allowances**: You are entitled to claim plant and machinery capital allowances.

- **Capital Gains Tax**: Tax reliefs are potentially available for FHLs, that are not available for long-term residential lets (e.g. Business Asset Rollover Relief; Entrepreneurs' Relief, Gift Holdover Relief).

- **Finance cost relief restrictions**: These restrictions do not apply to FHLs. Mortgage interest relating to your FHL is 100% deductible from FHL profits.

- **Pensions**: FHL profits count as earnings for pension purposes.

Property Income: Losses

Losses

- Property losses cannot be offset against other income – they must be carried forward and offset against future property profits of the same category.

  - FHL losses are carried forward and offset against future FHL profits

  - Long-term let losses are carried forward and offset against future long-term let losses

Making Tax Digital

October 2018
Pilot for the new online VAT service launched by HMRC

1 April 2020
Earliest date for potential roll-out to other taxes

1 April 2019
VAT-registered businesses with a taxable turnover above the VAT threshold must use the MTD service

VAT-registered business with a taxable turnover below the threshold, may voluntarily use MTD software, but it's not compulsory

- Set up a MTD account with HMRC
- Keep records digitally
- Use software to submit VAT Returns

MTD Software

- A range of MTD-compatible software, including QuickBooks, Sage, Xero
  - Additional benefits:
    - cloud-based accounting
    - digital copies of records
    - real-time data for tax planning
    - shared access to data with your accountant
- Bridging software available to take data from spreadsheets and submit direct to HMRC for VAT Return submissions

Marriage Allowance

If you earn less than the Personal Allowance, and your spouse is a basic rate taxpayer, you can claim the 'Marriage Allowance', when 10% of your Personal Allowance is transferred to your spouse.

2015/16: Save up to **£212** of income tax
2016/17: Save up to **£220** of income tax
2017/18: Save up to **£230** of income tax
2018/19: Save up to **£237** of income tax
2019/20: Save up to **£250** of income tax

It's not too late to claim! The first year of the allowance was 2015/16, and HMRC will permit backdated claims for up to 4 tax years. You must apply for 2015/16 no later than 5 April 2020.

Apply online:

https://www.gov.uk/apply-marriage-allowance

Private pensions

- You can get tax relief on private pension contributions worth up to 100% of your annual earnings.
- Your pension provider will usually automatically claim the 20% tax on your behalf and add it to your pension pot.
- For example, by making a net contribution to your pension of £8,000, the government would top-up your pension by a further £2,000, resulting in a gross contribution of £10,000 to your pension.
- If you pay tax at more than 20% (e.g. 21%, 41%, or 46%), you can claim back the difference from HMRC, usually via Self Assessment or your tax code. In the above example, a higher-rate Scottish tax payer could claim back an additional £2,100. This is paid directly to the taxpayer, or offset against other tax due in the same tax year.
- If you pay tax at 19% (Scottish rate), you do not need to pay back the 1% difference.
- If you claim back tax relief on pension contributions worth more than 100% of your earnings, HMRC can ask you to pay back the relief. Individuals are entitled to £3,600 gross contributions per tax year, regardless of earnings.

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Private pensions

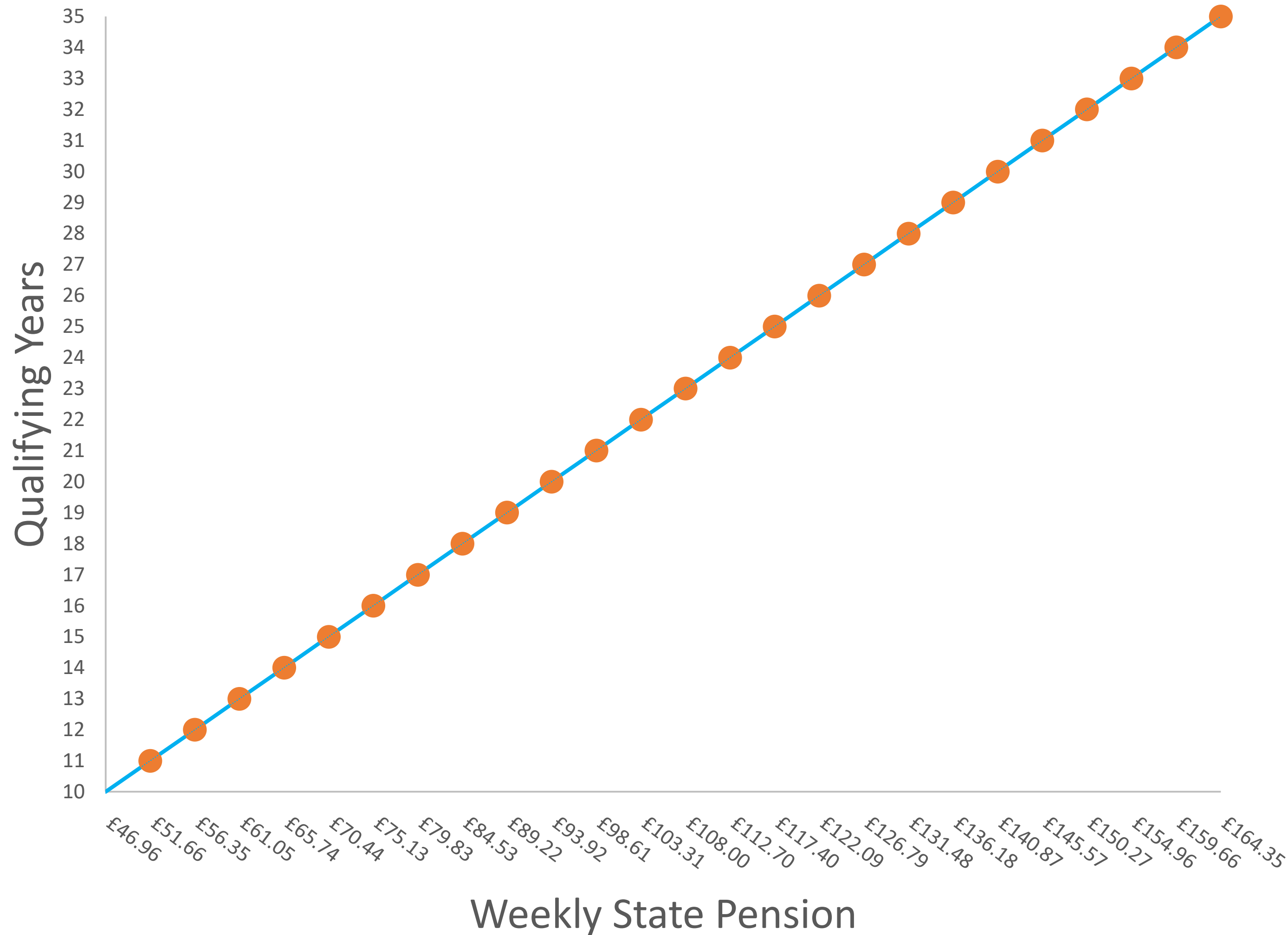
- There is a limit on how much you can pay into your pension annually, known as the ‘Annual Allowance’ – this is currently £40,000 per tax year.

- This limit is reduced for high incomes (‘threshold income’ over £110,000 – income excluding pension contributions not paid by salary sacrifice / ‘adjusted net income’ over £150,000 – income including employee & employer pension contributions), but does not reduce to less than £10,000.

- If you use all of your allowance, you can carry over any allowance you did not use from the previous 3 tax years, provided that you were a member of a UK pension scheme.

- In some circumstances, the Annual Allowance reduces to £4,000, e.g. if you take money out of a pension pot.

National Insurance Qualifying Years



New full basic state pension:

£164.35 a week

in 2018/19.

Minimum of 10 qualifying years to claim any basic state pension, and 35 qualifying years to claim the maximum. Each qualifying year is currently worth £4.70 a week in state pension.

Example: 25 qualifying years are currently worth £117.39 a week.

What is a qualifying year?

- Class 1 National Insurance contributions via employment earnings
  - Contributions at a rate of 12%/2% when earnings exceed the Primary Threshold (£8,424 per year)
  - Credits will automatically be made to your record in your earnings exceed the Lower Earnings Limit (£6,032 per year), but are not above the Primary Threshold
- Class 2 NI contributions
  - £153.40 a year when self-employment profits exceed the Small Profits Threshold (£6,205)
  - Voluntary payment of £153.40 if self-employment profits less than the Small Profits Threshold
- Class 3 NI contributions (£761.80 for 2018/19) – very expensive, may be needed to fill gap years
- Certain state benefits will automatically apply Class 1 or Class 3 credits, without the individual having to make a National Insurance payment, e.g. Child Benefit, Employment & Support Allowance, etc.

Check your qualifying years online.

Sign up for your Personal Tax Account:

https://www.gov.uk/personal-tax-account

Farming

Tax considerations

Karen Scholes BA CA