Agricultural Tax Bulletin

November 2018

Autumn Budget 2018

Announcements relevant to farming taxpayers

Capital Allowances

Annual Investment Allowance (AIA)

The AIA is the amount of "100% write off" against taxable profits that a business can claim in respect of qualifying capital expenditure each year. The Government has announced that it will increase from £200,000 to £1m from 1 January 2019 and last until 31 December 2020.

The change in allowance means the timing of asset purchases will become more critical for accounting periods straddling the dates of changes.

For example, for an accounting period which is the year to 31 March 2019, the overall AIA is £400,000 (3/12 x £1m + 9/12 x £200,000), but, importantly, no more than £200,000 of the claim can relate to period up to 31 December 2018 (i.e. the annual limit at that time).

Therefore a farming business with a 31 March 2019 year end which is planning to buy a £300,000 tractor in December 2018 but not expecting to incur much other capital expenditure in that year would be wise to consider delaying the purchase until after 1 January 2019 in order to benefit from the accelerated tax relief.

Structures and Buildings Allowances (SBA)

With effect from 29 October 2018, capital costs incurred on new commercial buildings will potentially be eligible for SBA, which is expected to apply at the rate of 2% per annum (on a straight line basis) to qualifying construction, conversion or refurbishment works to non-residential buildings and structures.

Any expenditure relating to the land (non-qualifying) or to items considered to qualify for plant and machinery allowances will continue to be treated in the same way, but the balance can potentially qualify for this relief.

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The amount of relief claimed will reduce the base cost of the asset on a future disposal, and the future allowances available will transfer to the next owner of the property.

SBA are likely to be particularly helpful in providing relief by way of a trading deduction for building costs on assets such as grain stores, which haven't been available in recent years (since the abolition of the Agricultural Buildings Allowances).

Other announcements

Although SBAs are a welcome addition to the tax code, as is the temporary increase in the AIA (discussed above), the Government has also announced that the rate of allowances given on the 'special pool' will reduce from 8% to 6% from April 2019.

The special pool typically includes integral features in buildings, higher emission cars and long-life assets which are either in excess of the AIA in the year of the cost or don't qualify for the AIA.

It was also announced that the scheme for enhanced capital allowances (ECA) will end in April 2020. ECA is effectively an unlimited extension to the AIA limit which applies where capital expenditure includes costs incurred on "energy saving" plant and equipment.

Tax for Individuals - Rates and allowances

The pledge to increase the personal allowance to £12,500 by 2020/21 will be delivered a year early and be effective from 6 April 2019. The basic rate band will increase to £37,500 at the same time, but will remain unchanged until April 2021. Therefore the 40% tax rate will apply to incomes above £50,000 from the start of the next tax year.

Pensions and Lifetime Allowance

The expected changes to higher rate relief on pensions did not materialise, with the only change being a small rise in the lifetime allowance limit which will increase in line with the general rate of inflation to £1,055,000 from 6 April 2019. The annual allowance of £40,000 (maximum) remains unchanged, as does the ability to use up unused allowances from the previous three tax years.

Inheritance Tax (IHT)

IHT is currently under review by the Office of Tax Simplification (OTS) following a consultation which closed in June 2018 and was originally due to be published in Autumn 2018. We await details of this but, for now, valuable reliefs such as Agricultural Property Relief and Business Property Relief remain and many opportunities to plan to reduce IHT are still available. A consultation is also ongoing regarding the taxation of trusts.

The main Nil Rate Band (NRB) remains frozen at £325,000 and is still expected to remain at this level until 2021. The Residence Nil Rate Band (RNRB) is set to increase to £150,000 on 6 April 2019, and a further increase to a maximum of £175,000 by 6 April 2020. The RNRB is abated by £1 for every £2 that the value of a net estate (before reliefs) exceeds £2m.

Capital Gains Tax and Entrepreneurs' Relief

Capital Gains Tax rates will remain for 2019/20 at 10/20% for all gains arising with the exception of residential property gains which will continue to be taxed at 18/28%. In each case the lower rates only apply to gains to the extent the individual has unused basic rate band available in the same tax year for income tax purposes.

The annual exemption is to increase to £12,000 (£6,000 for trusts and personal representatives) for the 2019/20 tax year.

There was speculation that Entrepreneurs' Relief, a 10% rate of Capital Gains Tax which applies to material disposals of business assets, might be withdrawn. The good news is the relief remains, but from 6 April 2019 the rules are tightening. The minimum period throughout which the qualifying conditions for relief must be met will be extended from 12 months to 24 months.

For share disposals, the current rules which require a shareholder to have at least 5% of the ordinary share capital and voting rights have been extended for disposals from 29 October 2018. Now shareholders must also be entitled to at least 5% of the distributable profits and net assets of a company to claim Entrepreneurs' Relief.

Principal Private Residence (PPR) relief

The government has announced a plan to reduce the amount of "final period" PPR relief which is given on residences that a taxpayer has lived in at some point during their period of ownership. Currently the final 18 months are given as deemed occupation but this is expected to reduce to 9 months with effect from April 2020.

Also from April 2020, the government are looking to reform lettings relief which can be claimed where a property was used as a residence for some of the time it was owned but was also let out. The change will see it only apply in circumstances where the owner of the property is in shared occupancy with the tenant. The exact details of how this change will be implemented are yet to be announced.

Phasing out of higher rate income tax relief on buy to let mortgage costs

As announced previously, the Government have been introducing a restriction on the income tax relief available to the mortgage interest costs of buy to let properties.

In the current tax year the deductible proportion of the mortgage interest costs will be 50%, with the remaining 50% of the total cost being available as a basic rate tax reducer. This restriction will increase to 75% from 6 April 2019 and to 100% from 6 April 2020, meaning that only basic rate income tax relief can effectively be claimed from that date onwards.

Corporation Tax rates

The current rate of Corporation Tax is 19% which has applied since 1 April 2017. For the financial year beginning 1 April 2020, there will be a further reduction from 19% to 17% which was previously announced. There had been some speculation that this reduction might be scrapped due to Brexit uncertainty, but it was pleasing to see no plan for the Government to change their approach.

VAT - No changes to thresholds

The VAT registration and deregistration thresholds will not change for a further period of 2 years from 1 April 2020, remaining at £85,000 and £83,000 respectively up until 31 March 2022.

Making Tax Digital for Businesses (MTDfB)

As previously noted, the government have legislated Making Tax Digital for Business (MTDfB) which will require VAT registered businesses to update HMRC on a quarterly basis from April 2019.

The scope of MTDfB will not be extended to include other businesses until April 2020 at the earliest and only at such a point that the system has been shown to work well.

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