

PRE-BUDGET REPORT FOR FARMERS

To some extent farming is counter cyclical; a fall in the pound means that UK incomes influenced by the euro will rise. However, the different sectors have very different challenges and Mr Darling's measures to protect and support businesses and individuals in these "extraordinary and challenging times for the global economy" will impact as much on farms as other businesses.

Invariably farms have more than one operation and diversification enterprises are likely to be vulnerable.

To follow are a few points from the Pre-Budget Report which will have a particular impact on farm businesses.

1. Income Shifting

The government intended that legislation would take effect from 6 April 2008 to address 'income shifting', i.e. shifting part of an individual's income to someone else who is subject to a lower rate of tax.

The government has consulted on this issue but, given the current economic challenges, is deferring action and will not bring forward legislation in Finance Bill 2009. The issue will be kept under review.

***Comment** - Family businesses are especially likely to be hard hit by legislation when it is enacted. In the meantime, it is advisable to consider the best structure for the business and to have a commercial rationale for paying spouse or childrens' wages, which are easy targets under existing legislation if the payments are not correctly paid and documented.*

2. 'Trading loss carry-back'

A proposed revision will apply for one year and will extend the period that current trading losses from businesses can be carried back against previous profits (currently only the preceding year) to a period of three years, with losses being carried back against later years first.

The amount of losses that can be carried back to the preceding year remains unlimited. After carry back to the preceding year, a maximum of £50,000 of the balance of unused losses is then available for carry back to the earlier two years.

The measure will have effect for company accounting periods ending in the period 24 November 2008 to 23 November 2009. For unincorporated businesses, the measure will have effect in relation to trading losses for tax year 2008/09.

HMRC will make repayments arising from loss relief claims received under the new rules on or after Budget Day 2009.

***Comment** - This change may be especially welcome for arable farmers and if appropriate it can be used in conjunction with farmers averaging rules. If profits for 2007/08 have been averaged with 2006/07 this may need reviewing in order to maximise loss carry backs.*

3. 'Taxation of business travel'

For expenditure incurred in acquiring cars from April 2009 onwards the rate of written down allowance (WDA) will be determined by the car's CO2 emissions:

Cars with CO2 emissions of 160gm/km or below 20%.

Cars with CO2 emissions of above 160gm/km or below 10%.

Where cars have an element of non-business use, then a private use adjustment will continue to be dealt with in the same way as before.

From April 2009 the special rules that restrict the amount of lease rental payments that can be deducted for tax purposes for a car costing more than £12,000 will be reformed. The restriction will be changed to a flat rate disallowance of 15% of relevant payments and apply only in respect of cars with CO2 emissions above 160gm/km.

Motorcycles are to be excluded from the definition of cars and will not therefore be subject to these rules. Expenditure incurred on motorcycles on or after 1 or 6 April 2009 will qualify for the Annual Investment Allowance (AIA).

Vans are excluded from CO2 emissions restrictions and are subject to the AIA.

Comment – *In order to maximise the WDAs available low emission cars are preferable, but commercial vehicles are not restricted, so farm vans can generate immediate tax savings regardless of emissions.*

4. 'Measures to help businesses'

Among the proposals are three measures to help with payment problems.

- A new Business Payment Support Service from HMRC to enable businesses to negotiate more flexible payment arrangements to meet business tax liabilities including PAYE.
- The threshold for rate relief for empty business properties will rise to a rateable value of up to £15,000 for 2009/10.
- More time will be available to pay backdated business rate bills that arise when a property is first rated as a business property.

Comment – *In addition to these some finance raising schemes are proposed but, without seeing the detail, one cannot tell if they will be of assistance to agricultural enterprises.*

For further information please speak to your usual Ensors contact or Graham Page on 01284 722331 or graham.page@ensors.co.uk

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