DEDICATED NEWS AND SUPPORT FOR FARMING FAMILY BUSINESSES FROM
ENSORS CHARTERED ACCOUNTANTS

AUTUMN/WINTER 2021
EPISODE 13

LIFE ON THE FARM

ROLLOVER RELIEF

David finds Henry, Mary and George drinking tea in the kitchen.

Meet the Barleymow family

Every issue we will be following the fortunes of the Barleymow family and the issues they face as a family farming business.

- George
  - Henry *m* Mary
    - David *m* Carolyn
      - Mark
      - Emma
  - John *m* Sarah

David: *Ah good you're all here!*

He puts his notebook on the table as Mary pours him a cuppa.

Henry: *We were just discussing the offer from that developer.*

David: *So… what are your thoughts?*

George: *Seems too good an opportunity to miss… that land has never performed well. It's just… we'd get stung for tax!*

Henry: *Yeah, there'd be a sizeable gain…*

David: *That's why Ensors mentioned Business Asset Disposal Relief.*

Henry: *Didn't that used to be called Entrepreneur's Relief?*

David: *Actually it's very similar to the old Retirement Relief, remember that?*

Henry and Mary nod. George looks blank.

David: *If applied correctly it can reduce the rate of Capital Gains Tax (CGT) on a disposal to 10% rather than the 20% we'd otherwise pay.*

George (rubs hands): Sorted!

David: *But…*

George: *Here we go! There's always a but…*

David: *Because of the way the relief works we may need to do some restricting of the business to make it work for us.*

Continued overleaf

Ensors

Making you more than just a number

George: *Sounds expensive. Any other ideas?*

David: *Well, a friend recently mentioned Business Asset Roll-over Relief so I called Ensors. They explained that this relief lets you defer any CGT due when you dispose of certain assets. If you acquire new assets costing the same as, or more, than the proceeds from the sale of the old asset then you can postpone paying the CGT until you dispose of the new asset…*

George: *Eh, I'm confused. Speak to me in numbers, lad!*

Henry: *I think what David's saying is… say if we sold the land for £1,000,000…*

David *(hand up): We would be taxed on a Capital Gain of roughly £800,000. Tax at 20% on this would be around £160,000…*

Henry: *And if we used the proceeds to build a new grain store…*

George: *It would be one expensive bloomin' grain store!*

Henry *(interrupts): Then the gain of £800,000 rolls over.*

David: *To put it another way… the gain is deferred so that we don't have to pay tax on the sale of the land at that time. If, however, we were to sell the grain store at some stage in the future, the £800,000 gain that was rolled over from the sale of land, would become taxable and would be subject to the tax rate that applies when the grain store is sold, not the rate when the land was sold. So there is a risk that the rate of tax could go up over that time…*

Mary: *What happens if we don't spend all the proceeds?*

David: *Partial relief may be available. Say if we only spend £500,000 on the new grain store, the cash retained is immediately chargeable to CGT. This would mean that we pay tax on £500,000 which would result in a tax charge of £100,000. But, we would still have deferred tax on £300,000 of the gain which would give us an instant tax reduction of £60,000.*

George: *Now I see. But… do we really need a new grain store?*

David: *Well, we can claim the relief on a new asset acquired within three years of the disposal of the old asset, so there's time to think about how we could invest the money wisely. HMRC may grant an extension in exceptional circumstances. For example, if we can prove we were attempting to bid on some land within the three-year time limit but were unsuccessful.*

George: *Wouldn't be surprised in this fickle market.*

David *(smiles): But Grandad, we would need to ensure that the new asset is immediately taken into use for trading purposes as soon as it is bought. HMRC will allow a short gap for any alterations or improvements required, provided the asset is not used for anything else in the meantime.*

Henry: *And I seem to remember you can also claim the relief on buying something 12 months prior to the disposal…*

David: *That's right Dad. Depending on when the sale takes place, we might be able to claim relief against the 50 acres we bought earlier this year.*

Mary *(looks at laptop): Just wondering what qualifies for roll-over relief. It says you can claim the relief on a building or land used in the trade, or fixed plant and machinery.*

David: *And remember, even though a static grain dryer is a qualifying asset, tractors or a new combine are not, as they're moveable.*

Mary: *And there are special rules for depreciating assets.*

David *(glances at notes): Yes like any fixed plant and machinery with an expected life of less than 60 years. The rules are different in that, assuming you don't dispose or stop using the new asset, the relief is deferred for a maximum of ten years from the date you acquired the new asset.*

Mary *(reading): So what's this about 'parking'?*

David: *If you first roll-over a gain, Mum, against a depreciating asset, and then purchase a non-depreciating asset before that gain is crystallised, you can roll-over the deferred gain and set it against the cost of the new non-depreciating asset without a time limit, until it is eventually sold.*

Mary: *Thus 'parking' the gain on a depreciating asset, until a non-depreciating asset is purchased…*

Henry: *Does the asset have to be a new one, or could we use the proceeds to do up some of the barns?*

David: *Ensors said you can treat money spent on improving existing assets as if it was the purchase of a new asset. However, it doesn't apply to repairs.*

Mary *(taps screen): Says here there are certain exceptions. The existing asset must already be used for the purposes of the trade or must be used in the trade once the improvements are completed.*

Henry: *If we went ahead, how do we claim the relief?*

David: *If we sell the land, but haven't yet acquired the new asset, we can claim provisional relief. If, by three years after the date the land was disposed, we haven't made a valid roll-over claim, we'll need to notify HMRC and pay the tax that was due in an earlier year, together with any interest.*

Henry: *I think we need to have a meeting with Ensors as soon as possible.*

George *(grabs mug): Let us finish our bloomin' tea first!*

CHANGES AHEAD...

The Spring 2015 budget first announced **"making tax easier"** with the plan to reduce the administrative burden on taxpayers who currently complete an annual tax return.

The project had two elements:

- Creation and use of personal tax account for all taxpayers and
- New record-keeping and filing requirements for the self-employed

Following a recent consultation, the Chancellor is expected to reform basis periods. The objective is to simplify the taxation of trading profits with the aim of taxing profits in line with the tax year "tax year basis" rather than the accounting period. This would align the treatment of trading income with non-trading income i.e. property letting. Initially this was proposed from 6 April 2023 but HMRC have now delayed it until 6 April 2024 at the earliest and as this is still in consultation, it would not be unexpected if the start is delayed again.

The proposed change is being considered in conjunction with Making Tax Digital for Income Tax (MTD for ITSA) changes (which requires taxpayers to prepare and submit quarterly Tax Returns) to reduce the amount of MTD reports to be filed for tax payers whom have several sources of income for differing quarterly periods in the tax year.

For businesses who draw up accounts to 31 March or 5 April there will be no difference, which HMRC quotes as being 93% of sole traders and 67% of partnerships. However, for farming partnerships the harvest year is often chosen as the accounting year end as well.

HMRC is not asking businesses to change their accounting date, so a date to suit can still be used, however these profits will need to be apportioned to fit to the tax year.

Businesses with a 30 April year end will be particularly hit in the transition year (2023/24) as they will have to report profits for the period from 1 May 2022 to 5 April 2024. Although there will be transitional relief to spread the extra income falling in 2023/24 over 5 years to 2027/28, (individuals can elect to be taxed on the full amount in the transition year) but that could still push people into higher rate bands for those years.

EXAMPLE

A business makes up its accounts to 30 June annually.

On the **current year basis**, its basis period for the 2024/25 tax year would be:

- Profits of the year to 30 June 2024 (i.e. the accounting period ending within the tax year).

Under the **tax year basis**, the business will report for the 12 months to 31 March 2025, so the apportionment would be:

- 3/12 of its profits/losses for the period of account to 30 June 2024, PLUS
- 9/12 of its profits/losses for the period of account to 30 June 2025.

Note that if the accounts to 30 June 2025 are not finalised, then this 9 months' profits/loss will have to be estimated for submission of the 2024/25 tax return, and the tax return subsequently amended once the accounts are finalised.

Whilst the rules may simplify certain areas, businesses that do not have a 31 March (5 April) accounting year end will need to consider these changes on their cashflow, especially during the transition year which could see significantly increased amounts of profits being taxed.

Having the tax year basis for trading income would bring the payment of tax closer to the time that profits are earned, making it easier for businesses to save for their tax liabilities and improve compliance.

Meet the team

Agriculture specialists

Graham Page
PARTNER
01284 722300
graham.page@ensors.co.uk

Carl Page
PARTNER
01728 603005
carl.page@ensors.co.uk

Neil Meekings
PARTNER
01284 722346
neil.meekings@ensors.co.uk

Elaine Baxter
DIRECTOR
01284 722326
elaine.baxter@ensors.co.uk

Hugh Simpson
CLIENT MANAGER
01284 722300
hugh.simpson@ensors.co.uk

Wayne Horrex
CLIENT MANAGER
01284 722327
wayne.horrex@ensors.co.uk

To keep up-to-date with changes in the accounting and tax world as they impact upon the agricultural industry, please visit our blog page online:

www.ensors.co.uk/agricultureblog/

Some of the most recent blogs include:

- **Our new software tips series – aimed at the agricultural sector**
- **Farm diversification and VAT**
- **Is your agricultural business trading losses?**

Technical specialists

Danny Clifford
CAPITAL TAXES & TRUSTS PARTNER
01473 220083
danny.clifford@ensors.co.uk

Helen Carey
VAT DIRECTOR
020 7830 9669
helen.carey@ensors.co.uk

“Ensors have an excellent understanding of how a rural agricultural estate operates and as such are able to work closely with clients and fellow professional advisors to ensure maximum benefit.”

Charles Loyd – Strutt and Parker

@EnsorsAccounts @EnsorsBizTax @EnsorsAgri @ForensicsAcct

ENSORS OFFICES

BURY ST EDMUNDS | CAMBRIDGE | HUNTINGDON | IPSWICH | LONDON | SAXMUNDHAM

www.ensors.co.uk