

## Dairy Women Network

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# Welcome



Andrew Robinson  
Head of Agriculture

**I sit writing this article in a beautiful sunny warm Hexham; what a change from 5 weeks ago! I am only going to whisper it but a drop of growy rain wouldn't go amiss. Us farmers are never happy!**

This is the fourth editor's page I have now written since the Brexit vote and we still know nothing more about how it will affect UK agriculture and the divorce date is getting nearer quickly. It really concerns me the lack of clarity, as it is impossible to plan forward. We have clients looking to buy and rent land but how do you budget for that?

I personally still feel there is more negative threats from a bad Brexit deal for UK Agric than opportunities but we all have to work together to get the best we can. We did respond to the Defra Health and Harmony consultation and I just hope note is taken of the 44,000 responses.

Apart from the aftermath of the weather, farming is not in a bad place at all. Commodity prices across the board are higher at present and the short term looks favourable. It is about us and our clients building resilience into their businesses to face what ever may be ahead.

Our Tax Director, Keith Johnston, explores the possibility of changes to Inheritance Tax, and asks if restrictions to Agricultural Property Relief could be on the horizon?

We also report on a recent Land Tribunal case from Aberdeenshire which resulted in a tenant farmer losing his farm. The case could easily have been about tax and shows the importance of getting the paperwork right when land is being let out or when most of the work on the land is done by others.

We again return to the subject of Making Tax Digital. The Government has backtracked on the timetable for some parts of the change, e.g. digital tax returns, but changes to the way VAT returns are to be filed are now less than a year away.

We also cover the question of how to decide whether farm contractors are employed or self employed. This is an area that HMRC are taking a close interest in at present.

Our news page covers several topical issues including a warning to remain vigilant against fraudsters who continue to target farmers and small businesses. We also detail the changes to Scottish rates of Income Tax which were introduced in April, and offer an alternative source of funding if your business is in need of additional finance.

Finally I hope see as many of you as possible around the agricultural shows and events. If you see me stop for a chat as I am always up for a bit of lively chat and debate on farming topics.

Andrew Robinson.



# Tracy Roan - Dumfries & Galloway Dairy Women Network

## Why did you start the Network?

**There is no getting away from it - us farming women are "Jills of all trades - we really are all Wonder Women but in disguise" - we juggle careers off the farm, jobs on the farm, family life, kids, the housework, paper work, you name it, we are either doing it or have done it!**

I had always worked on the family dairy farm with my husband and his family. This was mainly at weekends, with relief milkings and running errands, as I was working full-time. Then kids came along and due to the cost and limited childcare options, and launching the family business venture Roan's Dairy, I decided to quit my job and to work on the family farm full time. I had hoped this would mean a less stressful and more organised life but things didn't work out like that!

For me, I had so much going on, there seemed to be very little time to learn hands on practical skills for myself, or attend meetings that fitted in around my life as a working mum. The more involved I got with the day-to-day running of the farm, the more opportunities I could see to make improvements, not only the practical side but also to the paper work side of the business.

I wanted to learn more but I felt that many of the meetings were geared towards the males of the business and were usually at times that didn't suit working mums, wives, partners, etc. So I thought why not have a network where we could share knowledge, gain experience and find opportunities that would help their businesses but fitted around our busy schedules? I sounded out my idea to my friends and to my surprise they also felt the same. So, with the help and support from NFUS, the Dumfries & Galloway Dairy Women's Network was launched at Stewartry Show last year.

## The Future ...

It has really taken me by surprise the interest in the Network, as women working in agriculture isn't a new phenomenon. It is not about us getting recognition for what we do, rather its aim is to connect like-minded women who have an interest in all farming sectors, bringing the opportunity to share ideas, learn from each other and improve our businesses.

At the beginning I expected meetings to be dairy focused, but at our first meeting there was a clear demand for business led events e.g. book keeping, accounts, how to get the most from your banker and accountant etc. So 6 months on and we have had meetings every month, with a tour of the Arla Factory at Lockerbie, talks from Armstrong Watson, Calf Signals Training and other guest speakers, with the next 6 months looking just as busy.

Tracey Roan is founder of the Dumfries & Galloway Dairy Women Network. She works with her husband and family on a dairy farm just outside Dalbeattie in Dumfries & Galloway. Tracey and her husband Steven, along with their children Andrew 9 and Lucy 7 appeared in the BBC 2 hit series This Farming Life. For more information email [Teresa.dougall@nfus.org.uk](mailto:Teresa.dougall@nfus.org.uk) or see our twitter and facebook pages.



# News

## Scottish rate of income tax

The Scottish Government announced a reform to the Scottish Tax System with a view to protecting the lower earners whilst making the tax system fairer for everyone. As a result, from 6 April 2018, Scottish Taxpayers (effectively those who live in Scotland) will pay different tax rates than individuals in the rest of the UK.

This is particularly relevant for businesses near the border who may employ individuals from Scotland and England as it has resulted in a number of changes to the Scottish Rates of Income Tax by creating two new tax bands. Therefore from 6 April 2018 the Scottish Rate of Income Tax will be as follows:

	£	Tax Rate
Personal Allowance	11,850	0%
Starting Rate Band	11,851 – 13,850	19%
Basic Rate Band	13,851 – 24,000	20%
Intermediate Rate Band	24,001 – 43,430	21%
Higher Rate Band	43,430 – 150,000	41%
Additional Rate Band	150,001 +	46%

It should, however, be noted that the above will only apply to earned income for example wages, self employed income and pension income. The above rates and tax bands will not apply to savings income. As a result individuals will continue to pay the same tax rates as the rest of the UK on dividends and savings interest.

## Funding a business - why and where from?

Cash flow of any business is its heart beat - without sufficient cash it cannot grow or maybe even survive.

The obvious way to fund any business is through its own retained profits. This will involve no interest payments and means that if an asset is being acquired it is owned from day one. But, is using its own cash the best way for a business to trade or grow?

This will all depend upon what the plans of the business are. It may mean a slower rate of growth but this is not always a bad thing. With any use of retained funds the unexpected also needs to be considered. If funds have been used for acquiring a particular piece of machinery, what happens if an unplanned breakdown happens?

Making alterations to a building or buying a new one are more likely to be funded and this type of funding will normally be over a longer period of time. So if funding is the right choice for your business, where do you go?

Most businesses will tend to speak to only one lender, but there are currently around 350 different lenders now offering up to 3000 different products, so is speaking to only one the best option?

Before you decide who is best to fund that next piece of machinery or provide that stocking facility, maybe we can help? At Armstrong Watson we now have access to over 100 of these funders offering a wide choice of options. As your trusted partners why don't we see what other options there might be for you to consider?

We cannot promise that we will have all the answers or that your normal funder won't still be the best choice, but you may be surprised. Just call your usual contact - we would love to help.



# Beware farm scams

Fraudsters continue to be active. Here's the details of three scams that have come to our attention recently. These schemes are very clever and some farmers have lost thousands of pounds even where they have taken precautions.

## Second Hand Machinery

A piece of machinery will be advertised for sale either online or in a farming magazine. The vendor appears to be a reputable farmer or machinery dealer so that when the potential purchaser carries out background checks, everything appears legitimate. Once a deal has been agreed, the farmer is asked to pay a deposit by bank transfer. Both the money and the seller then disappear without trace. A tip here is to only pay deposits of this nature by credit card.

## Phone calls or emails from HMRC

One variation is an email supposedly from HMRC saying you are due a repayment of either income tax or tax credits. All you have to do to get your refund is to click on a link and fill in your details, including bank account number. Once the fraudster has got your details they can perpetuate identity fraud.

An alternative is a phone call saying you owe money to HMRC and in order to avoid court action you need to pay money immediately. HMRC will never contact you in this way, and will never ask for bank details, so always ignore these messages.

## Phone calls from your bank

This one is potentially the most serious. A phone call claiming to be from your bank's fraud unit says your account has been subject to an attempted fraud. You are told to ring the telephone number on the back of your debit card. The fraudsters however keep the telephone line open so you are still speaking to them rather than the bank. You will then be told to make an online transfer into a "safe" bank account, which of course is controlled by the fraudsters. A tip here is to ring the bank from a different telephone, eg a mobile, and not the one you received the initial call on.



## Paying your children - key points

- Payments must be wholly and exclusively for the benefit of the taxpayers' trade and reflect the type of work done. They should not be seen to be pocket money in return for work.
- Children under 13 cannot legally work on a farm so HMRC are unlikely to accept payments as tax deductible.
- Every child has a tax free personal allowance of £11,500. There is a slightly lower limit before National Insurance is due, just over £8,400 per year.
- Children over 16 have a National Insurance number so any pay will need to go through the farm payroll. For those under 16, pay does not need to go through payroll unless total income exceeds their personal allowance.

Wages must be paid to the child, e.g. directly

- into the child's savings account. In future, if money is needed for a car or help with college fees, these savings can be accessed rather than calling on the "bank of mum and dad."

It is recommended that a record of the number of hours worked in order to calculate the

- amount payable to the child on a monthly or quarterly basis, in the same way as for other employees.

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# Occupying land

- get the detail right!

A recent Scottish Land Court case has illustrated the importance of having the right paperwork in place and ensuring that the agreement is properly implemented. The case in question – *Fyffe v Esslemont* – was a dispute between tenant and landlord which resulted in the tenant losing his tenancy, but the issues raised can equally apply to taxation. Failure to get the detail right can result in significantly increased tax bills.

## The case in brief:

- Mr Esslemont was the tenant of a 213 acre farm in Aberdeenshire
- The farming activities had reduced over the years. Livestock had been sold many years ago and the business latterly consisted of seasonal grazing lets, sale of hay and silage, and in some years a contract farming agreement over the arable land
- The crux of the case was whether the contract farming and seasonal grazing lets were agricultural activities or sub-letting of the farm

### The judge determined the following:

- The contract farming was “a sham and entirely artificial”. The contractor purported to purchase the growing crop from Mr Esslemont each year but this appears to have been at a fixed price
- There was no evidence as to the terms of the seasonal grazing to determine who was carrying out the agricultural activity
- In conclusion the agricultural activity had been “substantially abandoned” and the landlord was granted vacant possession of the farm

## The Tax Consequences:

There are several differences in tax depending on whether the landowner is an active farmer, or someone else is farming the land:

- A farmhouse is only exempt from Inheritance Tax (IHT) if the person living in the house is involved in the farming activities carried out on the land
- Farm buildings need to be occupied for agricultural purposes to obtain IHT relief
- If farmland or buildings have any development potential, it is essential that the owner is seen to be carrying out the farming business
- Capital Gains Tax reliefs such as Entrepreneurs’ Relief and Rollover Relief are similarly only available if the landowner is doing the farming
- For income tax purposes, if income is treated as rents, it is not possible to make an averaging claim and there are restrictions on the offset of losses
- The reclaim of VAT on expenses is much more difficult if land is being rented out

## Two key lessons

- 1) A landowner who lets land for seasonal grazing can be seen to be an active farmer but they must be responsible for all acts of husbandry, eg fertilising, controlling weeds, etc
- 2) There are many examples of genuine Contract Farming Agreements, but:
  - The landowner must control what is happening on the land
  - The contractor is permitted to access the land to carry out specific tasks
  - The contractor receives a fee for this work which may or may not include a profit element
  - The landowner has to assume some commercial risk, ie he makes more profit when growing conditions are good and yields are high

# Making tax digital

## - an update



We have covered Making Tax Digital (MTD) in previous editions of Agrimatters, but with major changes less than a year away we make no apology for returning to it again.

HMRC has announced that they are concentrating their resources on changes which will arise from Brexit. As a result, other policy changes including parts of MTD reforms will be put on hold until at least 2020. Crucially, the changes to the way VAT returns are submitted will go ahead as planned.

So, VAT registered businesses with a turnover in excess of the current VAT threshold of £85,000 will still be required to keep digital records for VAT purposes with effect from April 2019.

If you maintain your records using a manual system you will need to consider how you can become compliant with the legislation. Maintaining manual records and submitting your VAT Return as usual online will no longer be acceptable. Your records must be what HMRC describe as "digitally compatible". What this means, in practice, is that businesses VAT Returns will have to be submitted to HMRC from software via an Application Programme Interface (API). An API is essentially the way one piece of software asks another to perform a service.

Spreadsheets as a means of keeping records will be acceptable so long as the spreadsheet can calculate the VAT return and this is uploaded to HMRC via an Application Programme Interface. HMRC will be providing an online tool to help businesses identify which software packages will meet their MTD needs.

In reality, this will mean either investing in some accounts software from a digitally compatible provider or, if that isn't something you feel comfortable with, you will need to ask a professional adviser to prepare and submit your VAT return using digitally compatible software which will ensure you have complied with your legal obligations.

## Could Xero help you?

**What is Xero?** - Xero is a cloud based accounting software package specifically designed for small businesses.

**Real time information** - Xero is all about real-time information. The dashboard gives you a current view of your cash and bank balances and outstanding bills and invoices.

**Daily bank feeds** - Your bank transactions feed directly into the software, showing incoming and outgoing transactions as they happen.

**Automated bookkeeping** - Purchase invoices can be automatically scanned and uploaded into your Xero data, so no manual input is required, reducing the risk of human inputting errors.

**Access anywhere, anytime** - Unlike traditional desktop packages, Xero can be accessed securely from any device with an internet connection. When you need information quickly it's always available.

**Our expertise** - Our onboarding teams know Xero inside out and can get you up and running together with providing any training and support you may need.

Xero is fully MTD compatible which means no compliance headaches come April next year. Speak to your usual AW contact if you would like more information.





# Farming contractors

*- are they really self-employed?*

In the past most farming businesses had several farmworkers on their payroll. However, times have changed and many businesses now rely on family members with help from contractors at busy times.

Employing staff has got more complicated in recent years – details of wages paid must be reported to HM Revenue & Customs (HMRC) each week or month under the Real Time Information system, and most employees now have to be enrolled into a pension scheme. It is therefore tempting to treat casual workers as self-employed so that this administrative burden can be avoided. However, as HMRC regularly point out, self employment status is not a choice and can insist that workers are put on the payroll.

In this article we will look at the factors involved, and the steps that can be taken to reduce the risk of a successful challenge by HMRC.

## How to determine status?

There have been numerous court cases and tax tribunals over the years which provide guidance on the factors to take into account:

### 1) Mutuality of obligation

In simple terms this asks whether the farmer is obliged to offer work each week and the worker is obliged to accept it. An employee is obliged to turn up each week and the farmer has to find work for them. A self employed person has the right to say they aren't coming next week because they are working elsewhere and equally the farmer can say that there is no work next week.

### 2) Right of substitution

A self employed person can usually send along a suitably qualified replacement to do the work, whereas an employee will have to do the work personally.

### 3) Opportunity to profit

An employee is generally paid per hour, whereas a self employed person can usually make more money by performing the tasks quicker or more efficiently. For example a sheep shearer is normally paid per animal clipped, and a relief milker is paid per milking regardless of the time taken.

### 4) Provision of equipment

If a contractor provides major pieces of equipment to perform his work, it is usually an indication of self employment. An employee will normally only provide small tools or protective clothing.

### 5) Control

In general a self employed person can decide when and how a task is performed whereas an employee will be more closely supervised.

### 6) Method and frequency of payment

An employee is normally paid at fixed intervals, eg weekly or monthly, whereas a self employed person will raise invoices when a particular task is complete.

Finally, I have sometimes heard it said that if somebody works for more than 2 different people then they are automatically self employed. Unfortunately it is not this simple. A person can have 3 or 4 different employments if they work set days for each farmer and are paid by the hour. Conversely, if work is done on an irregular basis and the amounts paid vary, this is more likely to be self employment.



# Keith's briefing



There has been a lot of speculation in recent months as to possible changes to Inheritance Tax (IHT), and whether this might affect farmers and landowners. In this article I will take a look back at how IHT operated in the past and whether this gives us a clue to what might happen next? The reason for the speculation was the Chancellor of the Exchequer asking the Office of Tax Simplification (OTS) in January 2018 to carry out a review into IHT. The main focus of this review is on technical and administrative issues, but the Chancellor also asked whether the current framework distorts taxpayers' decisions.

The first point to note is that the current IHT regime is more generous to farmers and landowners than it was in the past:

- Since 1995 agricultural landlords can obtain 100% Agricultural Property Relief (APR) on let land. This is only on tenancies which commenced or were varied after 1st September 1995, and where the land has been owned for at least seven years. This contrasts with the owner of let commercial buildings who generally don't get any IHT exemption on the value of their assets
- We also currently have unlimited 100% APR and Business Property Relief (BPR) where an individual is running a farming business. Whilst there are possible restrictions on relief on farmhouses and where land has development value, this is a big change from a generation ago when relief was only 50%

IHT is an emotive subject, but the amount of tax raised is modest. Out of total tax revenues of more than £700 billion, IHT contributes approximately £5 billion – less than 1%! The most recent HMRC statistics for 2015 show that the value of all APR and BPR claims in that year amounted to £1.5 billion – again an insignificant amount when looking at the big picture.

There are two particular aspects of the current system that have been under scrutiny recently – whether APR should be restricted to “genuine” farmers and whether relief should be clawed back when the property is sold.

## Working Farmer relief?

This was in place until 1981 and required a person to get 75% of their relevant income from agriculture for five out of seven years. In addition, relief was restricted to the higher of £250,000 or 1,000 acres of land. A reintroduction of a rule of this kind would make it more difficult for non-farmers to purchase farmland as an IHT shelter.

## Clawback of APR and BPR

There is a double benefit when agricultural land is inherited – not only is it usually IHT free, but it is rebased for Capital Gains Tax (CGT) purposes. This means that a sale soon after the land is inherited is CGT free. A recent report by a political think tank – the Resolution Foundation – suggested that IHT relief be clawed back where inherited assets are sold, and that CGT rebasing be restricted.

In summary, it would be dangerous to assume that the present IHT system will continue for too much longer and a lifetime gift of assets should perhaps be considered.



Keith Johnston  
Agricultural Tax Director

# Our Agri Team

The strength of the Armstrong Watson agricultural team lies in our people. Our specialism in preparing accounts and providing specialist advice on strategic and tax issues comes from having staff that spend most or all of their time working for farmers and landowners.

The farming industry is facing a unique set of challenges as a result of Brexit and volatile commodity prices. Our agricultural team, many of whom hail from farming families, are ideally placed to help our clients meet these challenges.

The picture, taken at a recent get-together, shows members of our team from all of our agricultural offices across Scotland, Northumberland, Cumbria, and Yorkshire.





# Summer Shows

  
**FARMING**  
IS OUR FIELD

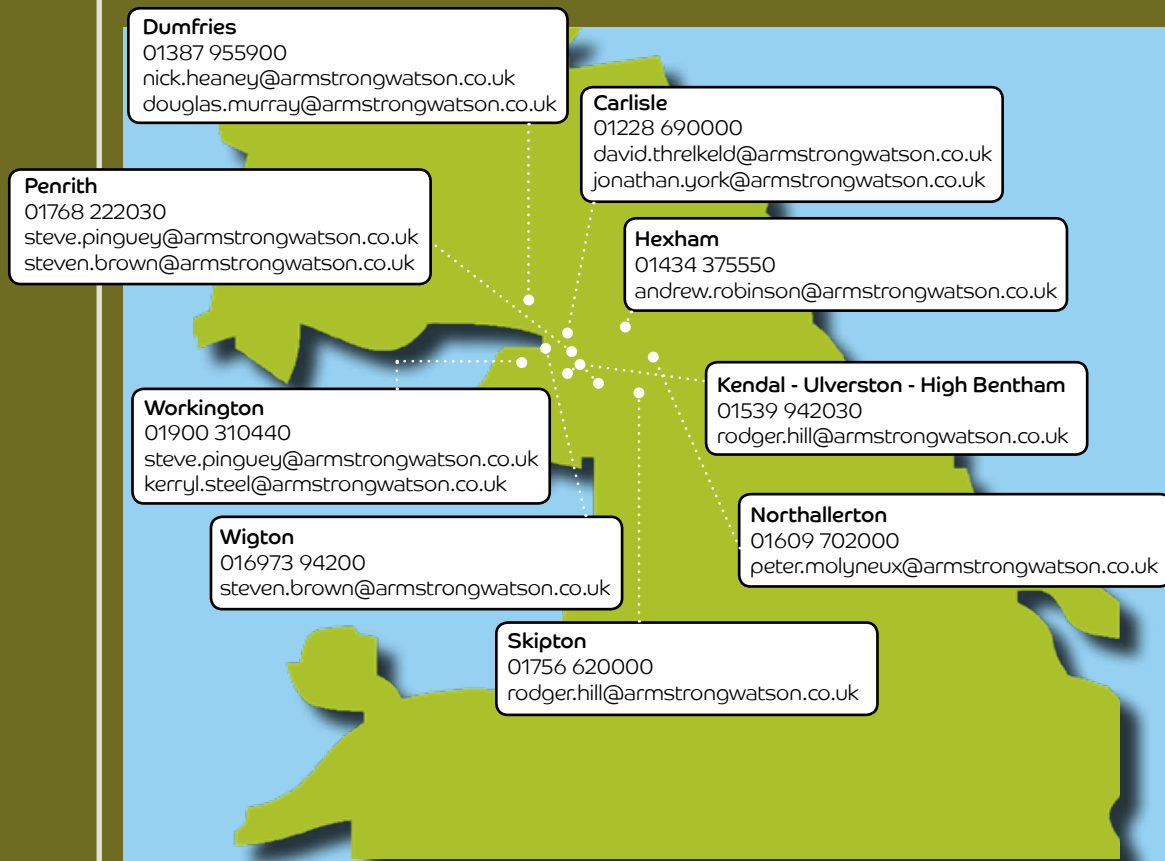
We'd love you to join us for hospitality at our upcoming summer agricultural shows

  
**AGRICULTURAL**  
**SHOWS** 2018



Cumberland Show	16 June
Penrith Show	28 July
Cockermouth Show	4 August
Dumfries Show	4 August
Westmorland County Show	13 September

# Serving farmers across the country for 150 years



We hope you've enjoyed this edition of our newsletter for rural businesses. Please don't hesitate to get in touch with us if you have any questions about any of the issues covered in this newsletter, or if there are any subjects you'd like us to cover in future editions. This map shows just some of the main points of contact for our agriculture team.

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