

Autumn 2019

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# THE INSIDE TRACK



## Welcome to the Autumn Edition of The Inside Track



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**Director**

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We had hoped to give you more of an insight into Brexit, how best to prepare and what you could expect. However, we are now in a challenging position and there are so many potential different scenarios this newsletter could be never ending.

Alongside the Brexit chaos, climate change and veganism are presenting a growing challenge for the farming industry. But where there are challenges, there are often opportunities for strong and flexible businesses.

We have therefore been assisting our clients in strengthening their businesses to protect against the turbulence ahead and to capitalise on future opportunities. In most cases, the key to this is protecting cash, whether by carefully planning capital expenditure or stretching borrowing over prolonged periods, together with adding as much certainty as possible. Many of our clients are fixing input prices and preparing stocks of items that may

be impacted by Brexit. Others are producing diverse income streams where it does not take away from the core of their business.

One thing that is certain is that the farming industry will always face challenges. Looking ahead, planning carefully and adapting to change will always be key to success.

On an exciting note, particularly for the team here, we are celebrating our 10-year Anniversary this autumn. In 10 years the business has evolved embracing cloud accounting and the change to Making Tax Digital and the team has grown from 6 to 24, going from strength to strength. In this edition, we welcome our new Director Dan Knight and Senior Tax Manager Victoria Paley who you will learn more about as they answer Georgia's questions. You will also get an insight into Margaret Scarrott's, founder of Evolution ABS, highlights from the last 10 years and what she is most looking forward to.



**Dan Knight**  
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**Victoria Paley**  
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# 5 MINUTES WITH DAN AND VICTORIA

Dan Knight and Victoria Paley have recently joined Evolution ABS and our marketing coordinator, Georgia Manning, has asked them some questions to get to know them and their roles.

## 1. So, who are you?

**Dan:** I'm Dan and I joined the practice as a Director in April, having worked for a regional practice for around 12 years specialising in agriculture and rural businesses.

**Victoria:** I'm Victoria and have recently joined the practice as a Senior Tax Manager, having worked with Dan for several years.

Although we are both Chartered Accountants and Chartered Tax Advisers, we only spend a modest amount of time dealing with routine accounts and tax returns. We spend the majority of our time helping farming families with long term planning and project work, from buying or selling assets to restructuring the family business. As well as technical tax work, we are often engaged to facilitate discussion between family members to help make decisions and work with other professional advisers to implement change.

## 2. How did you get into Accountancy?

**Dan:** Having grown up on a dairy farm on the Dorset/Somerset border, I spent several years working in agriculture. I became increasingly interested in the business management aspects of farming and pursued a career in agricultural accountancy to help a range of businesses and families with the challenges they face.

**Victoria:** Growing up in East Devon and spending several years in Axminster YFC, I wanted to pursue a career in the rural industry. I studied Rural Resource Management at the University of Reading, which focused on agriculture, environmental management, agricultural law and business management. I particularly enjoyed the financial aspects and therefore chose to become an accountant with a bias for rural businesses.

## 3. What do you enjoy most about coming to work?

**Victoria:** I enjoy helping people make the best of their situation. I particularly enjoy problem solving and so helping clients progress from their current position to where they want to be, as tax efficiently and as practically as possible, presents a challenge that I enjoy solving.

No two clients are the same as every client has unique circumstances and family dynamics, which keeps our job challenging and enjoyable. Coupled with that is the ever changing and continually expanding tax legislation meaning that nothing stands still for long!

**Dan:** I take huge satisfaction from helping people through often difficult situations. We are often asked to help with a tax issue but when we meet clients it often becomes clear that tax is only one aspect of a much larger and complex situation.

For example, a family asked for Capital Gains Tax advice on the reluctant sale of their farm as family relationships had broken down. Once we discussed the reasons for the sale and explored other options, it became apparent that they could achieve their objectives by selling just a few acres of off lying land and restructuring the business to facilitate independence between the two successors.

With the land now sold and two independent businesses created, those individuals have now restored their relationship and are farming successfully alongside each other, regularly sharing machinery, ideas and even childcare!

Helping families like this makes me love coming to work.

## 4. What do you get up to outside of work?

**Victoria:** I have a Labrador puppy at home and so I spend lots of time trying to train him at the moment. He seems to enjoy walks to the pub which is win win! I also have a horse which keeps me busy and I hope to be back out in the hunting field this winter. Any spare time is spent slowly renovating our house or trying to keep up with all of my nieces and nephews!

I also love to travel and try and make the most of holidays having been to India, Cuba, South America and South East Asia over the last few years.

**Dan:** I have a young son who is very keen on football, so Friday evenings and Sunday mornings mostly consist of supporting the team with training and matches.

I really enjoy spending time outdoors and shoot regularly, either sporting clays throughout the summer or on a game peg during the winter.

# UPDATES



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## PAYROLL

### Payroll re-enrolment and re-declaration

Every three years employers are required to complete a re-enrolment and re-declaration process for auto enrolment pension schemes on your payroll. You are required to reassess any employees that have left the pension scheme, and if they are classified as an eligible jobholder they should be put back into the pension scheme. An eligible jobholder is someone who earns over £10,000 per year (2019/20) and is aged between 22 and state pension age. Following re-enrolling your staff into the pension scheme you will need to inform them that you have done so.

After you have completed the re-enrolment process you are required to complete a re-declaration of compliance. This is on the Pensions Regulator website and is very similar to the declaration of compliance which you will have originally submitted on your automatic enrolment staging date. The re-declaration of compliance needs to be submitted to the Pensions Regulator within 5 months of the third anniversary of your staging date.

### Payroll Software

As the use of cloud software is increasing it is useful to know that the majority of the cloud accounting systems also offer a payroll package. These can be very quick and easy to use and have benefits. You can connect directly to your book keeping package therefore posting the payments for each pay period. Also many offer electronic timesheets and payslips which mean that employees send their information direct to the payroll system for you to approve and process and you can email payslips direct to the employees.



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## MAKING TAX DIGITAL (MTD)

By the time you read this, all VAT registered businesses with a turnover over the £85,000 limit, should have submitted their first VAT return under the new MTD regime.

Over the summer months, we have been assisting a number of our clients with the initial set up of their new MTD software. Whether it is a completely new package to them, an upgrade or setting up of a bridging software to run alongside an existing spreadsheet, there is always someone here in the office who is willing to help if any problems arise!

We are also finding that a number of our clients are looking to produce more meaningful reports from their software rather than using it purely to be compliant. Whether this is including budgeted figures from independent cash flows or producing management accounts at the touch of a button. We are always happy to assist with setting these up so you are getting the most from the information you are putting in.



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## TAX PAYMENTS

In January you will be paying the balance of 2018/19 tax and 50% of the full 2018/19 liability on account of the tax due for the 2019/20 tax year.

With the drought last year and the outlook for prices for the rest of this year being on a downward trend, it is difficult to see how the current year's profits are going to compare to last year. If you anticipate your taxable profit for the current year is likely to be much lower than 2018/19, then you may have some scope to reduce your payments on account in January to preserve cashflow.



# CONSIDER HAVING A FURNISHED HOLIDAY LET



**Kate Bell**  
**Director**

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A furnished holiday let (FHL) can maximise the potential of a property to provide valuable other income from a diversified activity. However, it does require a lot more work than a longer-term let would, so why may you welcome the extra hassle?

## Income Tax

Over recent years many Income Tax rules have been introduced on rental income, including restrictions on the deductibility of finance costs and the removal of the wear and tear allowance. To date, qualifying FHLs have escaped any such rules as these are deemed to be a trade rather than investment properties for Income Tax purposes.

To be a qualifying FHL with HMRC then the following conditions must be satisfied each year to the property must be:

- Available for commercial letting as holiday accommodation to the public for at least 210 days
- Actually commercially let out for at least 105 days
- Not let for periods of more than 31 days to the same occupant which amount to more than 155 days.

Certain conditions can be averaged over tax years or multiple FHLs.

As well as missing some of the tax restrictions mentioned above the income is 'earned income' for pension purposes, increasing the potential advantageous pension contributions.

Finally, Capital Allowances can be claimed on qualifying furniture and fixtures within a FHL. These can include kitchen and bathroom fittings, internal electrics, heating and plumbing, meaning that the cost of kitting out the property may be deductible from your taxable income.

Also because it is a business the profits can be split between the business owners in reasonable proportions rather than just divided in line with the ownership of the property.

## Capital Gains Tax

Although careful planning is needed, there can be some very appealing Capital Gains Tax (CGT) reliefs when it comes to passing on or selling the property business. These include:

- Entrepreneurs' Relief (ER) - The attractive 10% ER tax rate (as opposed to 18/28% CGT tax rate) requires a lot of planning around both the disposal and the taxpayer for a minimum of 12 months before the date of disposal.
- Rollover Relief - Allowing the reinvestment of proceeds into another qualifying business asset with no CGT payable at the time.
- Holdover Relief - A deferral of the Capital Gain enabling the property business to be passed to children without paying CGT on the split facilitating succession planning.

## Inheritance Tax

Unfortunately, I have almost run out of all of the good news. Although there are cases whereby HMRC has considered FHLs as trading businesses and therefore qualifying for Business Property Relief potentially at 100%, these are particular cases. When it comes to IHT, it is often hard to prove that the activities undertaken are sufficient for the FHL to be deemed a trading business. HMRC has been stringent on this relief but ensuring you offer services, should aid your case. Such services would include: the provision of welcome hampers, optional meals/catering, laundry and cleaning services and advising on and arranging activities.

## Other consideration

FHL income is vatable and therefore if the business is undertaken as part of VAT registered business VAT will need to be charged on all income. VAT could lead to you being 20% more expensive than competitors but will allow you to reclaim VAT on any inputs.

Consideration should be given to the business structure in which the FHL business will trade as this will impact all of the taxes listed above and is essential to get it correct from the beginning.

Although FHLs have some tax advantages, it is important to consider the viability of FHLs, taking into account factors such as location, competition and running costs.

Please do get in touch to discuss how it could work and the tax implications.



# HMRC ENQUIRIES - FEE INSURANCE



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In the age of Self-Assessment, HMRC rely on the taxpayer to declare and pay the correct amount of tax. HMRC is entitled to enquire into taxpayers' returns to check this and, where there is non-compliance, any underpaid tax becomes payable together with interest and penalties where relevant.

Tax avoidance regularly hits the headlines, giving increasing public support to the government's drive to crackdown on those not paying their 'fair share'.

The government monitors the 'tax gap' which is the difference between the amount of tax that should, in theory, be paid to HMRC and what is actually paid. For the 2017/18 tax year, the tax gap was £35 billion, equivalent to 5.6% of tax liabilities. Most of the gap is created by small businesses and individuals failing to pay the right amount of Income Tax, National Insurance Contributions and Capital Gains Tax.

Enquiry procedures are a key part of HMRC's toolkit in reducing the tax gap and ensuring tax compliance. The selection process for enquiries is based on risk. The higher the perceived risk of non-compliance, the more likely a taxpayer will be selected for enquiry.



The risk factors are wide ranging. It may be that a taxpayer falls within a specific category, perhaps defined by income sources or income levels, which is identified as being at high risk of underpaying tax. It may be a tax return reports a significant transaction which is unusual for that taxpayer, such as a substantial capital gain or a large Capital Allowances claim. Or it may be that a taxpayer is selected, unfortunately, purely at random.

HMRC use a sophisticated computer-software program, Connect, which analyses information from a variety of sources including banks and building societies and government agencies, such as the Land Registry, and cross references these to tax returns. If there are gaps between what HMRC expects to see on the tax return and what is reported, then an enquiry is likely to be opened.

At Evolution ABS we consider the risks of enquiry into each tax return that we prepare. Where we consider it sensible to do so, we will recommend making a disclosure on the tax return to pre-empt certain queries HMRC may have. For example, including an explanation of a significant transaction within the return can minimize the risk of HMRC opening an enquiry.

Whilst we seek to conclude HMRC enquiries robustly and as swiftly as possible, they can be lengthy and highly detailed, consuming significant amounts of time and therefore professional fees. At Evolution ABS we offer our clients fee protection insurance which covers our fees for responding to HMRC and defending the client's position in the event of an enquiry, saving costs and providing peace of mind.

With HMRC's increasing capabilities, fee protection insurance is more important than ever.

# NEW RULES FOR PHONE MASTS



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As part of the rollout to encourage full mobile reception and faster broadband across the country the government brought new legislation for mast agreements in 2017 which have affected the rights for existing and new agreements.

Income from masts are likely to reduce significantly under

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the new code and it would be sensible to get help from a land agent should you receive notice that your rent needs to be re-negotiated.

More importantly, the changes affect your rights as landowners on issues such as the removal of the mast and planning in the surrounding areas. It will be crucial that you take the appropriate advice and think about your long-term planning as part of negotiating any new agreements. There is an article by Dan Cuthbert from Foot Anstey on our website which explains the subject more fully.



# RESIDENTIAL PROPERTY GAINS - THINK ABOUT THEM EARLIER!



**Dan Knight**  
Director

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Those planning on disposing of residential properties should be mindful that the reporting requirements and tax payment date is changing.

As announced in the 2015 Autumn Statement, residential property gains realised by an individual on or after 6 April 2020 will have to be reported to HMRC within 30 days of the completion date, with a tax payment on account due at the same time. This differs significantly from the current system, whereby you report the disposal on your tax return and pay the tax by 31 January following the end of the tax year. The tax payment could therefore fall due up to 22 months after the disposal took place.

Let us explore how this could impact a typical scenario by way of an illustration:

*Having worked hard for many years, Robert and Sue have accumulated savings and investments with which to fund their retirement. They are considering stepping back from the business to allow their daughter, Rachel, to take over. As well as practical succession planning, they are also considering their exposure to Inheritance Tax and decide that it is a sensible time to pass down the holiday letting business, as well as some of the farming assets.*

*Robert and Sue's holiday lets currently qualify for Entrepreneurs' Relief from Capital Gains Tax. They agree with Rachel that it would be sensible to take advantage of this relief and the low 10% tax rate. They would prefer to do this rather than claim Holdover Relief and defer the gain as it may come back in to charge in future when relief may not be available or the rate of tax could be significantly higher.*

*Over a number of years the holiday lets were converted from traditional buildings, which were inherited from Robert's parents as part of the whole farm. It is therefore not immediately clear what the base cost of the holiday let complex is, meaning that the tax liability cannot yet be calculated.*

*From 6 April 2020, Robert and Sue will have only 30 days from the completion of the transfer to Rachel to report the gain and make a payment on account of the tax liability. It would therefore be sensible for Robert and Sue to better understand the tax implications of making the transfer before it is undertaken as there will be only 30 days to consider this after the transfer completes.*

Furthermore, when computing the payment on account, transactions that will take place later in the tax year are ignored, which is particularly relevant if there could be losses realised:

*Sue has a number of shareholdings within her investment portfolio that are currently valued at less than what she paid for them. If Sue were to crystallise those losses by selling the shares and reinvesting in others, something carried out by most investment managers on a routine basis, they could be used to reduce the payment on account due in respect of the transfer to Rachel. If Sue realises those losses after the transfer to Rachel, they will not be reflected in the payment on account.*

In summary, although not a significant change on first glance, there will now be even greater need for proactive planning ahead of implementing any asset transfers, to ensure that gains can be computed and tax payments managed prior to the new 30 day reporting deadline.



# CELEBRATING 10 YEARS



**Margaret Scarrott**  
**Director**

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The highlight of 10 years of Evolution ABS has to be the development that we have seen for our clients and for our team. Rural family businesses have evolved as people and the industry changed and we have all seen massive technology changes to improve efficiency. Working with businesses over a long time and helping families through a period of change and getting a positive outcome is undoubtedly a high point for us all.

I am immensely proud of what we have achieved as a team over the last 10 years, who we have trained and have grown with us. As well as helping our clients, we

have developed and grown our staff. Over the 10 years, 9 of our trainees have qualified as Chartered Certified Accountants (which is the equivalent to a masters degree) and many more qualified for level 4 accountancy and business qualifications as well.

The next 10 years are equally exciting – we see technology developing in many ways bringing further opportunity to add value to businesses at a higher level. The changes that are happening in the industry will be challenging but will also bring opportunities for strong dynamic businesses – I find it fascinating and can't wait for the next chapter!

## EVOLUTION NEWS



**Georgia Manning**  
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Firstly, a huge congratulations to Courtney Bellringer who has completed her ACCA qualification and to Alice Dibble, Becky Lee, James Oke and Chloe Bussell who have all completed their Level 4 AAT qualifications. James and Chloe are now going on to study towards ACCA whilst Alice is studying towards her ATT qualification.

We are thrilled to have welcomed six new members of staff since our last newsletter. Firstly, Dan Knight who joins us as Director, secondly, Victoria Paley who joins us as Senior Tax Manager, thirdly, Lydia Cowling who has joined our administration team and finally, Emma-May Manning, Danielle Gay and Katie Kunda who have all joined as accounts trainees. We are very excited to have welcomed such great additions to the Evolution ABS team!

We are delighted to announce that one of our managers, Ellie Hammett and her husband Steve, welcomed their beautiful son in April. Ellie is now on maternity leave and will return in the New Year.

In July, we welcomed Louise Heywood back from maternity leave who is now working part time, you can contact Louise in the office on Mondays, Wednesdays and Thursdays between 8am and 4pm.

In August, as part of our 10 year anniversary celebrations, we held a draw from our entire client base to win a £200 meal voucher to thank them for their continued support and we are pleased to announce that a client from the Exmoor area won the draw.

### Charity

The new year saw us pick a new charity for the year and this year, the office has voted to support Mind in Somerset. We started the year by holding a Young Professionals Vs. Young Farmers quiz which raised £200. Following this, we put together a hamper and sold raffle tickets at the Honiton Show which raised a further £155.

In October, 7 members of staff will be walking 20 miles along the South West Coastal path to raise money for Mind. If you wish to donate to the team, please follow the link, <https://bit.ly/2SuZeMi>.

**If you have any queries regarding any of our articles, or would like any further information, please do not hesitate to get in touch.**

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