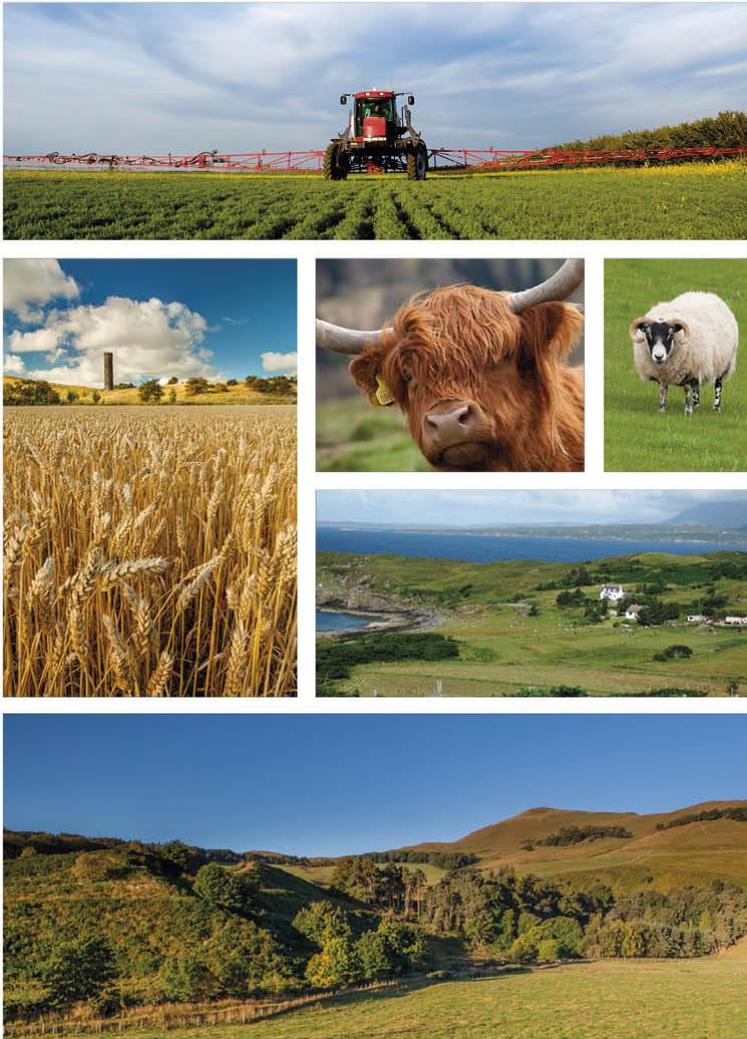


New Entrants to Farming

Taxation in Agricultural Businesses – a summary



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Taxation in Agricultural Businesses



HM Revenue & Customs provides guidance on starting your own agricultural business at www.hmrc.gov.uk/courses/syob/farm/index.htm, which includes information on how to register yourself and business for tax, national insurance, PAYE, VAT, etc as required. For specific advice contact your accountant.

In summary, the main taxes that you will have to deal with are:-

Income Tax

Income tax is charged on the profits for a sole trader, partnership and on monies drawn from a company as salary or dividends. You will also be entitled to your annual tax-free allowance of £11,500 for the current year 2017/18. From 2017/18 income tax has been devolved to the Scottish Parliament. If you are a Scottish taxpayer the new rates will be as follows:-

- > Up to £31,500 20%
- > £31,501 to £150,000 40%
- > Over £150,000 45%

For dividends, the rates will be as follows:-

- > First £5,000 0%
- > £5,001 to £31,500 7.5%
- > £31,501 to £150,000 32.5%
- > Over £150,000 38.1%



Please note that the government is currently planning to reduce the tax-free dividend allowance of £5,000 to £2,000.

Corporation Tax

Companies pay corporation tax on their profits. The tax rate is currently 19% on all profits and the government plans to reduce this to 17% by 2020.

Note that there are more aspects to consider than just income tax if considering whether to incorporate a business. Also see FAS New Entrants guidance note '*Succession and Business Structures*' available at <https://www.fas.scot/new-entrants/>.

National Insurance (NIC)

Partners and self-employed people pay both Class 2 and Class 4 NIC. For 2017/18, Class 2 is paid at a rate of £2.85 per week and Class 4 is charged at 9% on profits between £8,164 and £45,000, with anything above this due at 2%.

Please note from April 2018, the government plans to scrap Class 2 NIC. Employees and directors of companies pay Class 1 NIC. Class 1 NIC is calculated on weekly and monthly pay for both employees and employers detailed below:-

Employee earnings per week:-

> Up to £157	Nil
> £157.01 to £866	12%
> Over £866.01	2%

Employer earnings per week:-

> Up to £157	Nil
> Over £157.01	13.8%



VAT

VAT does not apply to all sales and for agricultural businesses, many sales are zero rated. It can often be beneficial to register for VAT before you reach the statutory sales threshold of £85,000 from April 2017 so that VAT can be reclaimed on purchases.

All the taxes have specific rules and reliefs that apply to specific trades such as agriculture and it is advisable to seek the advice of accountants who specialise in this area. It is also advisable to take advice on the financial records you need to maintain.

Making Tax Digital

Until the 2017 Election was announced making tax digital was a government initiative that was scheduled to come into force from April 2018. It is a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs, meaning the end of the annual tax return for millions. Businesses will be required to keep track of their tax affairs by reporting to HMRC quarterly via their digital tax account.

The timescale for implementation of this reporting is:-

- > April 2018 for businesses where profits are chargeable to Income Tax, liable to pay class 4 NIC and turnover is over the VAT threshold.
- > April 2019 if they have profits chargeable to Income Tax and pay Class 4 NICs and their turnovers are below the VAT threshold.
- > April 2020 for Limited companies and partnerships with turnover in excess of £10 million.

Accounting adjustments for end of year activity can be made after the end of the period of accounts, by the sooner of 10 months after the last day of the accounting period or 31 January of the year of assessment in which the profits are charged to tax.

Consideration may be required for a computerised bookkeeping system to assist with the quarterly reporting or the employment of an experienced bookkeeper.

