Cut your tax bill before year-end

With just a few weeks until the end of the tax year, **Olivia Cooper** looks at ways to minimise the tax bill

REX

Next month will bring some considerable changes to the tax regime, and time is running out for those who want to make the most of the allowances available.

"Income tax is still the greatest tax issue for farmers, but there are plenty of ways to reduce your tax liability – the important thing is to be prepared and to act sooner rather than later," says Andrew Vickery, associate director at accountant Old Mill.

"If you know you are heading for a hefty tax bill this year, defer some sales until the new financial year, to reduce profit levels."

Another option is to bring forward repair expenditure or purchases of machinery and equipment, which can be offset against profits. "This is particularly pertinent this year, because capital allowances are being massively reduced from April onwards, so farmers need to act now."

CAPITAL ALLOWANCES

Currently, farmers can offset qualifying purchases against profits in the first year, up to a limit of £100,000 under the Annual Investment Allowance.

However, from April this will be slashed to just £25,000, with any expenditure above that threshold receiving annual relief of just 18%, compared with 20% at present.

Qualifying expenditure includes machinery and equipment, as well as some surprising plant such as silage clamps, slurry stores, cubicles, water fittings and electrical work.

"Machinery bought under a hire purchase agreement will also qualify, but timing of the availability of allowances will depend on the precise contract terms, which must be checked," says Mr Vickery.

"Those with year-ends other than 31 March or 5 April need to take particular care because of the hybrid allowances that will be available in 2012. Most equipment will still need to be bought before this April to get full relief."

PENSION CONTRIBUTIONS

Pensions are another way to reduce taxable profits. Contributions are tax efficient – for every 60p a higher-rate taxpayer contributes, HM Revenue & Customs effectively tops it up by 40p.

The most anyone can pay into a pension in any tax year is now £50,000, although it is possible to carry forward unused allowances for the past two years.

"There is some debate over whether the government will remove higher-rate tax relief from pension contributions in the Budget, so there could be merit in acting before 21 March."

Those with a Self-Invested Personal Pension could use the pension fund to purchase land or buildings, which would then be rented by the farm business at a market rate, providing further tax relief to the business and additional funding for the pension.

BEFORE THE YEAR-END

* Make sure you have made the most of the annual Individual Savings Account (ISA). Taxpayers can save £10,680 tax-free in 2011-12 – £5,340 of which can be in a cash ISA
* If you want to make a capital gift, up to £3,000 can be given free of IHT liability in cash or investments each tax year

BUSINESS STRUCTURES

Most farmers operate as sole traders or partnerships. Maximum use of lower-rate tax thresholds can help to avoid paying unnecessary tax at the higher rate.

In 2011-12, profits between £7,475 and £42,475 a person will be taxed at 20% plus 9% National Insurance. Profits higher than that threshold will be charged at 42%, including NI, with profits of more than £157,475 charged tax at 52%.

"If you are in a partnership and are heading towards the higher-rate tax threshold, ensure you are making full use of all the partners' lower-rate bands," says Mr Vickery.

"If you are a sole trader, forming a partnership, or bringing in an extra partner, will also dilute the amount of income tax paid by each individual."

In the longer term, farmers should consider forming a limited company, which will benefit from a flat rate of 20% tax on profits up to £300,000 a year.

"However, any changes to business structure require careful consideration and farmers should seek professional advice on revising partnership agreements and wills," he warns.

Changing business structures also has implications for farmers' single payment claims after CAP reform, as well as for Capital Gains Tax and Inheritance Tax. "Often, a practical solution is to retain the existing sole trader or partnership status, while introducing a company to take ownership of some of the profits."

TAX TIPS

* Bring forward plant and machinery expenditure to make the most of this year's AIA capital allowance
* Delay sales to limit profits
* Pay into a pension for optimum tax efficiency
* Make the most of lower-rate income tax thresholds in a partnership
* Consider changing business structure for long-term tax savings