

# eo agriculture news

regular news from our specialist agriculture team



## Promotion to Partner

We are delighted to announce that, with effect from 1 April 2016, Mark Smeaton will be appointed as a Partner with EQ Chartered Accountants, based in our Forfar office.

Mark joined the practice directly from school and undertook his examinations with the Association of Chartered Certified Accountants (ACCA), qualifying in 2009. Over the course of his career to date, Mark has committed himself to the development of EQ and he plays a prominent role in the promotion of our agricultural services in particular. Mark is also fully accredited by

LANTRA to deliver Whole Farm Reviews through the Scottish Government's Farm Business Advisor Accreditation Scheme for Scotland (FBAASS).

Mark is extremely well respected by his clients, colleagues and professional contacts and this promotion is richly deserved.

The EQ team looks forward to continuing to provide the best service possible to all our clients and Mark's promotion demonstrates our ongoing commitment to client service and rural business in Scotland.





## An inspector calls...

Many farmers will undertake significant property repairs from time to time and a large year on year increase in repair costs is likely to catch HMRC's attention. We have had a number of cases recently where HMRC have enquired into the level of property repairs with a view to denying tax relief on "repairs" where they perceive there is an element of improvement.

If a building is fundamentally unchanged in terms of size and function after a major renovation then the costs are likely to count as a repair. Therefore, replacing a roof, renewing a worn out concrete floor or rewiring a building should all count as repairs regardless of the level of expenditure or whether more modern and therefore potentially superior materials have been used in the process.

If a building has been extended or the function of the building changed in some way, for example a straw bedded cattle court converted to cubicles, then there is likely to be an element of improvement and tax relief for repairs would be denied. No tax relief is now available on new agricultural buildings following the ending of Agricultural Building Allowances in 2011. However, it may still be possible to claim Capital Allowances on internal fittings and obtain tax relief for improvements this way.

Clearly the situation is not as straightforward as many might think and a significant increase in expenditure in this area stands a fair chance of triggering an investigation. Our advice to clients who are contemplating a major property renovation would therefore be as follows:

- Discuss the project with your accountant at the planning stage so that you are clear on the tax treatment.
- Take photographs before and after just in case you get an investigation.
- Ensure invoices are properly made out and accurately state the repair work done.
- Pre-empt an investigation by HMRC by making a voluntary disclosure on your tax return to explain the increase in repair cost if appropriate.
- If there is an element of improvement then review the possibility of making a claim for Capital Allowances.
- Ensure that you have fee protection insurance in place to cover the costs of an investigation should the worst happen.

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## Euro boost

One of the few positive changes affecting the industry over recent months has been the weakening of the GBP against the Euro, potentially as a result of the uncertainty over the EU referendum. At the time of going to press 1 Euro was worth c. 77.53p compared to the official rate of 73.129p at 30 September 2015 used to translate the Basic Payment into GBP.

This represents a depreciation of 6% over the period and will have lent a bit of support to commodity prices, making UK exports more competitive. BPS receipts taken in Euros may also be worth more than originally expected, but considerable uncertainty still exists on exactly when these will be received.

## Sector focus – field vegetables

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Limited import competition.</li> <li>• Useful break crops.</li> <li>• Means of diversifying farm income.</li> <li>• Well suited to Scottish climate and soils.</li> </ul>	<ul style="list-style-type: none"> <li>• Markets easily oversupplied.</li> <li>• Soil damage from winter lifted root crops.</li> <li>• Higher risk compared to conventional crops (unless renting out land).</li> <li>• Demanding specifications of end buyer.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Changing consumer patterns may create new market opportunities.</li> <li>• Focus on healthy eating should underpin demand.</li> <li>• Improved technical efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• Often dependent on foreign labour.</li> <li>• High labour costs.</li> <li>• Supermarket price pressure.</li> <li>• More cosmopolitan tastes may reduce demand for traditional vegetables.</li> </ul>

At EQ we are fortunate to work with many clients engaged in field vegetable production. The sector covers a wide range of crops including peas and beans for freezing, swedes, carrots and brassica vegetables.

Due to the increasingly specialist nature of the sector many farmers' involvement is restricted to letting out land to other growers. However, this can still generate an attractive rent along with break crop benefits and transfers the growing and marketing risks to the other party.

The sector appears to be in reasonable health, with the area devoted to vegetables increasing by 9.3% over the last five years to stand at 16,672 hectares in 2015. This equates to less than 3% of the Scottish arable area, but of course the output of these crops can be considerably greater than cereals grown on comparable land.

As with other specialist areas we see a trend towards the sector being dominated by large scale professional growers who have the necessary capital and technical expertise to turn a profit in what is a demanding space to operate in.



## LBTT Additional Dwellings Supplement

Land and Buildings Transaction Tax (LBTT) was introduced in Scotland from 1 April 2015 to replace UK Stamp Duty Land Tax. It applies to residential and commercial land and building transactions where a chargeable interest is acquired.

From 1 April 2016 an additional dwellings supplement of 3% will be payable by purchasers of additional residential properties such as buy to lets or second homes where the purchase price is over £40,000.

The charge applies to purchases of residential properties by companies or non natural persons.

It can also apply where a parent is buying a flat for a child, or where a person acquires a shared interest in a property where they already have a home. Careful consideration is therefore now needed when acquiring additional residential properties to ensure that title is taken in the names of the correct individuals.

If you are considering purchasing additional residential property after 1 April 2016 please make sure you understand the LBTT charges which will apply.

## Lively discussion at Farming Scotland Conference

The thirteenth annual Farming Scotland Conference took place at Carnoustie on 4 February 2016 and excellent presentations from the speakers preceded some lively discussion amongst the 140 delegates.

SEPA Chief Executive Terry A'Hearn spoke of his organisation's challenge to contend with climatic uncertainty and balance the demands on the organisation between that of regulator and facilitator working alongside land managers.

Jack Watts, Lead Analyst Cereals and Oilseeds at AHDB Market Intelligence, encouraged cereal producers to take a long term view, while highlighting the challenges facing Scottish producers from oversupply in the market.

Commodity markets "have no respect for cost of production," he warned.

Machinery developments for sustainable agriculture were highlighted by Shaun Groom, General Manager of Alois Pottinger UK Ltd, who spend a minimum of 5% of turnover on R&D annually.

Finally, Carol Graham, Marketing Director of Graham's The Family Dairy, demonstrated how telling their family farming story was helping the business to build a strong brand and market share.

A lively question and answer session followed, with the speakers dealing with a variety of questions from the floor. We look forward to welcoming back delegates to the conference next year – Thursday 2 February 2017.

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## Farm Payment advances

The ongoing problems experienced by recipients waiting for Common Agricultural Policy (CAP) payments from the Scottish Government have been well documented. At the time of writing only a small fraction of the overall pot of money due to be paid out has actually hit recipients' bank accounts and promises made by Government in terms of the timing for payments to be made have been broken. It is estimated that approximately £300m of CAP payments are still to be made. The system put in place to handle claims and payments has not been effective and many farmers are in the midst of a cash flow crisis as a result.

In mid February Rural Affairs Secretary Richard Lochhead announced a Farming Hardship Scheme of £20m at the National Farmers Union of Scotland's annual conference. That scheme was intended to provide temporary assistance to those hard hit by the failures of the Basic

Payment Scheme (BPS) system. It was available to those who hadn't yet received a first instalment of BPS and had sought bank support but been denied. Eligible businesses could receive up to 60% of their CAP claim, subject to a maximum of £20,000 by way of emergency loan.

On 8 March the Scottish Government went further, following significant political pressure in parliament and from the NFUS. They announced that up to £200m will be advanced to claimants who have not received their direct subsidy payment by the end of March. Advances will be made in April. The announcement will also enable Scottish Beef Payments to be made in mid April, in line with previous years.

Advice to farmers remains the same: speak to your bank about any cash flow difficulties you have or expect to experience.

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