Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

SPRING 2017

Brexit threats, challenges and opportunities

This month should see the triggering of Article 50 and the UK will commence the two year process of leaving the EU. What happens to support payments and EU market access post 2019 is, of course, a matter of speculation at this stage. On top of this, Scottish farmers will also potentially have to contend with the prospect of Indyref2. To say the next two years will be uncertain is therefore an understatement!

Businesses where profitability is heavily reliant on support payments or where the servicing of long term debt is dependent on existing levels of subsidy are clearly very vulnerable to any change in circumstances. On the other hand, businesses that are already deriving the bulk of their profits from the market may be relatively unaffected and could even benefit if they are able to expand as others either choose or are economically forced to leave the industry.

We are not only entering a period of change and uncertainty, but also a period of potential opportunity. Farming businesses need to take stock of where they are and reassess their options. In uncertain times farmers need to focus on the factors that they can control, such as improving output, taking out costs or increasing technical efficiency. The industry also cannot take it for granted that the banks will continue to be as supportive as they have been over the last decade, or that base rates will remain at 0.25% for the long term. Appropriate funding structures should be put in place now to cope with any "bumps in the road" later on. Consider what actions you need to take now to secure your future.

Now is the time for tax planning

With the tax year end fast approaching, now is the time to ensure that you have utilised all available reliefs in the current tax year and planned for the forthcoming tax year.

Company Planning

With corporation tax rates steadily reducing to 17% by 2020, many farming/rural businesses have incorporated. But how do you extract the profits out of the company to cover your income needs?

A combination of salary and dividends may be the answer, taking note of tax and NIC thresholds. From 6 April 2016 dividend taxation changed, with the first £5,000 (reducing to £2,000 from April 2018) of dividend income being at 0% with tax rates thereafter at 7.5%, 32.5% and 38.1%. These are still amongst the lowest rates of tax that would be payable on company profit extraction.

Annual Investment Allowance (AIA)

If your financial year end is 31 March or 5 April, now is the time to consider if you have utilised the £200,000 AIA on plant and machinery purchases. The first £200,000 of qualifying expenditure in the year will be directly deductible from your taxable profit.

Pension Contributions

Although there have been many changes to the level of contributions that you can make to a pension scheme, it is still good planning to consider making payments into a scheme pre 5 April. Depending on your income levels, contributions of up to £40,000 can be made. Contributions may reduce your exposure to higher rates of income tax and help to provide for your future retirement needs.

Capital Gains Tax (CGT)

A review of your CGT position should also be undertaken. All individuals have an annual CGT exemption of £11,100 for the 2016/17 tax year. Consider if gains can be made to utilise this allowance.

It may also be worth considering transferring assets to your spouse as inter spouse transfers have no tax cost and this would give you an extra annual exemption to utilise in each tax year.

Inheritance Tax (IHT)

Consider making gifts to your dependents. All individuals can make annual gifts of up to £3,000, doubled to £6,000 if no gifts were made in the prior tax year. These gifts will not fall back into your estate regardless of how long you survive after making them.

It is also worth considering your overall IHT exposure and if assets could be passed on to the next generation now. There are a number of things to consider here, but with IHT payable at 40% on amounts above the lifetime allowance of £325,000, there could be significant tax savings to be made by passing on assets in your lifetime. Those who have recently sold assets may be particularly at risk.

There is always plenty to consider pre 5 April and every individual's requirements will be different. Speak to us now about the issues which affect you.

Employee wages set to rise

From 1 April 2017 all agricultural workers in Scotland, irrespective of age, qualifications or duties, will have to be paid the national living wage set by UK Government of £7.50 an hour.

The rate is currently £7.20 an hour and this 4.2% increase will put further significant cost pressure on many agricultural businesses, especially where large numbers of seasonal staff are employed.

If you need assistance to ensure that you are meeting all your employer payroll obligations our Amber payroll team will be pleased to help.

Currency highs, lows and woes...

Compared to pre EU referendum highs, the pound has weakened by 18% and 13% against the USD and Euro respectively.

These currency changes go some way to explaining the commodity price rises we have enjoyed across some sectors in recent months. The flip side of this of course is that any inputs imported from abroad (think oil, fertiliser, sprays and machinery) are likely to see cost increases as suppliers pass on the impact of currency changes to the end user. This was not a major issue in 2016 as most inputs would have been purchased prior to the weakening of the pound, while farmers benefited from the uplift in prices post harvest, driven by favourable currency movements. We are unlikely to see a repeat of this "win-win" position in 2017 and although commodity prices are now higher we will see greater input cost inflation for the year ahead and forward budgets should be prepared accordingly.

Scottish rate of Income Tax

The 2017/18 tax year heralds the introduction of higher levels of income tax in Scotland compared to the rest of the UK for the first time. From 6 April 2017 Scottish taxpayers will be liable for higher rate income tax (40%) once their income exceeds £43,000, compared to £45,000 elsewhere in the UK, costing Scottish taxpayers with income in excess of £45,000 an additional £400 per year in tax.

Whilst the difference may not seem that great, the fear has to be that the gap will widen with time, placing an additional tax burden on Scottish residents and discouraging enterprise north of the border. There is also the relatively unpublicised issue, that due to rates of National Insurance still being aligned to Income Tax rates in the rest of the UK, Scottish taxpayers will be subject to marginal overall tax rates of 52% and 49% for the employed and self employed respectively once National Insurance is added for those in the £43,000 - £45,000 income band.

It is now even more important than ever for Scottish taxpayers to seek appropriate advice at an early stage in order to minimise the impact of these proposed changes.

We look forward to seeing you

The next few months will see a busy time for the EQ Agriculture team out and about at various events.

- 25 April – joint seminar on Protection and Succession with Clark Thomson Insurance Brokers, Finavon Hotel, nr Forfar. Contact laura.hutt@eqaccountants.co.uk to book your place.
- 20 May – Fife Show, Kinloss, nr Cupar. Come and enjoy refreshments on our stand and meet our Fife agriculture team.
- 30 May – Scottish Land & Estates Spring Conference. Our landed estates team will be attending and exhibiting at the conference.
- 10 June – Angus Show, Brechin Castle Showground, nr Brechin. Come and enjoy refreshments on our stand and meet our Angus agriculture team.

Opportunities discussed at Farming Conference

Business improvement, growth and diversification were very much the focus of this year's Farming Scotland Conference, with just a sprinkling of Brexit politics thrown in.

The conference, organised and co-sponsored by EQ, along with Bell Ingram, Thorntons and RBS, once again took place in Carnoustie, on 2 February 2017.

Rob Clayton, Strategy Director of AHDB Potatoes, was the first speaker to take to the conference stage. Mr Clayton delivered a wide-ranging presentation under the heading "Growing Potatoes in an Island Nation" and examined consumption trends and challenges, production efficiencies, crop protection and future markets in the context of Brexit.

Mr Clayton told Scottish seed potato growers that they should cherish and "hang on" to the high-health status of their crop, especially post Brexit, as it provides a unique selling point for export markets.

David Barnes, the Scottish Government's Deputy Director in the EU Hub for Agriculture and Environment, was next to take to the conference platform.

Mr Barnes gave an update on current Scottish agri-policy, and issues around Brexit, with the over-riding message being that there is still little clarity as to how Brexit will impact.

Mr Barnes noted that, currently, only 45% of Scottish farm produce is processed in Scotland, a figure which must be improved if farmers are to grab a higher share of the value of the wider food and drink sector.

Immediately afterwards, Iain Stirling, from Arbikie near Arbroath, detailed how his family farming and distilling business was performing extremely well in the quest to add value, from farm-to-bottle.

Mr Stirling gave an insightful overview of how he and his brothers had diversified the family farm, from a dairy unit to a distillery, which now turns home grown potatoes, barley and wheat into award winning gin, vodka and, most recently, whisky.

The final conference speaker, Ian Pigott, gave a feel-good presentation, with a hard-hitting message, on the importance of educating the next generation of consumers as to where their food comes from.

Mr Pigott praised the work of RHET, stating that on-farm education is necessary to help counter media scaremongering regarding topics such as glyphosate.

We'd like to thank everyone who helped make the conference a very successful event and look forward to planning next year's event.

Working with you.

We are always happy to offer free, no obligation, initial consultations, and often act on a consultancy basis only.

For more information on any of the services outlined in this brochure, or to discuss a particular issue with one of our advisers, please contact our Agriculture specialists.

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