



Regular News from our Specialist Agriculture Team

AUTUMN 2017

Farm finance health check

It is now over a year since the Bank of England cut the bank lending base rate to just 0.25% in the wake of the EU referendum result. We are now seeing reduced finance costs on many of the accounts we are currently preparing as a consequence, helping to boost profitability for those businesses heavily reliant on debt finance. How long interest rates will remain at this level is, of course, uncertain and with interest rates at record low levels there is a danger that complacency will set in.

We have set out below a number of questions that all farmers should ask themselves, so that they are not caught unawares should there be a sudden or unexpected change in circumstances.

- Is the overdraft facility sufficient to cover working capital requirements for the year ahead?
- Are lending rates appropriate given the business track record and security on offer?
- Is the business generating sufficient cash to meet scheduled debt repayments?
- Would the business be vulnerable to an unexpected rise in base rates?
- Is the balance between fixed and variable rate lending appropriate for the risk profile of the business?
- If debt is increasing are you clear why this is the case?
- Is the rent and finance cost per acre reasonable for the output of the farm?
- Would the business still be able to meet its finance obligations if there was a significant reduction in subsidy income?
- Do you have a good relationship with your bank?
- Are you able to sleep at night?

If you answer "No" to any of the above questions then a review of your farm finances would certainly be worthwhile to ensure that your business remains profitable and viable for the long term. Please feel free to discuss the matter with your normal EQ contact.

Tax planning for retirement

Farming is as much a way of life as a business so making the decision to retire is never an easy one. However, in circumstances where there is no succession the decision will eventually be taken to cease trading and sell the farm. The decision to retire also results in a number of tax issues that should ideally be thought through and addressed as part of the retirement planning process. The main issues to consider are set out below.

Income Tax

Profits are likely to be abnormally high in the year of cessation as stock is likely to be sold for well in excess of book value. Also, if the Annual Investment Allowance has been claimed on recent machinery purchases then the value of this machinery will be nil for tax purposes, leading to a large taxable profit on disposal.

Capital Gains Tax

Capital Gains Tax will be due on any gains made on the sale of the farm, but the gains on the farmhouse should be exempt, due to Principal Private Residence relief, and tax on the remainder of the gains should be at 10% if Entrepreneurs Relief (ER) can be secured (rather than 20%). However, a claim for ER can easily be jeopardised if the farm has been let for a number of years

prior to sale, which is often the case if the retiring farmer has been "winding down" pre retirement.

Inheritance Tax

Once the farm is sold the farmer will have converted an asset that was fully sheltered from Inheritance Tax (the farm) to one that is fully exposed to Inheritance Tax (cash). A clear thought out strategy is therefore required to minimise exposure to this tax.

If you are thinking about retirement then please give some thought to the tax issues that are likely to arise as well as the practicalities. With careful planning in advance it is possible to save very significant amounts of tax resulting in a more prosperous retirement and greater wealth to pass down to the next generation when the time comes.



New recruits boost EQ ranks

Continued growth across our offices at EQ has seen the arrival of several new faces to boost our team.

We are committed to staff training and development and amongst our new recruits are seven graduate trainees who will now embark upon a three year training contract

to become Chartered Accountants. We look forward to introducing our new team members to our clients and contacts in the coming months.

Weak pound against the euro

Sterling has seen a decline of around 12% against the euro since the Brexit vote, and 9% since April this year. Some financial experts had predicted parity for the two currencies by next year, as continued uncertainty around what a post Brexit Britain will look like puts pressure on the pound.



Farmers have been used to factoring in currency risk for a long time, but there will be particular emphasis on doing so in the coming months. Basic Payment Scheme payments for 2017 will be based upon an average of the September 2017 £:€ rate for the month and Scotland's farmers look certain to receive a subsidy funding boost due to the continued weakness of the pound. Those electing to receive BPS in Euros will have to consider conversion rates and when it is best to convert.

Exports from the UK should be more attractive to foreign buyers, helping to underpin commodity prices, at least in the short term.

We regularly bang the drum for the need to plan, prepare projections and factor in changes to income streams and expenses. When doing so, the impact of the weak pound against the euro will be a key consideration.

If you need assistance with preparing projections or wish to discuss the impact of currency fluctuations with us, please get in touch.

Pronouncements issued by Tenant Farming Commissioner

Scotland's Tenant Farming Commissioner, Bob McIntosh, has issued two Guidance Notes and two Codes of Practice so far this year. The aim of the publications "is to ensure that landlord and tenant relationships and interactions are conducted in a spirit of mutual respect and understanding and with a view to reaching agreed positions which are reasonable and fair to both parties".

The Guidance Notes are in relation to the 2016 Land Reform (Scotland) Act and Relinquishment of Tenancy. The latter covers proposed legislation on relinquishment of 1991 Act tenancies, with measures expected to be brought forward by the Scottish Government in late 2017 or early 2018. In summary, the new provisions will enable an existing tenant to relinquish their tenancy on payment by the landlord of compensation based on the value of the tenancy, failing which the tenant can assign it for value to a new entrant or someone who is progressing in farming.

The Codes of Practice relate to the Amnesty of Tenants' Improvements and Planning the Future of Limited Partnerships.

The Amnesty for Tenants' Improvements came into force from June 2017 and provides an opportunity to agree a definitive list of tenants' improvements eligible for compensation at termination of the tenancy, even though proper procedures for notifying and recording the improvements may not have been carried out. The amnesty lasts for three years.

If you are a landlord or tenant of agricultural land please make yourself aware of the 2016 Land Reform (Scotland) Act, the Guidance and Codes of Practice, and seek appropriate legal advice where appropriate.

More information is also available at www.landcommission.gov.scot

Agricultural property relief (APR) – a very useful relief

Farmers and landowners enjoy a very favoured tax status when it comes to Inheritance Tax in that the value of farm land, buildings and farmhouses are normally covered by APR, meaning they can be left to the next generation free from any IHT. Relief is given after just two years of ownership for owner occupiers or after seven years where the land is let out.

Potential withdrawal of the relief is a major concern for our client base, but at present there is no real incentive to gift assets to the next generation during lifetime, since under current legislation the value of the farm will be covered by APR on death. Retaining ownership also allows economic control to be maintained and on death the beneficiary inherits the farm at full market value thereby reducing or even eliminating Capital Gains Tax on future disposals.

Making lifetime gifts can, however, still be the right option if transferring assets to the next generation

is important as part of a wider succession strategy or if there is concern over the withdrawal of APR at some point in the future. As always, you need to choose the option that best suits your own family and business circumstances.



Agriscot – The Farm Business Event

Our Agriculture team will once again be represented at Agriscot, which takes place at the Royal Highland Centre on Wednesday 15 November 2017.

Doors open at 9am and there is free entry and free parking. Full details at www.agriscot.co.uk.

We look forward to welcoming clients and contacts to our stand.

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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