Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

SPRING 2018

Innovations in Farming – looking at future farming in Scotland

The fifteenth annual Farming Scotland Conference hosted delegates from across Scotland's agriculture sector when it took place on Thursday, 8 February at the Carnoustie Golf Hotel & Spa.

The conference title was 'Innovations in Farming' and each of the conference's four speakers addressed this overriding theme from the context of their own position within agriculture.

John Kinnaird, the Scottish Government's Agriculture Champion for Sustainability, stressed that farmers must be encouraged to view the preservation of the country's natural capital as a key priority by adopting a carrot rather than a stick approach. He would like to see greater flexibility in future systems whereby Scotland's farmers are rewarded as environmental custodians.

Professor Colin Campbell, Chief Executive of the James Hutton Institute, was next to address the conference and he highlighted several areas where research currently being undertaken will lead to tangible benefits for farming in the future.

The world first achieved by the Hands Free Hectare team was then explained by the project leader, Kit Franklin of Harpers Adams University. Using autonomous machinery and drones, Kit and his team managed to grow a hectare of barley without a human entering the field. Kit provided a vision for the future with swarms of small autonomous machines working the land and improving soil health – truly precision farming in his view.

Chris Newenham, joint MD of Wilkin & Sons Ltd which farms at Tiptree in Essex, was the conference's final speaker. Chris demonstrated how a traditional approach to farming at Tiptree has been married with innovation to ensure that the company and its farming operations remain competitive.

EQ were delighted to organise and co-sponsor another successful conference. EQ Partner and conference Chairman Graeme Davidson said "The speakers brought the conference theme of 'Innovations in Farming' to life and it was fascinating to hear their visions of how sustainable farming in Scotland could look in years to come".

Getting the most from your farm accounts

Financial accounts are often primarily prepared to quantify the taxable profits of the business.

Under normal accounting conventions assets are stated at historic cost and profit is only recognised when goods are sold. The value of the assets on the balance sheet can therefore be easily understated. Also, any stock on the balance sheet will be valued at the lower of cost or market value, leading to potential under reporting of profits where market value is in excess of cost. Despite these drawbacks a review of your financial accounts can still provide a useful insight into your business.

Key issues to consider are as follows:

Agenda point	Issues to consider
Profitability	Are profits sufficient to cover the demands being placed on them? These will normally include drawings, taxation and the repayment of debt.
Overhead costs	These include labour, machinery and administration etc, in effect any cost not linked directly to production. Key areas of concern would be where there has been no change to the farming system, but costs are rising ahead of inflation or where the total overhead cost is out of kilter with the scale of the business.
Net assets	Net asset value is simply the difference between total assets and total liabilities on the balance sheet. If growing year on year then profits are in excess of drawing and tax payments, and the assets base of the business will be growing.
Liquidity	The balance should split liabilities due within one year (current) and greater than one year (long term). Is the business in a position to generate sufficient cash to meet current liabilities over the next twelve months?
Division of profits	In a partnership, is the allocation of profits between the partners the optimum for tax or have profits simply been divided in line with standard profit sharing ratios?

Annual Investment Allowance (AIA)

It is currently possible to obtain 100% tax relief of up to £200,000 per annum on qualifying capital expenditure such as plant and machinery.

Qualifying expenditure which does not qualify for the AIA is only eligible for a writing down allowance of 18% or 8%, depending on the nature of the expenditure. The use of the AIA can be a very effective tax planning tool as it is possible to significantly reduce or even eliminate taxable profits through new capital expenditure. However, with tax, as in life, free lunches are few and far between. When the AIA is claimed on any new capital expenditure then the asset will be written down to zero for tax purposes, although the market value will often be considerably greater. When the assets on which AIA has been claimed are eventually sold the total proceeds will come back into tax.

Where AIA has been claimed for a number of years the gap between the tax value of the assets and the market value can be very considerable. There is therefore potential for a significant tax charge to be crystallised where assets are sold when there is a change in business circumstance, such as retirement or a switch to managing the farm under a contract farming agreement. Any business that has been claiming the AIA but is now looking to sell off machinery would be strongly advised to review their tax position and put appropriate planning in place to avoid being hit with an unexpected tax demand. We have strategies available to reduce tax liabilities under these circumstances, so if you feel you might be affected then speak to your usual EQ contact.

Taking care of business

February and March, following the passing of the 31 January tax return submission deadline, have been very busy months at EQ. Over this period we have been discussing numerous issues with clients, to meet compliance deadlines, prior to their financial year end or prior to the end of another tax year on 5 April 2018.

The list below of the issues we have been addressing with clients is not exhaustive but features many where deadlines make the need to deal with them effectively critical for planning and compliance.

- **Pension contributions** – pension contributions can be made in each tax year up to certain thresholds depending upon your relevant earnings. Valuable tax reliefs apply to pension contributions so a review each year to see if further contributions are appropriate is important.
- **Dividend planning** – dividends in the hands of the recipients/shareholders are part of their income for the tax year in which they are paid, so a review of total income and dividends which can be issued from your limited company prior to the end of the tax year is vital. Each individual also has a 0% tax rate band of £5,000 on dividends in the 2017/18 tax year.
- **IHT gifts** – each individual can make gifts up to £3,000 in each tax year which will immediately fall outwith their estate for Inheritance tax purposes.
- **Trust registrations** – all tax paying trusts had to complete an online trusts registration process by 5 March 2018 to meet compliance requirements and avoid HMRC imposed fines for non-registration. If you have a trust and are not sure if it is registered please contact us.
- **ATED returns** – The Annual Tax on Enveloped Dwellings (ATED) has been with us for a few years now and requires that all companies and partnerships with a corporate partner which includes a residential property valued at more than £500,000 complete a return, and pay tax where none of the relevant exemptions apply.
- **Discretionary expenditure** – there may be advantages in accelerating or postponing planned expenditure so that it falls before or after your financial year end or the tax year end, depending on your circumstances.

If some or all of the above issues affect you, and you have not done so already, please speak to your usual contact at EQ or your tax advisor for advice.

Scottish rate of income tax (SRIT) for 2018/19 announced

Income tax rates for the year ahead were announced by the Scottish Government on 20 February and for the first time we will see middle and higher earners paying an extra 1% compared to the rest of the UK. The tax system has also been further complicated by the introduction of two additional tax bands. SRIT rates for 2018/19 are noted below.

Income band £	Rate	%
11,850 – 13,850	Starter	19
13,850 – 24,000	Basic	20
24,000 – 43,430	Intermediate	21
43,430 – 150,000	Higher	41
Over 150,000	Top	46

The SRIT only applies to earned and general income. Dividend and savings income will continue to be taxed at UK rates.

We will have to wait and see whether this marks the start of a widening divergence between Scotland and the rest of the UK over tax rates, but with the UK corporation tax set at an attractive flat rate of 19% more sole traders and partnerships will inevitably be considering the merits of incorporation over coming months.

Our work with landed estates

Advising the owners and managers of landed estates in Scotland is an important and growing feature of our work within the rural sector.

Landed estate businesses are typically diverse in the range of enterprises they operate. They can also involve complex business structures where different interests, entities and ownership arrangements need to be considered.

At EQ our approach to advising landed estate clients is straightforward and effective. We get to know the business and those involved in it. To advise effectively we need to understand the issues and understand what motivates those involved and what their long-term plan is.

We are delighted to be involved in sponsoring the Scottish Land & Estates Annual Conference in Edinburgh on 29 May 2018, and we look forward to seeing many clients and contacts there.

Look out for us at these events in 2018...

Spring sees the beginning of another busy year for the rural team at EQ. As well as meeting clients to deal with their service needs we will be getting out and about supporting various sector events over the course of the year. Please look out for us and come and speak to us if you are attending any of the following events:

- **Fife Show** – 19 May
- **Scottish Land & Estates Annual Conference** – 29 May
- **Angus Show** – 9 June
- **Royal Highland Show** – 21-24 June
- **Potatoes in Practice** – 9 August
- **AgriScot** - 21 November

LFASS loan scheme confirmed

The Scottish Government have announced a loan scheme for LFASS 2017 claims to provide greater certainty over timing of receipts. A loan equivalent to 90% of the expected claim will be advanced to claimants, with payment of this expected to commence in April.

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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