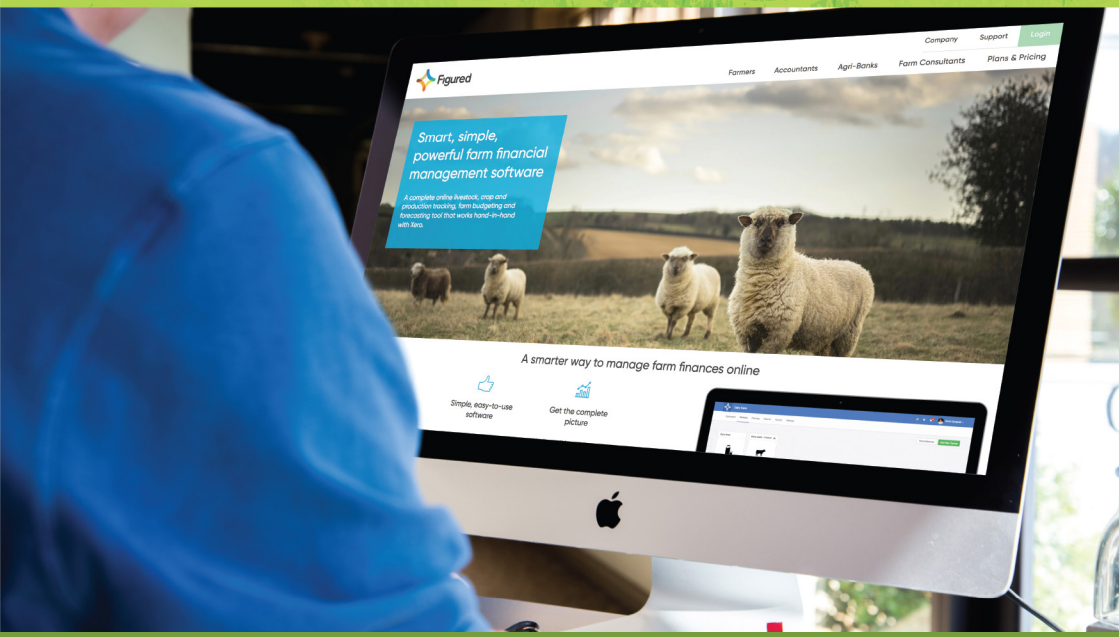
Agriculture News

CHARTERED ACCOUNTANTS



Regular News from our Specialist Agriculture Team **SUMMER 2018**

We've got it Figured

EQ are delighted to be working with cloud farm financial management provider – Figured (www.figured.com), which launched in the UK this month.

Figured was established in New Zealand and now also operates in Australia and the US. The UK market is one they were keen to move into and we have been speaking to them since 2017, assisting with beta testing prior to their official launch.

The software integrates with the UK's market leading cloud accounting software package, Xero, and allows businesses and their advisors to monitor and manage their operations using real time financial information. Figured allows users to see all financial, stock and crop information in one place. It can track crop and livestock movements and provides farm budgeting and forecasting functionality that works hand in hand with Xero.

As a cloud package it is accessible anywhere you have an internet connection and it's Xero integration means that duplication of data entry is kept to a minimum. Xero and Figured both have intuitive features which learn, through use, where specific items should be included.

We are already using Figured with clients and look forward to demonstrating the software to more in the near future. If you would like to see what Figured can do for you, please get in touch.

Thinking of buying a farm this summer?

Early summer is when most farms are looking their best.

It is therefore no surprise that many farms for sale come to market at this time of year, with agents aiming to seduce prospective buyers with glossy sales brochures. The decision to make an offer can often be driven as much by emotion as by economics. For some the opportunity to purchase the adjoining farm may be viewed as a "once in a lifetime opportunity", with the finances being of secondary consideration. Others may regard a purchase in a more objective light, seeing it as an opportunity to grow the business and ultimately improve profitability. Before progressing with an offer, whatever your motives, potential buyers need to consider the points highlighted below.

Agenda point	Issues to consider
Finance	Top of the list will be how you are going to fund the purchase. Unless you have a substantial existing cash balance any new farm purchase will have to be funded by debt. Most lenders will only lend up to 60% of the value of a property, so if wholly reliant on debt your existing farm will also need to be pledged as security. As well as sufficient security, most lenders will be looking for a track record of profitability to provide additional comfort for any lending.
Serviceability	Can you afford to pay the interest and capital repayments on any new loans? With interest rates at current low levels, paying the interest may be more manageable but when capital repayments are added the cash costs of servicing can increase significantly. For example, at a purchase cost of £7,000/acre and an interest rate of 3%, the annual interest cost would be £210/acre. However, if the loan is to be repaid over 25 years at the same interest rate, then the annual cost to cover capital and interest payments jumps to £402/acre. There is also no guarantee that interest rates will remain at current record low levels over the medium to longer term. Taking at least a proportion of the debt on fixed rate finance may therefore be appropriate.
Transaction costs	Don't forget about Land and Building Transaction Tax (LBTT), loan arrangement fees and legal costs which can easily add an extra 6-7% to the offer price.
Economies of scale	Often the rationale for a farm purchase is to spread fixed costs and improve profitability. This may well be the case if you currently have excess labour and machinery, but this argument only really works for small acquisitions as any significant purchase is likely to entail additional recruitment and further investment in plant and machinery. With extra acres to work there will also be marginal increases in fuel and machinery repair costs on top of the increased interest cost. With combinable crops producing a gross margin of £300-£400/acre before support payments, any increase in profitability is likely to be marginal if the purchase is wholly financed on borrowed money.
Tax issues	Some purchases may be tax motivated. Farmland is sheltered from inheritance tax after just two years of ownership, and gains from other land sales can be rolled into a new purchase, thereby avoiding capital gains tax.
Is it a good investment?	Ultimately only time will tell whether the purchase proves to be a good investment, in any case if there is never any intention of selling the question may be irrelevant. Factors influencing land prices include sector profitability, interest rates, tax reliefs and subsidy payments. With support from the last three factors likely to weaken, any future increases in land values will have to come from improved profitability from actual farming.

An inspector calls

We have had a number of cases recently where H M Revenue & Customs have enquired into tax returns where there have been reported capital gains on the sale of land.

This is perhaps not surprising given that in some cases the gains and tax due thereon can amount to very significant sums. Likewise effective tax planning can also lead to large reductions in the tax payable so an enquiry presents H M Revenue & Custom with a golden opportunity, in their eyes, to recoup large amounts of potentially underpaid tax. If you are selling land it is therefore vital that any capital gains tax computations are prepared with care and appropriate evidence is gathered to support any assumptions made. Likewise, any planning undertaken needs to be robust and fully disclosed to H M Revenue & Customs. Having fee protection insurance could also prove to be a wise investment as the costs of dealing with an enquiry can be considerable, even when it is found that no additional tax is due.

Commercial woodland

Special tax treatment continues to be given for commercial woodlands, making investments in qualifying plantations an attractive proposition for those looking to diversify their land use or diversify investments into a different asset class.

The first question to address is "what makes a woodland commercial?". Tax law does not actually provide much by way of a definition. In basic terms, the owner must be able to demonstrate that they operate the woodland with a view to making a profit. A formal business plan will help to demonstrate that a commercially viable strategy is in place, with the stages of planting, managing, thinning and harvesting the crop identified and costed. Trees take a long time to mature so investors should ensure that their strategy covers many years.

The favourable tax treatment of qualifying commercial woodland is as follows:

Income tax – revenue profits from the sale of harvested raw timber are outside the scope of income tax. If timber is processed, or stems are harvested on a "short rotation coppice" basis, the proceeds may be taxable. Similarly if land within a wood is leased for some purpose those proceeds will be taxable. Where costs are incurred in relation to the managing and harvesting of standing timber for sale, these costs are not tax deductible.

Capital Gains tax (CGT) – if a capital gain is made on the sale of commercial woodland, the gain on the value attaching to the standing timber is not subject to CGT. Any gain attaching to the value of the underlying land is still subject to CGT, so it is always important to understand the component values of timber and land in any transaction.

Inheritance tax (IHT) – commercial woodland will qualify for IHT relief as business property where the qualify conditions are met. To qualify the woodland must be occupied on a commercial basis (as explained above) for two years to obtain the relief.

If you have woodlands on your farm or estate, or if you are considering investing in woodland plantations, please get in touch.

Consultations – have your say

A raft of consultation documents were issued in June 2018, covering issues which will directly shape the future of rural Scotland. You are encouraged to take part in the consultations and have your voice heard:

National Council of Rural Advisors, consultation on "A Rural Conversation: Together We Can, Together We Will." Closes 24 July 2018.

Scottish Government, consultation on "Stability and Simplicity – proposals for a rural funding transition period." Closes 15 August 2018.

Scottish Government, consultation on "Delivering Improved Transparency of Land Ownership in Scotland: Consultation on Draft Regulations." Closes 8 November 2018.

Details for each consultation can be found on the Scottish Government website – **www.gov.scot**

Financial sustainability

Sustainability is one of those buzz words that is banded about with increasing frequency, but how many farmers pause and think about it in relation to their own business, specifically in relation to financial sustainability? We have listed below 10 questions for farming businesses to consider.

No	Question	Yes/No
1	Does the business have succession in the long term?	
2	Does the business generate enough profits to cover drawings on a regular basis?	
3	Can the business service existing debt commitments?	
4	Is total profitability greater than the BPS receipt?	
5	Would the business be able to cope if interest rates returned to "normal" levels?	
6	Is the business operating at a scale sufficient to justify new investment in machinery?	
7	Are the net assets of the business increasing?	
8	Are good financial control systems in place?	
9	Can the business easily access finance for new investment?	
10	Do you have enough cash or access to additional borrowing to cope with a bad year?	

If you can answer "yes" to all of the above then you are probably looking to the future with confidence. If you have answered "No" to one or more of the questions then now might well be the time to have a rethink on where the business is headed or identify the changes required to make the business more robust and sustainable.

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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