



Regular News from our Specialist Agriculture Team

WINTER 2018

Farming Scotland Conference – A changing climate

The sixteenth annual Farming Scotland Conference will take place at Carnoustie Hotel, Angus, on Thursday 14 February 2019, with a stellar line up of speakers set to address delegates.

A popular speaker returns in Jeremy Moody, Secretary and Advisor of the Central Association of Agricultural Valuers (CAAV) and Advisor to the Scottish Agricultural Arbiters & Valuers Association (SAAVA). Jeremy's knowledge of agri-policy issues is second to none and we look forward to hearing his insight as we look ahead to a new political environment and subsidy regime post Brexit.

Dr Mike Rivington, from James Hutton Institute, is an expert in land modelling and he will present his assessment of the effects of climatic change on Scottish agriculture. Changes to growing seasons, cropping patterns and the environment are happening and Mike will explain the medium and long term impacts.

BBC's Countryfile 2018 Farming Heroes Kirsty and Aimee Budge have an amazing story to tell, and will explain the challenges they have faced and successes they have shared since taking on

their family farm in Shetland following the tragic death of their father.

The conference's final speaker will be city financier turned ethical grocer Ben Pugh, founder and CEO of Farmdrop. Ben established Farmdrop in 2014 and aims to put power back in the hands of local producers by reinventing the supply chain and making local food more accessible to consumers.

EQ Accountants are delighted to organise and co-sponsor the conference, and Partner, Graeme Davidson, who chairs the conference said "We're delighted with the range and quality of speakers that will ensure delegates to the conference are informed and inspired by people who we can all admire and learn from".

Tickets can be purchased by contacting **Mary Campbell** on 01307 474274 or mary.campbell@eqaccountants.co.uk or visit www.farmingscotlandconference.co.uk

Annual investment allowance increased

One change to catch the eye in the Autumn budget was the increase in the annual investment allowance (AIA) from £200k per annum to £1m per annum for a two-year period with effect from 1 January 2019. The allowance allows a qualifying business to obtain a 100% write off for tax on the cost of plant and machinery purchased.

Where your year-end straddles the 1st of January, there are complex rules that govern how much AIA can be claimed in each 12-month period and businesses who find themselves in this situation should seek advice on the exact amount of AIA they are able to claim.

The AIA can be a useful tool for those who wish to manage their tax liabilities by purchasing plant and machinery, although we would only recommend new capital expenditure where there is a clear commercial justification.

There are, however, few free lunches in life. The AIA merely accelerates the tax relief that can be claimed on asset purchases and when the machinery on which AIA has been claimed is sold then the whole proceeds are subject to tax. This can create large unexpected tax liabilities for those who sell their machinery on retirement or as part of a business restructure. Those who find themselves in this position should seek tax advice well in advance of taking action.

2018 Scottish cereal and oilseed yields

	S. barley	W. barley	W. wheat	Oats	Oilseed rape
Yield – t/ha	5.30	7.6	8.1	5.6	3.8
% change on 2017	(10)	+3	N/A	(1)	(9)

Initial estimates published in October suggest that yields of combinable crops have held up reasonably well despite a cold late spring and exceptionally dry summer. As expected spring barley suffered most from the summer drought, with yields back by an estimated 10% on 2017. Winter cereals fared better, with yields of winter barley marginally ahead of last year and wheat unchanged. There are obviously large variations between farms, with those on lighter land reporting bigger yield fall. However, with grain prices stronger this year we expected actual sales revenue to be slightly ahead of 2017 on most farms.

New allowance for structures and buildings

One of the welcome announcements in the recent budget was the reintroduction of tax relief for buildings and structures. Historically agricultural buildings qualified for tax relief at a rate of 4% per annum on cost, meaning that a new building was written off for tax purposes over a 25 year period. Agricultural Building Allowances (ABAs) were, however, withdrawn from 2011, denying farmers tax income tax relief for investment in agricultural buildings from that date.

A new structures and building allowance (SBA) however, took effect from 29 October this year, with new buildings qualifying for relief at a rate of 2% on cost, allowing eligible expenditure to be written off over a 50 year period.

Any expenditure on new buildings should be carefully reviewed as some items of expenditure may qualify for higher tax allowances if they are

deemed to be plant and machinery or integral features.

Whilst the new allowance can hardly be described as generous it does go some way to reversing what appeared to be a very unjust decision back in 2011.



EQ to the Fore of Farm Financial Management

At EQ Accountants we like to be ahead of the game and November 2018 was a month packed full of opportunities to ensure that we continue to take a leading role as advisors to Scottish agriculture.

Making Tax Digital (MTD) arrives on 1 April 2019 and for a while now we have been speaking to our clients to make sure that all those who will need to be MTD ready (VAT registered businesses) have systems in place well in advance of its introduction. EQ representatives Graeme Davidson and Scott Kennedy attended Xerocon 2018, the annual conference for Xero, the UK's leading cloud, MTD ready, accounting software to gain further insight into technological developments within the accountancy industry. EQ are Xero Platinum Partners, their highest partner status level.

Xerocon was an amazing event and allowed us to hear first-hand about product enhancements and to engage with some of the 700 applications which now link to Xero to add functionality and improve efficiency. Among those applications is Figured, farm financial management software, for which EQ were the UK's first Gold Partners.

We reinforced our commitment to using technology to help our clients financial reporting,

and our partnerships with Xero and Figured, at AgriScot, the UK's No 1 Farm Business Event, at the Royal Highland Centre on 21 November. Many AgriScot attendees were interested to hear about how EQ, Xero and Figured together can help drive improvements and efficiencies in financial information management, helping agri business owners to run their businesses.

November also saw EQ confirmed as Project Partners for Foresight Farms, a farmer led, grant funded project designed to investigate and benchmark how farm data across several Scottish farm businesses is used and can be used to drive business decisions and maximise profitability. This is a project we are delighted to be involved in as it goes to the core of identifying the information which farmers need to make important farm management decisions.

So, a busy month, and one which sets the tone for farm business advisory for the period ahead. Get in touch if you would like to know more.

Bank advances to Scottish agriculture stagnant

Figures recently released show that bank advances to Scottish agriculture grew by just 1% to £2.34bn in the year to May 2018, representing an increase of just 0.6% in real terms after adjusting for inflation. With the area of arable and grassland amounting to c. 1,880,000 hectares the average amount of debt per hectare amounts to only £1,245 (£504/acre). The industry as a whole is therefore not overborrowed, with debt representing c. 10% of assets. Averages will, of course, mask wide variations between individual farming businesses.

The fact that debt is not rising may be an indication that sufficient profit is being earned to cover drawings and taxation requirements, a positive outcome. On the other hand, concerns over Brexit and rising interest rates may also be dampening the demand for credit.

At the individual farm level serviceability is key, with the business generating sufficient cash flow to meet interest and debt repayments as they fall due

being paramount. The amount required for this will, of course, depend on the interest rate and the loan repayment term. The cost of servicing £1,000 of debt (£/year) is illustrated in the table below.

Term	Interest rate %		
	3	4	5
10 years	117	123	130
15 years	84	90	96
25 years	57	64	71
Interest only	30	40	50

As can be seen there is considerable variation in the amount required to service the debt depending on these two variables. Term loans need to be structured in line with a business's ability to repay and if rising interest rates are a concern then it may be appropriate to fix a proportion of the debt. The right solution will depend on individual circumstances and if in any doubt then please speak to your normal EQ contact.

Brexit – what now for farming subsidies?

Amongst all the discussion, politicking and spin of recent months both the UK and Scottish Governments have announced their intentions for the future of farming subsidies. So where are we and what has been announced?

As part of the “implementation period” agreed by the UK and EU, Scotland will be expected to continue to implement the CAP until the end of 2020.

Back in the summer, in fact in advance of the Royal Highland Show, Scotland’s Rural Economy Minister Fergus Ewing told Holyrood that Scotland’s system of farmer subsidies will not be overhauled until 2024. A consultation paper issued in the summer said no major changes will be introduced for a further three years, although some minor “simplifications and improvements” could be introduced.

More recently, in September, Michael Gove, UK Environment and Food Secretary, introduced legislation which will cut direct payments in 2021,

eradicating them completely after 2027. The bill guarantees the agriculture subsidy budget for 2019 and 2020 only. Thereafter, payments will be directed towards improvements to the environment.

How this will actually play out remains to be seen, with many aspects of the interaction between EU, UK and Scottish budgets still to be determined. The direction of travel is definitely towards rewarding farmers for looking after the environment rather than for direct commodity production. Expect changes from 2020 onwards.



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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Contact us at agriculture@eqaccountants.co.uk or 01307 474274 for specific advice on how the issues discussed could affect you.