Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

AUTUMN 2019

National Basic Payment Support Scheme

The Scottish Government announced in June that they are again offering a Basic Payment (BPS) loan scheme to eligible farmers. A loan of up to 95%, a 5% increase on the previous year, will be paid to eligible applicants from early October.

Farmers started to receive the loan offer paperwork in the post from late August and we would encourage eligible businesses to take up this offer as soon as possible. If previous years are a gauge, farmers who do not take up the loan option could face a wait until the end of June 2020 before they receive any BPS income.

The actual timing of the 2019 BPS receipt should make no difference to the recognition of the income in financial accounts. It should only be recognised when all qualifying criteria have been met at the end of December 2019. Accounts should therefore only include one BPS receipt each financial year.

If you have any queries regarding the loan scheme or any other matter, please contact a member of our EQ Agriculture team.

Difficult grain marketing decisions upon us

The 2019 harvest will be remembered as a patchy one for most farmers. The weather has made things difficult at times and prices for cereals are weak, with domestic and global supply reported to be strong.

With Brexit uncertainties remaining there are tough marketing decisions to be made. What will grain markets look like over the coming months? To sell now, or hold and sell later can be a difficult call in any year, but in 2019 that decision is even harder given the additional layer of political and consequential economic factors which are outwith the producers control.

Of course, the option to store grain beyond harvest time is only available if the farming business has the necessary facilities available to do so. Not all do. Additionally, not all businesses will have the financial flexibility to delay grain sales and wait weeks or months for the income from that crop to come into the business.

We do not have a crystal ball, and making informed marketing decisions is currently very difficult. Farmers must make decisions based upon their own circumstances, considering their access to facilities and finance, and their attitude to the risk that market prices could go against them.

The Drive to Electrify

Interest in Electric Vehicles (EVs) is increasing and we are frequently asked to outline the financial and tax benefits of choosing an EV over a conventional vehicle.

There are incentives for individuals and for businesses to embrace energy saving technology, including EVs. These include -

- Lower vehicle running costs
- Lower benefits-in-kind tax charge and associated employers NIC
- Government plug-in grant of up to £3,500 off the price of a new EV, applied at dealerships
- 100% First Year Allowance available against taxable business profits on cost of EV (if plug-in grant not applied)
- Free electricity through ChargePlace Scotland's EV charging network
- Grant support for the installation of home or workplace charge points
- Interest free loans of up to £35,000 (individuals) and £120,000 (businesses) funded by Transport Scotland

More information can be found at **www.energysavingtrust.org.uk/scotland**

The practicalities of finding a suitable vehicle, especially if it will be required to do some heavy lifting, or off-road work, do limit the options for farm vehicles at present, but new models are being developed and released to market each year. There are also electric quad bikes now on the market and being used on farms.

Take time to plan

We have seen a renewed interest from our farming clients in making pension contributions as a means of managing income tax liabilities and as a way of building up a fund outwith the business to potentially help with succession in situations where the farm will not be sold on retirement.

Basic rate tax relief is available at source on contributions, meaning that for every £80 paid in, £20 is added by HM Revenue & Customs, taking the total fund value to £100. Higher rate tax payers can also secure further tax relief through their tax return.

Any pension contributions for the 2019/20 tax year need to be made by 5 April 2020. Those with accounts year ends post 5 April 2019 may already know their taxable income for 2019/20. Rather than leave it to the last minute it would be wise to review income levels for 2019/20 at an early stage and take appropriate time and advice to consider pension contribution options and how these may fit with an overall tax planning and succession strategy.

Is your farm a hobby?

Golf, gardening and cake decoration are all popular hobbies and rightly so. In some circumstances HM Revenue & Customs can also regard farming as a "hobby". The designation is not determined by scale but by whether a farming business makes a taxable profit before claims for capital allowances. If there are five consecutive years with no profit before capital allowances then HM Revenue & Customs will regard the business as a hobby from year six onwards.

The significance of the hobby designation is that any farming losses from year six onwards cannot be offset against other income or capital gains in either the current or previous tax year. The losses can only be carried forward and relieved against any future farming profits, which may never materialise.

This can have major tax consequences as many farmers will have significant non-farming sources of income such as rents, dividends, pension income or another trade such as renewable energy. If hobby farm treatment applies then tax will have to be paid on the other income in full, with no relief given for the farming losses.

The rules were originally introduced in 1967 to prevent "lifestyle" farmers claiming tax relief on their non-commercial farming activities. However, with traditional farming under economic pressure and farmers now having more diversified income streams the rules could easily catch out the unwary, resulting in an unexpected tax bill.

The key to avoiding this is firstly to monitor the position to establish if you are at risk from being caught by the hobby farming rules. If you are, then taking action to ensure that you show a pre capital allowances profit at least every five years may be appropriate.

Possible actions include:-

- Deferring discretionary expenditure until the following year.
- Accelerating sales so that you capture more than one year of farming revenue in a twelve-month accounting period.
- Reviewing valuations to ensure that stock is not undervalued.
- Consider treatment of farm improvements. Are these a repair type expense or an improvement that should really be capitalized on the balance sheet?

Hopefully your farming business is more than a "hobby", but if you feel that you may be affected by any of the issues raised in this article then please speak to your usual EQ contact.

Could you benefit from rollover?

Rollover is a capital gains tax (CGT) relief available to individuals for reinvestment in business assets used in a trade. The relief is most commonly claimed when land is sold and the proceeds are reinvested in a new land purchase, although some other business assets do qualify.

Key points to note are as follows:-

- The new purchase needs to occur within three years of, or up to one year before, the initial disposal.
- The entire sale proceeds need to be reinvested to claim full relief.
- The base cost of the new asset is reduced by the gain rolled into it.

When the replacement asset is sold, and if no further rollover is undertaken, then the original gain comes back into tax at the tax rates prevailing at the time the replacement asset is sold. The relief can be extremely useful as a means of deferring tax and, if the replacement asset is never sold, potentially avoiding capital gains tax altogether.

In some circumstances it may, however, make more commercial sense to pay capital gains tax, especially if a 10% rate can be secured with Entrepreneurs' Relief, rather than be forced to reinvest the proceeds to avoid tax and gamble on future tax rates remaining low when the replacement asset is sold. As always, taking the correct advice and considering all the options is essential in these situations.

Save the date

The next Farming Scotland Conference will take place on **Thursday, 13 February 2020**. Please mark this date in your diaries and look out for more details in our next bulletin and follow **@FarmScotConf** on Twitter.

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.

CUPAR
58 Bonnygate, KY15 4LD
01334 654044

Mark Wilken
mark.wilken@eqaccountants.co.uk

FORFAR
Westby, 64 West High Street, DD8 1BJ
01307 474274

Graeme Davidson
graeme.davidson@eqaccountants.co.uk

www.eqaccountants.co.uk