Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

SPRING 2020

Farming Scotland Conference – tell your story.

'People. Product. Knowledge' was the theme for the seventeenth annual Farming Scotland Conference, organised and co-sponsored by EQ, where delegates heard that farmers and others involved in the sector must use storytelling to build public trust and add value to the goods it produces.

Marion MacCormick, food sector consultant and a member of the Scottish Government's farming and food production policy group said that marketing efforts must focus on the next generation of shoppers who are mainly "thoughtful shoppers" with an interest in animal welfare and sustainability.

Chair of Quality Meat Scotland (QMS), Kate Rowell, developed the theme of focusing on sustainability from the perspective of Scottish livestock revealing that QMS is looking to add sustainability checks into its farm assurance schemes by capturing information on sustainable initiatives farmers are already doing and then quantifying them.

Cambridge arable farmer and Nuffield Scholar, James Peck entertained delegates with his talk on his multi enterprise business, PX Farms.

James has a passion for scale and innovation and has focused on both to develop and grow his farming business. He also stressed the need to take people with you and explained how he always takes the time to speak to the people and communities he is operating alongside.

Simon Haley, agricultural consultant and social media guru said the farming sector needed to take advantage of the amount of time consumers spend on the internet, and use online platforms to tell their story and build a brand for Scottish and UK produce. He urged farmers to stick their necks above the parapet to explain what they do and how they do it.

Thanks to all the delegates for supporting the conference and for making it such a success.

Opting to tax on development land sales

The VAT issues surrounding the sale of land for development are often overlooked. Tax planning tends to be focused on minimizing capital gains tax and rightly so as the amounts of tax at stake can be very significant. However proper consideration should also be given to VAT.

It is probably best to start by explaining the default position. Normally sales of land are an exempt supply for VAT, so no VAT is charged on the sale. This does however mean that recovery of any input VAT on sale costs will also be blocked (unless within the de minimis limits). The way to get around this is to "opt to tax" the land, charge VAT on the sales price as a standard rated supply and then reclaim all input VAT on sale costs.

Sale costs can be very significant especially if a fee is due to a land promoter, who will typically charge a fee based on a percentage of the sales price achieved. If, for example, a promoter was due a 20% fee on a £2m sale the input VAT at stake would be £80k (£400k @ 20%)

From the buyer's perspective, opting to tax will add 20% to the purchase cost and any Land and Building Transaction Tax (LBTT) due will be based on the gross price. However, the buyer will normally be able to fully recover the input VAT as they will be making zero rated supplies of new houses. The sales price might be slightly discounted if there is an option to tax in place as the developer will have to finance an extra 20% of the cost short term and pay a little extra LBTT. Nevertheless, any small reduction in the sales price could easily be outweighed if the seller is able to achieve full recovery of input VAT on sales costs.

Our advice to sellers of development land is to look at the tax position in the round. Depending on how the deal is structured there could be very significant amounts of input VAT that will not be recoverable unless an option to tax is in place before the sales contract is concluded.

Is your business structure still appropriate?

When a business is set up consideration is given to the appropriate business structure through which to operate. But how often is that structure revisited? Is it still fit for purpose following changes in legislation or tax, or to the business scale and operations, or to the circumstances of the individuals involved? It may be time for a review.

We are regularly approached by new clients who feel that their business structure is no longer appropriate for their needs, but they are unsure what to do about it.

In the rural sector many businesses which were originally straightforward farming businesses are now multi-enterprise diversified entities, with different family members taking a lead role in driving forward different parts of the business. What was an appropriate structure for the original business may no longer be appropriate for today's business or for a particular enterprise.

Recently, we were asked to advise a family who had started out with a farming partnership involving mum and dad. Their daughter had established and grown a livery business using some of the farm buildings and fields and their son had later set up a contracting business using some of his own machinery and some belonging to the farm business. He also now helped run the farm business.

The family were conscious that they were now involved in a more complicated business than they started out with and wanted to make sure that their business structure was appropriate for their circumstances. They wanted to make sure that the different trades could be measured and managed and that assets could be protected, within a structure that allowed them to meet legal and tax obligations. With our help, some changes were made, and the family is now moving forward with clarity on all aspects of their operations.

If you have concerns that your business structure is no longer meeting your needs, please get in touch with us.

Business resilience

Much is talked about business resilience, but what does it actually mean in practice? According to the dictionary it is the ability to readily recover from shock or depression. Given the setbacks that can occur in the farming sector a degree of resilience would certainly be useful.

From our own experience we have listed below our top factors for business resilience.

Soil	Everything flows from soil health and quality. Crops are more likely to perform in adverse conditions if the soil is in good heart. What steps can you take to improve your soil quality?
Finance	As always cash is king, and it is much easier to recover from any setback if you have cash in the bank or access to undrawn bank facilities. Do you have sufficient financial headroom in your business?
Profitability	Businesses need to be profitable to have a long-term future. Are you making sufficient profits on average to cover drawings, tax and other financial demands on profits?
Succession and continuity	Resilient businesses will have a succession plan in place. Who will step in to take charge if you are unable to?
Infrastructure and equipment	None of us can influence the weather but adverse weather is easier to cope with if fixed equipment is up to date and of sufficient capacity. Is new investment required in drainage, irrigation or drying capacity?
Markets	If you are overly reliant on one buyer you could be vulnerable. Can you spread the marketing risk or find alternative routes to market?
Supply chain	Can you depend on your supply chain to deliver the correct inputs, on time at the correct location? How would supply chain disruption affect your business?

The list is by no means exhaustive, but highlights some of the issues that may need to be considered to improve resilience. By its nature farming will always be exposed to unexpected events but with better planning businesses should hopefully be able to bounce back from any setback.

Change to Employers Allowance

Employers benefit from an allowance against their National Insurance costs each tax year. From April 2020 the Employers Allowance (EA) of £4,000 is classed as State Aid and therefore if the employer receives other forms of State Aid, thresholds kick in over which the EA cannot be claimed.

If you have received funding through participation in Scottish Government loan schemes for BPS, LFASS, AECS or certain other agricultural subsidy schemes you will have received State Aid in the form of the notional interest not charged on these loans and may be in danger of breaching the threshold, meaning that you can no longer qualify for the Employers Allowance.

The threshold is, however, quite high, so will only affect recipients of annual subsidy totaling approx. £180,000 or more.

If you are unsure how this change affects you, please contact our Amber Payroll team on 01382 312100 or speak to your usual EQ contact.

Research & Development tax credits in farming

Historically most agricultural businesses operated as partnerships, however with many now trading as limited companies they have potential to claim Research & Development (R&D) tax credits.

These tax credits are an established government-backed initiative designed to encourage innovation and progression and in order to be eligible to make a claim you must be operating as a limited company.

There are a variety of projects that can be eligible, including an advancement in science, technology or undertaking activities which aim to achieve the advance by resolving scientific or technological uncertainties. These projects do not need to be successful. If projects are undertaken with the aim of advancement it will be eligible for this frequently overlooked tax relief.

At EQ we have submitted over 300 claims for our clients across all sectors, including agriculture, and have saved over £18m in tax for our clients with a 100% success rate.

For the last nine years, for example, we have prepared R&D claims for a company which manufactures a variety of specialised machinery for the agricultural industry. Other examples in the agriculture sector include clients who have developed new crop varieties and new cultivation techniques.

There are several conditions which must be met in order to qualify (as well as trading as a company) and if you would like further information on your eligibility or to see if your projects qualify, then please do not hesitate to contact your EQ contact who will be able to assist further.

Partner promotions

We are delighted to confirm the promotion of three of our Principal Managers to Partner with effect from 1 April 2020. Scott Greig (Cupar), Robert Young (Forfar) and Rachel Bell (Dundee) have all trained with EQ and progressed through our ranks over the past few years.

Robert and Scott will be well known to our rural sector clients and contacts from their respective offices. They both look after many farming businesses and specialise in advising on taxation, finance and business planning issues. These appointments recognise their commitment to EQ and to their clients and further strengthen our service offering to the rural sector.

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 bulletin, or to discuss a particular issue with one of our advisers, please contact our Agriculture specialists.

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