Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

AUTUMN 2020

Sustainable Agriculture Capital Grant Scheme

Many of our agricultural clients often ask about grant opportunities. These are not as frequent or as generous as they once were, however, the Scottish Government have just launched their Sustainable Agriculture Capital Grant Scheme (SACGS). This pilot grant scheme opened for applications on 7 September and will close at midnight on 11 October 2020.

This grant is available to all Scottish farmers and crofters with a Business Reference Number (BRN) and is aimed to help meet Climate Change targets by providing funding for farmers to purchase qualifying equipment such as:

- Cattle crush
- Calving detectors
- Sheep crates
- Cameras for monitoring stock
- GPS systems
- Yield monitors

The Scottish Government have committed £10m to SACGS, which will cover 50% of the cost of the qualifying purchases while businesses located in the Highlands and Islands will receive a higher rate of 60%. The maximum grant is £20,000 per business which is paid directly into farmers and crofters bank accounts registered with the Scottish Government's Rural Payments and Inspections Division (RPID).

You can read more information on qualifying purchases and download the application forms here.

The Chancellor's Winter Economy Plan

On Thursday 24 September Chancellor Rishi Sunak addressed the House of Commons on his plans to continue protecting jobs through the winter.

Talk of a 'nurturing recovery' was expressed in his plans to support businesses and the self-employed and we've covered each of the main announcements below.

Jobs Support Scheme

It was confirmed that the Coronavirus Job Retention Scheme (CJRS) will close on 31 October, however it will be replaced by the Jobs Support Scheme (JSS). Beginning on 1 November, JSS will run for 6 months with the aim of keeping employees in a job on shorter hours, to avoid redundancies, with the government and employer topping up one-third of their wages each (up to a cap of £697.92 per month).

Eligible employees must be working at least a third of their normal hours, which employers will pay as normal with the rest being topped up as above. For example, if an employee on £2,000 a month works half their hours, earning £1,000 of normal pay, the employer and government will each top up £333.

All businesses are eligible even if they have not previously registered for CJRS, but this is aimed at small to medium sized businesses. Larger businesses can only apply when turnover has fallen. Employers retaining staff on shorter hours can claim this and the Job Retention Bonus.

Self-Employment Income Support Scheme extended

With expectations that demand will be reduced over the winter months, the SEISS will be extended until 30 April 2021. Set in the form of two taxable grants, the initial lump sum will cover November to January, worth 20% of average monthly trading profits, up to £1,875 via a government grant. Details of the second grant for February to April will be reviewed by the government and released in due course.

Flexible repayments for Bounce Back Loan

For over a million businesses who have borrowed under the Bounce Back Loan Scheme, they will be offered the choice of more time and greater flexibility for their repayments. Loans can be extended from 6-10 years, which offers lower monthly repayments with a separate option to suspend repayments for up to 6 months.

Extended deadlines for Government backed loans

The application deadline for the Future Fund, Bounce Back Loans, Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme will be extended until 30 November 2020, with lenders being able to offer CBILS borrowers more time to make their repayments where needed.

VAT Deferral

Businesses who deferred their VAT until March 2021 can spread their payments over 11 monthly payments, instead of paying a lump sum, and self-assessed income taxpayers who need extra help, can also extend their outstanding tax bill over 12 months from January.

VAT cut for Tourism and Hospitality sectors extended

The reduced rate of 5% VAT for the tourism and hospitality sectors will continue until March 2021.

We expect further details to be released in the coming weeks and will keep you updated as and when information is available. You can read the Winter Economy Plan in full here.

Advance of 2020 BPS Payments

The Scottish Government announced in July that a National Basic Payment Support Scheme will deliver the equivalent of 95% of 2020 Basic Payment Scheme and Greening monies to farmers from as early as September this year.

The scheme gives farmers access to financial support up to three months earlier than the EU CAP payment period. This acceleration is aimed at providing vital support needed because of the Covid-19 pandemic.

Loan offer letters were sent to eligible farmers and crofters from the beginning of August, with the first payments made in September.

A Golden Era For Farm Borrowing?

Farming is a capital intensive industry with money required to fund land, buildings, machinery and stock. More recently, many businesses will have also borrowed to invest in farm renewables.

The latest statistics available from 2018 show that bank advances to Scottish agriculture totalled £2.34bn. To put this in context, the area of crops and grassland in Scotland, excluding rough grazing, amounts to c. 4,680k acres. Average debt therefore amounts to £500 per acre, although this will of course mask wide variations between businesses, with many operating with no bank debt.

In response to COVID-19, bank base rates were cut to a historic low of just 0.10% compared to 0.75% at the start of 2020, resulting in savings for those borrowing on variable interest rates. Currently the long term outlook for interest rates remains subdued and it is possible to borrow long term on very attractive fixed rates. For those old enough to remember it seems that we have come a long way from the dark days of the early 90s, when base rates approached 15% and finding the cash to pay the interest, never mind the capital repayments, was a very real concern.

In line with what happened in the financial crisis of 2008/09, agriculture seems set to retain its "safe haven" status, with banks remaining keen to lend to the sector. Hopefully this will continue, but as in life there are no guarantees.

For those businesses with significant debt, now may be an opportune moment to review the structure of their borrowing. Is the balance between overdraft and long term loans correct? Should more of the debt be moved onto fixed interest rates given the attractive rates currently available? Is the repayment profile appropriate for the cash generating ability of the business? These are all valid questions to ask and given the unique circumstances in which we find ourselves would it not be prudent to take stock?

It may also be worth considering the security on offer. Banks will typically look for a maximum loan to value ratio of 60-70%. If possible, there may be advantages in retaining a parcel of land unsecured so that if necessary, security can be granted to a secondary lender at a future date thereby maintaining added flexibility.

Low interest rates may also encourage some to borrow to invest or expand. This can of course make perfect sense provided the return generated from the new project exceeds the costs of borrowing. Taking on "unproductive" debt to fund losses or drawings however seldom ends well.

Although banks are willing to lend very long term to agriculture, at some point the debt will have to be repaid. Unless this is to be achieved from a future asset sale it is likely that any debt will have to be repaid from trading profits. Trading profits are of course subject to tax and with personal income tax rates in excess of 40% for higher rate taxpayers (and likely to rise) the level of funds available for debt repayment post tax may be less than expected. If borrowing significant amounts for new projects, consideration should be given to investing and borrowing through a corporate structure. Any profits earned in a company are currently subject to a flat rate of corporation tax of just 19%, thereby maximising the funds available for debt repayment. As always, specific advice should be sought on business structure, but if repayment of debt out of trading profits is a priority then a corporate structure can have significant advantages.

With interest rates at record lows borrowing has never been cheaper. Now is the ideal time to ensure that farm finances are correctly structured to ensure that businesses maximise their chances of success whatever the future may hold.

How we've been supporting our clients – Arbuckle Poultry Ltd

At EQ, along with helping our clients access relevant funding and support, we have continued to provide our usual in-depth tax and business advice, delivering a variety of complex work to ensure our clients flourish.

One of those clients is Arbuckle Poultry Ltd, a family run farming business that sits on the boundary between Angus and Perthshire. Although the family farm has been in operation for over 70 years, Arbuckle Poultry is a standalone free-range egg business. They have recently doubled the size of their operation from 32,000 to 64,000 laying hens across 3 sheds and sell their eggs to Noble Foods, a leading supplier of fresh food brands to major retailers and consumers.

The Arbuckle family have been clients for a number of years and have a close working relationship with Partner, Scott Greig and the rest of their engagement team. The business was initially owned by two branches of the Arbuckle family, brothers John and Peter, and it became increasingly clear that to move the business forward and allow each family to focus on their own areas of expertise, the company would benefit if solely owned by the elder brother, John, and his family. John's son, Michael, has been at the forefront of the business and led to its expansion from 16,000 laying hens in 2015 to 64,000 in 2019.

Scott Greig, Partner in our Cupar office, commented,

"When discussions started regarding Peter and his family leaving the business, we reviewed all of the tax implications with both families. We explained that the most tax efficient strategy would be that the company would undertake a share buyback, where the company buys back the shares for an agreed sum and they are then cancelled."

Both families agreed to the share buyback, not only allowing the younger generation to take control of the business to push it forward but also helping with future succession. To proceed, Scott had to write to HMRC for clearance and explain the commercial circumstances behind the decision. Once the clearance had been given, he was then able to secure a 10% tax rate for the selling shareholders to minimise the overall tax cost after agreeing a value per share between the families.

Throughout the process, Scott maintained open discussions with their bank in order to secure the funding the company needed to pay-out to the exiting shareholders. When granted, the funding was given at a competitive rate resulting in a fair outcome for all parties involved.

Scott added,

"It was crucial for us to ensure that both families benefited from the share buyback process and that we were able to provide a tax efficient solution for Peter and his family to exit the business and focus on their own business goals. It's been great to see this completed, especially during an uncertain time for many and I know the business will continue to thrive in the capable hands of John and Michael."

Michael Arbuckle, commented,

"Scott has been integral to the continued success of our business, he took the time to explain the process from start to finish along with the benefits it would bring. The share buyback was the best outcome for both families, and for the business, and I look forward to working together with Scott and the team at EQ in the future."

If you have any queries regarding your farming business, please contact a member of our EQ Agriculture team via agriculture@eqaccountants.co.uk or call 01307 474274 / 01334 654044.

Capital Gains Tax (CGT) under review

The Office of Tax Simplification (OTS) is currently undertaking a review of CGT.

CGT is a tax that is charged on the gain on the sale of certain capital assets such as property or shares. It can also apply to gifts in certain circumstances.

At present everyone has an annual tax free CGT allowance of £12,300 and any gains over and above this are either taxed at 28% or 18% for residential property and 20% and 10% for all other assets. Any gains in the year are aggregated with income and the lower rates of tax noted above apply to any gains falling within the basic rate band for income tax at UK rates, enabling an individual to enjoy a maximum of £37,500 of gains at the lower rates if they have no other taxable income in the year the gain arises.

In addition, taxpayers also currently enjoy several valuable reliefs including:

Entrepreneurs Relief

Allows a 10% tax rate on up to £1m of gains on the sale of a business or interest in a business.

Rollover Relief

Gains on certain business assets can be deferred if the gains are used to purchase replacement assets.

Holdover Relief

Enables tax that would be due on the gifting of agricultural property or business assets to be deferred until such time as the recipient sells the assets acquired.

Principal Private Residence Relief

Gains on the sale of your main home are currently exempt from CGT.

Loss Relief

Any capital losses arising are currently automatically offset against gains arising in the same year and any unused losses can be carried forward indefinitely to be offset against future gains. There are currently no restrictions on the amount of losses that can offset.

Given that the term "simplification" is often used by the Treasury as a euphemism for increasing tax revenue, it is conceivable that the current review will result in a less generous CGT regime, especially in the context of the current pressures on public finances.

"Simplifications" could involve a levelling up of CGT rates to bring them more into line with higher income tax rates or a withdrawal or reduction of some of the allowances and reliefs currently available.

In terms of revenue raising, CGT is a relatively minor tax. CGT receipts for 2019/20 are expected to amount to £9.1bn, equivalent to just 1.1% of the total tax take. This may be about to change.

Readers who are contemplating transactions that are likely to give rise to a CGT charge may therefore wish to press ahead before any adverse changes are brought into effect.

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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