Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

AUTUMN 2021

Climate concerns top the agenda

How our climate is changing and how we can impact that is at the top of the agenda across many forums within Scottish agriculture.

Farming for 1.5°, an independent inquiry set up in 2019 by NFUS and Nourish Scotland, published its findings in July 2021. **You can find this here**. Its report opens with the statement "Doing the same thing next year as we did last year is no longer an option for farmers in Scotland." Those words alone make it clear that change is required and that the agricultural sector must take the initiative to adopt new practices which cut on-farm emissions and decarbonise over the coming years.

COP26, the UN Climate Change Conference taking place in Glasgow from 31 October 2021 will focus the attention of the world on climate change policy and on Scotland. World leaders are already issuing sound bites hinting at material policy changes in advance of the conference. Time will tell what is actually agreed and implemented.

Domestically the SNP/Green Party Scottish Government shared programme vows to build a greener Scotland. Specific policies of the Green Party in Scotland include the desire to see farming subsidies targeted at climate and nature recovery, emission reductions and climate mitigation measures a compulsory requirement for all subsidies and the introduction of Land Management Contracts to deliver organic farmland conversion, agroforestry, peatland restoration and wetland creation amongst other objectives.

What is clear is that Scottish agriculture must lead on change, not be led by others out with the sector. Don't do the same thing next year as you did last year!

National Basic Payment Support Scheme 2021 (NBPSS) loan advance

Farm cashflows have received a welcome boost with the early payment of this year's NBPSS loan advance in September. The 2021 loan scheme provides for 95% of expected payments.

September is traditionally a tight time for cashflow on many farms, especially arable ones, where the full costs of growing the crops will have been incurred but sales proceeds are yet to materialise.

While the early receipt of the money is welcome, it may temporarily mask longer term cashflow issues which may appear later in the year. As always, we would advise our clients where cashflow is an issue to have a twelve month cashflow forecast in place to identify future pinch points so that mitigating action can be taken well in advance.

Forewarned is forearmed as they say.

Sustainable Agriculture Capital Grant Scheme deadline extension

This time last year the Scottish Government launched their Sustainable Agriculture Capital Grant Scheme (SACGS) as a pilot scheme. You can read our article on it here.

One year on an extension to the scheme has been confirmed, so that applicants now have until 31 December 2021 to submit claims along with the correct supporting documents. If you made an application under the scheme but have not yet completed your submission, please do so without delay as grant monies are paid out once submissions have been verified and processed.

Temporary reduced rate of VAT set to end

A reduced rate of VAT of 5% was introduced for the hospitality sector, including holiday accommodation, from 15 July 2020 in an effort to boost the sector during a difficult trading period following COVID lockdowns and restrictions. This reduced VAT rate was initially due to be in place until 12 January 2021 but was extended to run to 31 March 2021 and then extended again to 30 September 2021. From 1 October 2021 to 31 March 2022 a new reduced rate of 12.5% will apply. Thereafter standard rate VAT (20%) is expected to apply.

The above changes mean that extra care is needed by VAT registered businesses who are making supplies of hospitality (e.g. farm shops or cafes), accommodation (e.g. self-catering cottages) or attractions (e.g. farm tours). The potential to get the tax point (or "time of supply") wrong and consequently get the VAT rate incorrect is high!

To illustrate by way of example a VAT registered farm business which provides furnished holiday let accommodation has a policy of requiring a £100 deposit when the booking is made, with the balance for the booking payable four weeks before the stay.

A guest makes a booking on 12 April 2021 (paying £100), for a weeks stay commencing on 30 October 2021. The balance due by the guest for their stay, of £500, is payable on 2 October 2021. The amounts payable by the guest are VAT inclusive.

The tax points and output VAT payable by the business are:

12 April 2021 -
Deposit £100 - VAT rate 5% - Output VAT £4.76

2 October 2021 -
Balance £500 - VAT rate 12.5% - Output VAT £55.56

An actual tax point is created by a pre-payment or by the advance issue of a VAT invoice. Please speak to your usual EQ contact for advice.

You can put lipstick on a pig but it's still a pig!

What's the best way to sell a tax rise? By calling it a "health and social care levy" of course.

Many will have been dismayed at the announcement earlier this month of the increase in National Insurance contributions (NIC) from April 2022 and the breaking of the Conservative's manifesto promise not to raise the headline rates of Income Tax, VAT or National Insurance for the duration of this parliament.

From next April, the employed and self-employed will pay an extra 1.25% in NIC. Employers will also pay an additional 1.25%. From April 2023 the NIC increase will become a separate hypothecated levy and will also apply to the earned income of those of state pension age and above, who until now have been exempt from NIC.

Splitting the increase between employees and employers and calling it a health and social care levy was a clear attempt by the government to throw the public off the scent of what is a significant tax rise. Few will be fooled.

On top of this it was also announced that the rates of income tax applicable on dividend income will increase by 1.25% to discourage director shareholders from taking dividends as an alternative to salary to save on NIC. Dividend tax rates will increase to 8.75%, 33.75% and 39.35% for basic, higher rate and additional rate taxpayers respectively.

The above tax rises follow on from the earlier announcement in relation to the increase in Corporation Tax from April 2023, when the main headline rate will increase from 19% to 25%.

Clearly the tax landscape is going to get a lot more challenging over the next few years, making it more important than ever that successful businesses seek appropriate advice to try to mitigate against these increases as far as legally possible.

Agricultural transition in Scotland

Scotland's rural sector has had a long and frustrating wait for the Scottish Government to come forward with clear plans for a successor to the Common Agricultural Policy. The wait goes on.

A further consultation paper has been issued and your views are sought on the key themes and recommendations from the various Farmer Led Groups which fed into the Cabinet Secretary for Rural Affairs across the farming sectors.

You can read the consultation paper and give your views **here**. The consultation closes on 17 November 2021

Autumn Budget date announced

Chancellor Rishi Sunak will present his Autumn Budget and Spending Review to parliament on 27 October 2021.

With increases to NIC and dividend tax of 1.25% from April 2022 already announced the spotlight will be on whether further tax increases or removal of tax reliefs will accompany Mr Sunak's aim of seeing at least 5% of savings and efficiencies from Government departments to help fund COVID expenditure and proposed additional spending on social care.

We will be watching the Budget closely to see if any changes are announced which affect our clients – look out for commentary on our website and social media channels and speak to your usual EQ contact.

Very much open for business!

While our offices remain closed to clients due to COVID restrictions, EQ Agriculture are still very much open for business. As an alternative to a virtual meeting, we have been visiting clients at their premises if they are comfortable with this option. We hope to welcome clients back to our offices as soon as possible.

EQ have continued to recruit new clients during the pandemic so please don't feel that COVID is an impediment to changing accountants. As always, we are happy to speak with prospective clients on a no cost or obligation basis initially if they feel they could benefit from our services.

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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