Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

WINTER 2022

New Year's Resolutions

This is normally the time of year to take stock of the year just past and to plan for the year to come. No doubt readers will have their own thoughts on making resolutions for 2022 but given the current environment, we would like to suggest three resolutions that every farming business should consider.

1. **Focus on what you can control.** Accept that you have no control over the weather, markets, politics, or macroeconomic issues. The only thing you can control is how you react to external events. Focus your time and energy on improving the areas that you can control.
2. **Keep it simple.** Don't over complicate or over diversify. Most successful businesses do a small number of things well. Risk increases when you move outside your circle of competence.
3. **Plan ahead.** Brexit, COVID and de-globalisation have all contributed to supply chain disruption and has extended the lead times for securing farm inputs and in some cases also disrupted the sale of farm outputs. Order inputs well in advance and have a "Plan B" in case your marketing plans don't turn out as expected.

We want to wish all our readers a happy and prosperous 2022.

Pre year-end tax planning

Over the next few months we look to ensure that our clients are making the best use of all the available tax reliefs prior to the tax year end on 5 April.

Key areas to review are as follows:

- If you trade as a company, consider whether you can make use of the £2k dividend allowance per shareholder to extract profits tax free from your company.
- Pension contributions are still very attractive, especially if you have exposure to higher rates of Income Tax, where the tax relief on offer is potentially in excess of 40%.
- If you can, make use of your £20k ISA savings allowance to shelter future investment returns from Income and Capital Gains Tax.
- Company directors may wish to pay themselves a salary to make sure they have enough income to utilise their tax free personal allowance of £12,570, while enabling their company to claim a 19% Corporation Tax deduction on the cost.

These are just some of the areas to consider and those with more complex tax affairs are likely to benefit from a more detailed review.

Scottish Income Tax rates for 2022/23

The Scottish Government's Budget for 2022/23 provided little cheer for taxpayers. The threshold for the payment of higher rate (41%) Income Tax is to remain frozen at £43,662. The higher rate threshold has only increased by 1.54% since 2016/17, when the Scottish Government first had the power to determine tax bands and set the threshold at £43,000.

There is now a significant gap between Scotland and the rest of the UK, where for 2022/23 higher rate Income Tax at 40% will only apply to income over £50,270.

The situation is compounded by the fact that National Insurance (NI) tax thresholds are set in line with UK income tax bands. This means that Scottish taxpayers subject to NI will have a marginal tax rate of over 50% in the income band £43,662 to £50,270 (51.25% for the self-employed and 54.25% for the employed).

With eye watering tax rates applying at relatively low levels of income, taxpayers would be well advised to seek out mitigating strategies.

Life on Mars

Inflation has not been a major concern in recent decades, and it is probably only those over 60 who can remember first-hand the rampant inflation of the 1970s, when rates topped 20%. Hopefully we will not be taking a trip back in time like the character Sam Tyler in "Life on Mars", the fictional police TV series. However, inflation is once again a serious concern, with farmers experiencing significant fertiliser and other input cost inflation. In this article we speculate on the impact that inflation may have on the sector.

Increased working capital requirements

There will be an increase in working capital requirements as more cash has to be paid out to fund the annual production cycle. Overdraft requirements are likely to be higher for the year ahead. For example, a 1,000 acre cereal farm could easily see fertiliser costs increase by £100,000. Make sure this is factored in to cashflow forecasts.

Margin pressure

Farmers have traditionally been price takers, with little or no power to influence the level of commodity markets. In contrast, farm input suppliers often have significant pricing power to push through cost increases. Thankfully commodity prices have been buoyant of late, so this is not an immediate concern. Market dynamics do change however and perhaps more thought should be given to selling a proportion of output forward if prices are attractive given the increased costs that will need to be covered. More money laid out means more at risk.

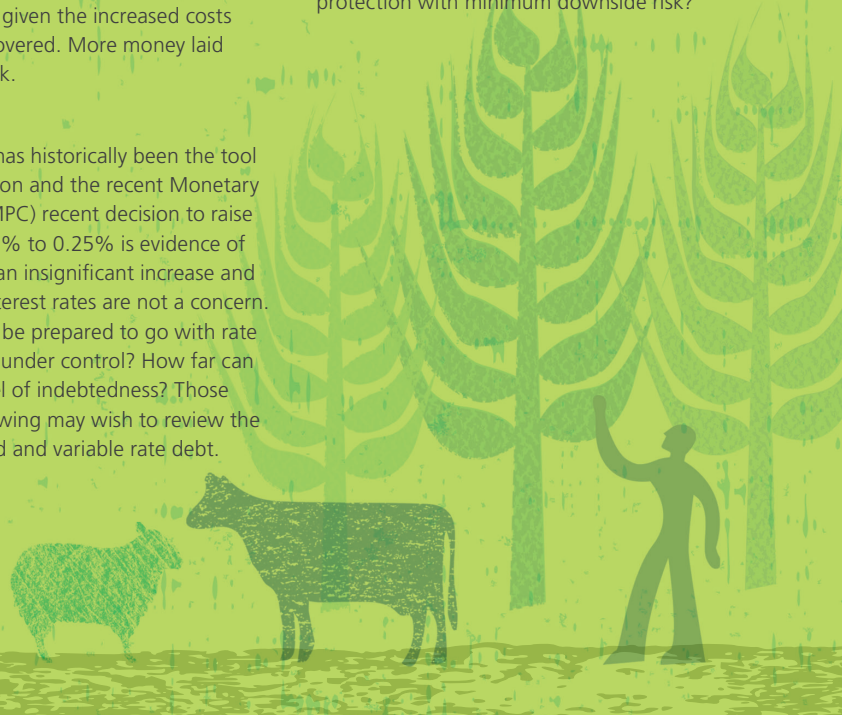
Interest rates

Raising interest rates has historically been the tool used to combat inflation and the recent Monetary Policy Committee's (MPC) recent decision to raise the base rate from 0.1% to 0.25% is evidence of this. This is of course an insignificant increase and the current level of interest rates are not a concern. How far will the MPC be prepared to go with rate rises to keep inflation under control? How far can they go given the level of indebtedness? Those with significant borrowing may wish to review the balance between fixed and variable rate debt.

Real negative interest rates

With RPI in the year to November 2022 at 7.1% (4.6% for the Consumer Prices Index) and interest rates well below this level, we are living in a world of significant real negative interest rates. Will the brave be tempted to borrow heavily and invest in assets such as land, which may well ride the inflation wave, in the hope that asset price inflation will outstrip the interest cost? Possibly, but those who tried this in the Seventies ended up with their fingers badly burnt as the land market cooled and interest rates soared. Hopefully we will not see history repeat itself.

Conversely, those sitting on significant cash balances will see the real value of their money reduce as inflation takes its toll. Setting aside liquidity considerations, can cash balances be switched into alternative assets that offer inflation protection with minimum downside risk?



Tax payments on account

The end of January sees the next instalment of personal tax payments becoming due, but have you talked to your accountant about the amount payable and if that can be reduced?

Typically, January payments are a mix of a balancing payment for the previous year's tax as well as a contribution towards the next tax year.

If you feel that your overall profits will be reduced due to poorer trading results, a reduction in SEISS income or even a planned spending spree on new machinery, then this could lead to a welcome reduction in tax. Why not take advantage of this now?

Please speak to your advisor before you pay more than you need to at the end of January.

No major changes to Inheritance Tax (IHT) or Capital Gains Tax (CGT)

Despite much speculation there were no major changes announced at either the Autumn Budget or on HMRC's tax policy day.

Agriculture continues to enjoy its favoured status for IHT and the absence of any increase in CGT rates will come as a relief to those with asset sales in the pipeline.

There has been one minor favourable change in relation to CGT in that the requirement to notify HMRC and pay any CGT due on residential property sales has been extended from 30 days to 60 days with effect from 27 October, a small but welcome change.

June Census

October saw the publication of the June Census figures on Scottish agriculture.

One of the main areas of note is that the long term decline in cattle numbers appears to have been halted, with total cattle numbers increasing by 0.5% year on year to stand at 1.721m, the first annual increase in ten years.

Follow **this link** for full details.

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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