



Regular News from our Specialist Agriculture Team

SPRING 2022

## Extreme Volatility

**The tragic events in Ukraine have exacerbated inflationary cost pressures that were already in existence and created a spike in commodity prices such as wheat.**

With Russia and Ukraine both significant producers of agricultural commodities and Russia a major supplier of oil, gas and fertiliser, we expect price volatility to continue in the months ahead.

Those who held off selling grain have been able to achieve prices in excess of £300/tonne for wheat - almost double the price achieved for grain moved at harvest. We can expect to see significant variations in the financial performance of farm businesses for 2021/22 based on crop movement dates alone.

We are also now seeing increased cost inflation in relation to key farm inputs such as fuel, electric and fertiliser, increasing the costs of producing crops for the 2022 harvest and putting margins under pressure unless price increases can be secured for the end output.

How this will all play out in terms of farm finances is difficult to fully quantify at this stage and making predictions about the future is always fraught with danger. We would however make the following observations:

- Those who have managed to time sales perfectly to catch recent market highs could

well be looking at an extremely profitable year. Is any additional tax planning required?

- Input cost inflation will massively increase working capital requirements for the year ahead. Do overdraft facilities need reviewing?
- Perishable crops destined for the UK market may not benefit from a significant price increase given, that in the absence of an overseas market, price is largely determined by the big four supermarkets. Have the economics of some enterprises changed fundamentally?
- Crops sold forward on prices agreed last year could have their profitability severely impacted. Is there scope to cite exemption circumstances as an excuse to renegotiate?
- Any easing of tensions in Ukraine could lead to a sudden reversal in output prices if grain and oilseeds from the region can once again be supplied to international markets. Should you consider selling a proportion of your crop forward to lock into currently attractive futures prices?

**We wish all our clients the best of luck in navigating the volatile times ahead. As always, we are here to offer our support and advice.**

# Does your year end date need to change?

**The UK Government has confirmed that the basis period reform will go ahead as planned. This means that the profits and losses of sole traders and partnerships will be calculated based on the tax year itself, not the accounting period ending in the tax year, as is currently the case. Limited companies are exempt from this new legislation.**

These changes will come into play from 6 April 2024 and will affect all businesses who do not use a 5 April or 31 March as their accounting date.

Dependant on your year end, this could see more than 12 months worth of profit being taxed in a single tax year which will in turn significantly increase tax liabilities.

Although there is the possibility to spread these doubled taxed profits over a 5 year period it may still lead to cashflow issues.

Now is the time to prepare for these changes and to check what impact these changes will have on your business.



## Post retirement tax planning

**Ok, so you've successfully managed to sell the farm and paid the Capital Gains Tax (CGT) due, what's next? Hopefully a long and happy retirement. Unfortunately, there are still tax issues to consider.**

Farming enjoys a very privileged status in terms of Inheritance Tax (IHT) in that while you are still farming, most of your assets are likely to be exempt from IHT due to Agricultural and Business Property Relief (APR & BPR). This covers the value of the farm, farmhouse and all the trading assets in the business. When you sell the farm on retirement, you convert these IHT exempt assets into cash which enjoys no special reliefs. For this reason, we would always recommend that anyone who has retired to review their IHT position as assets in excess of the IHT Nil Rate Band of £325k (£650k for a couple) are potentially subject to IHT at 40%.

Your priority on retirement should always be your own financial security, with IHT planning a secondary consideration. Planning options basically fall under three main headings as follows: -

- Make gifts and hope to live for seven years post gift so that the value of the gift falls fully out with your estate.

- Insure against the IHT liability.
- Invest in assets that would qualify for BPR after two years ownership, for example AIM listed shares in trading companies or commercial woodland.

As always, be careful not to let the tax tail wag the dog. If your objective is to leave as much as possible to the next generation net of tax, then asset performance may be more important than tax relief even if this means investing in assets that do not qualify for any special reliefs.

Employing the services of a good wealth manager in addition to your accountant will also help in achieving your objectives and in balancing investment returns against the tax relief available.

We have helped many clients navigate the post retirement tax landscape. If you would like to discuss your circumstances, please speak with your normal EQ contact.

# Spring Statement

On 23 March, Chancellor Rishi Sunak announced his Spring Statement.

## Key policy announcements were as follows:

- The threshold for the payment of increased National Insurance Contributions (NIC) for employees and the self-employed at the new higher rate of 13.25% and 10.25% respectively has been increased from £9,880 to £12,570.
- The employer allowance for NIC is to increase from £4,000 to £5,000.
- Fuel duty to be cut from by 5ppl.
- £1m Annual Investment Allowance (AIA) to be extended to March 2023.
- Intention to cut the basic rate of income tax from 20% to 19% from April 2024, although in Scotland any such decision will be under the control of the Scottish Government.

## Please note, no changes were made to the following:

- 1.25% NIC increase still applies.
- Scheduled main rate corporation tax increase to 25% from April 2023.
- Increase in dividend tax rate by 1.25% from April 2022.

Given the fast changing economic backdrop, we would not be surprised if there was an emergency Budget later in the year.

You can visit our website for a more detailed review of the Spring Statement [here](#).

## Are you ready for Making Tax Digital?

**Making Tax Digital (MTD)** was initially introduced back in 2019 affecting VAT registered businesses who exceeded the VAT threshold, requiring them to maintain their accounting records electronically and submitting all VAT returns through digital software.

With effect from 1 April 2022, it is now mandatory that all VAT registered businesses submit their VAT returns through MTD compliant software. However, there are vital steps for those who are not currently MTD registered that must be taken before you file the next VAT return. You should start the process as soon as possible.

It is important that you consider your current accounting system and ensure that it is suitable for your record keeping and reporting needs and complies with MTD. Even if you are only part way through your business financial year, you will need to make a change to ensure that your systems are compliant. Contact us now if you are unsure and need guidance on the steps to take to be compliant.



# It's Show Time – eventually!

Spring typically sees the beginning of a busy year for our EQ Agriculture team. As well as meeting clients on farm to deal with their service requirements, we will also be out and about supporting various sector events over the course of the year.

If you are planning to attend any of the following shows, please look out for us:

- Fife Show – 21 May
- Kirriemuir Show – 16 July
- Scotsheep – 1 June
- Turriff Show – 31 July & 1 August
- Angus Show – 11 June
- Perth Show – 5 & 6 August
- Alyth Show – 18 June
- Potatoes in Practice – 11 August
- Royal Highland Show – 23 to 26 June
- Agriscot – 16 November
- Scottish Game Fair – 1 to 3 July

We look forward to seeing you all there!



## 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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