



Regular News from our Specialist Agriculture Team

SUMMER 2022

National Basic Payment Support Scheme

The Scottish Government has recently announced that they are once again offering a Basic Payment (BPS) loan scheme to eligible farmers to support cashflow and assist with the cost of living crisis. A loan of up to 95% will be paid to eligible applicants, which is now brought forward to September. This should see payments made one month earlier than planned.

Farmers will start to receive the loan offer paperwork in the post shortly and we would encourage eligible businesses to take up this offer as soon as possible. If previous years are a gauge, farmers who do not take up the loan option could face a wait until the end of June 2023 before they receive any BPS income.

The actual timing of the 2022 BPS receipt should make no difference to the recognition of the

income in financial accounts. It should only be recognised when all qualifying criteria have been met at the end of December 2022. Accounts should therefore only include one BPS receipt each financial year.

If you have any queries regarding the loan scheme or any other matter, please contact a member of our EQ Agriculture team.

Changes on the way for Corporation Tax

Although things can change quickly in today's febrile political atmosphere, as matters currently stand the rate of Corporation Tax is scheduled to increase from the current 19% to 25% with effect from 1 April 2023.

Companies with profits of less than £50k will continue to be taxed at 19% and profits between £50k-200k will be taxed at a marginal rate of 26.5%, with any profits over £250k being taxed at 25%. At present all profits are taxed at flat rate of 19% regardless of size.

The proposed changes will be an unwelcome development for our larger incorporated farming clients as the increased tax rate will reduce the retained profits available for new investment, debt repayment and payment of dividends. In the short term it does however create some tax planning opportunities.

For example, assuming a year end date of 31 March, if crop sales planned for April 2023 could be advanced to March 2023 then the profit on the sale would benefit from a lower tax rate. With current high commodity prices profits could be significant. The profit on the sale of wheat at £300 per tonne is probably in the region of £150 per tonne. Selling 1,000 tonnes of wheat on 31 March 2023 as opposed to 1 April 2023 could therefore save £9,000 in tax ($1,000t \times £150/t \times 6\%$). The downside of an earlier sale is of course the potential to benefit from further price rises later in the marketing season.

Tax will also have to be paid a year earlier than would otherwise have been the case, although earlier sales should overall be beneficial to cashflow. As always, potential tax savings need to be considered alongside commercial considerations.

A reverse approach could be taken with costs, where there would be scope to secure greater tax relief if discretionary expenditure, such as large property repairs can be delayed until after 31 March 2023.

Matters are slightly complicated where your year end does not coincide exactly with the change in tax rate and where this applies then the timing of transactions will need to vary slightly to get maximum tax advantage.

If you feel that this article may be relevant to your own position, then please speak with your normal EQ contact for more detailed guidance.



Preparing for tax payments on account

Tax payments on account due by individuals for 2021/22 tax liabilities are payable by 31 July 2022. Now is therefore the time to discuss with your tax advisor whether or not your 2021/22 taxable income levels have changed materially from 2020/21. If income is expected to be down, then there may be an opportunity to reduce tax payments on account.

Ideally, draft accounts on which 2021/22 tax liabilities are based, or at least credible management figures for the year, might be available so that a proper assessment of tax liabilities can be made. Care is required, however, as lowering tax payments on account without evidence of lower taxable income is dangerous, as interest does apply to underpayments.

Late summer can be a time when cash flow is particularly stretched on the farm, so it is important to provide for all outgoings, including tax payments on account.



2023 wheat margins

Our clients will already be starting to make planting decisions for the 2023 harvest. Final decisions will no doubt be heavily influenced by anticipated margins and, to some extent, whether the autumn weather conditions are conducive to sowing.

While we can't control the weather, we have looked at anticipated margins for feed wheat based on a range of yield and price scenarios. Margins are calculated after seed, fertiliser, and spray costs, plus an allowance for all cultivations, harvesting and drying. The margin generated must still cover all the other overhead costs of the business. Straw is assumed to be chopped. At time of writing, November 2023 feed wheat futures were trading at £270/tonne. The results are presented in the table below.

		Price - £/tonne		
Yield - t/acre		200	270	300
	3.00	2	212	302
	3.50	94	339	444
	4.00	187	467	587

Obviously, much will depend on final sales prices achieved and we do not profess to have a crystal ball in this regard given the volatility possible due to geopolitical issues. However, we do know that input costs soon to be incurred will be much higher than historically has been the case. Key points are as follows:

- Margins are likely to remain attractive if prices are at £300/tonne, even with higher input costs across the normal range of yields.
- Any retreat from current prices coupled with a low yield is likely to prove fatal to margins.
- If opportunities exist to lock into high prices, consider selling a proportion of the crop forward to minimise risk.

Farm purchase questions

The month of June tends to signal the high watermark in terms of farms coming to market. Whilst it is easy to be seduced by the glossy sales brochures and marketing speel, potential purchasers need to ask themselves several hard questions before taking matters further. We set out our thoughts below.

Question	Issues
Why?	What is the strategic rationale for the purchase? Business expansion/economies of scale. Long term development/renewable potential. Displacement of seasonal rented land. Long term capital appreciation. Securing access or other resources. Inheritance Tax planning. Rollover of capital gains.
How will the purchase be funded?	Debt funding or own cash resources? If reliant on borrowing, can you raise the cash? Existing or alternative banks. Loan term. Fixed versus variable rate. Up to date accounts and sound forward projections will likely be a must for any bank.
Is it viable?	In the short term, given where land values currently sit, buying land on borrowed money rarely stacks up. In the longer term it can however still prove to be the correct decision. Are margins likely to improve in future? Is the existing business sufficiently profitable to support the purchase? How would you feel if land values dropped 20%? Are there alternative routes for the repayment of debt such as future asset sales? Is long term capital appreciation the main motive? How would a change in interest rates impact the business?
Who?	Who should buy the farm? Individual, partnership, or limited company. Will be determined by family, tax, and funding circumstances.

The purchase of an additional farm is probably the biggest commitment that any farm business will make. Talking through the potential purchases with your professional advisors in advance will hopefully clarify thinking.



60 day Capital Gains Tax (CGT) reporting reminder

An often overlooked aspect of CGT is the requirement of individuals to report and pay tax on any gains made on the sale, or in some cases the gift, of residential property within 60 days of sale as well as reporting the transaction again on their annual tax return.

The requirement to report gains and pay tax on residential property transactions on a reduced time scale was introduced from April 2020 but there appears to be a lack of awareness of this in some quarters.

If you are selling or gifting residential property, please speak to us in advance so that we can advise you accordingly. For example, the straightforward sale of a surplus farm cottage would be caught by these changes. Don't leave it until after the end of the tax year to tell us.



Stop press – 0.25% rise in Bank of England base rate

The BOE announced a further increase in base rates to 1.25% on 16 June. While base rates are still very low by historic standards and low in relation to the current level of inflation, the new base rate is significantly above the rate of 0.1% seen for most of 2020 and 2021. The increase in interest rate would add an extra £115/acre/year in interest to the cost of funding a land purchase at £10k/acre compared to recent lows, not an insignificant increase.

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.

DUNDEE

14 City Quay, DD1 3JA
01382 312100

Mark Wilken

mark.wilken@eqaccountants.co.uk

FORFAR

Westby, 64 West High Street, DD8 1BJ
01307 474274

Mark Smeaton

mark.smeaton@eqaccountants.co.uk



www.eqaccountants.co.uk

Disclaimer: We make every effort to ensure that the information provided is accurate and up to date; however, EQ cannot be held responsible for any action taken, or not taken, as a result of reading this publication.
Contact us at agriculture@eqaccountants.co.uk or 01307 474274 for specific advice on how the issues discussed could affect you.