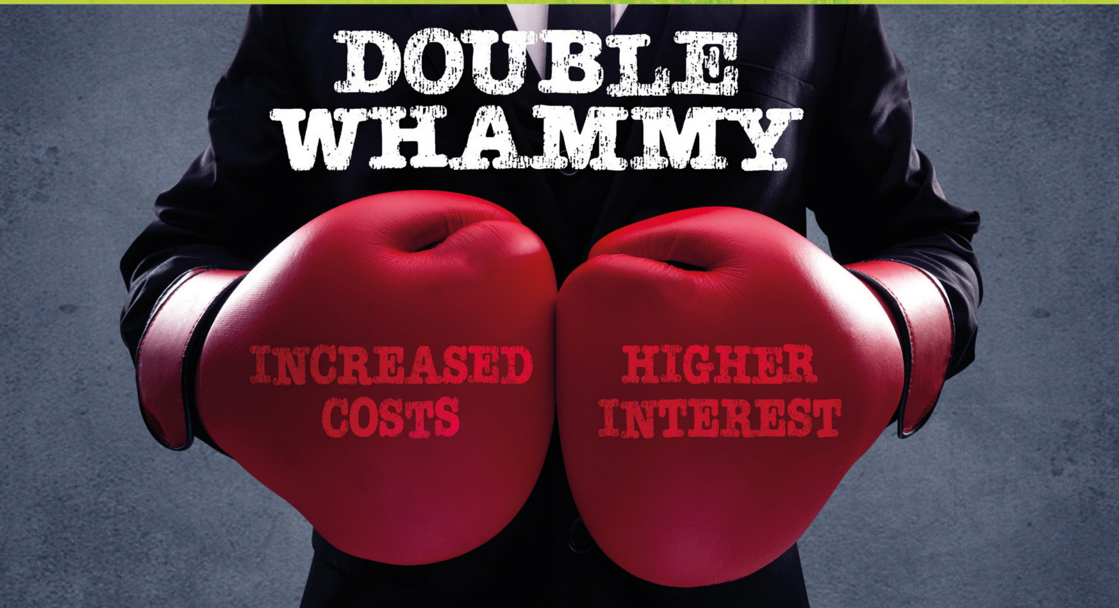
Agriculture News

CHARTERED ACCOUNTANTS



Regular News from our Specialist Agriculture Team

AUTUMN 2022

A double whammy for the sector?

In a bid to control inflation and shore up the value of the pound, The Bank of England (BOE) is now engaged in a cycle of interest rate rises, with some forecasters predicting that base rates will hit 6% by next year.

Key points as we go to press:

- August RPI at 12.3%.
- BOE base rate raised by 0.5% to 2.25% from 22 September.
- 21% devaluation in the value of the GBP against the USD over the past year.

The increase in interest rates will come as an unwelcome blow for the sector, particularly at a time when farm overdrafts are rising due to increased working capital requirements on the back of input cost inflation. The sector now faces a double whammy of higher costs and increased interest charges.

Although many factors influence land prices, it is also conceivable that rising interest rates could have a knock on impact on the land market. Every 1% increase in interest rates adds £100 to the cost of financing an acre of land bought at £10k per acre.

They say that the only point of economic forecasts is to make astrology look respectable so there is probably not much point in speculating too deeply on the future level of interest or exchange rates. What is probably more certain however is that the era of ultra-cheap money is over. Farmers need to factor this into their decision making process.

Basic Payment Scheme 2022

Farm cashflows have received a much welcomed boost with the early payment of this year's subsidy. Funds are due to hit farm bank accounts from 28 September.

This 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 proceed 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.

Controlled Interest in Land

On 1 April 2022, a new register was launched in Scotland to record the details of all people who have control or an influence over someone who owns land or is a tenant of a lease in excess of 20 years. The purpose of the Register of Persons Holding a Controlled Interest in Land (RCI) is to improve transparency about land ownership by making information about those who have a controlling interest in land publicly available.

The RCI may impact many partnerships, trusts or overseas entities and failure to comply will be a criminal offence. The RCI will be free to access and is maintained by the Keeper of the Registers of Scotland.

It is very common in the agricultural sector for one person to own land (Recorded Person) but for that that land to be farmed via a partnership. Under this scenario, the other individual partners may be classed as Associates and must be included on the RCI. This is the case even when the other partners have no ability to share in the capital profits/losses of the partnership. If there is an Associate, then the Recorded Person is obliged to notify the Keeper of the Registers of Scotland about the Associate.

The Recorded Person is also responsible for updating the RCI for any changes to the Associate details, with any changes to be reported within 60 days.

With the RCI regulations already in place, this has triggered an obligation on all existing Recorded Persons with associates to disclose the required information to Registers of Scotland – or, in other words, the RCI will need to be "backfilled" with all existing associations as well as associations created since 1 April 2022. There is a grace period of one year meaning that the penalties will not apply until 1 April 2023.

If you believe you may be a Recorded Person or an associate, please contact your usual EQ contact or discuss this with your legal advisor as soon as possible to allow any action to be taken ahead of 1 April 2023.

Access payments and rights of servitude

The installation of green infrastructure often requires access across third party land for the installation of cabling etc. Given the increasing prominence of wind and solar power such arrangements are only likely to increase in future. Compensation payments can be very significant in some cases, but how should they be taxed? Compensation payments generally fall under two headings.

Firstly, there will be disturbance payments for crop compensation and any extra costs incurred. These should be treated as trading receipts and will be subject to Income Tax.

Secondly, part of the compensation will be for a right of access across the land in perpetuity. This should be treated as a capital gain, subject to Capital Gains Tax (CGT).

Given that rates of CGT are generally lower than Income Tax rates, it is important that any compensation payments are correctly classified.

If you are affected by these issues and are unsure how any compensation should be taxed, then please speak to us.

Rent freeze on residential lets

The Scottish Government announced a rent freeze and a moratorium on tenant evictions on 6 September until at least 31 March 2023 in a bid to tackle the cost of living crisis. While perhaps well-meaning, the move is likely to prove counterproductive in the longer term since as we have seen from other countries such measures ultimately reduce the supply of residential property for rent.

The announcement will have come as unwelcome news by farms and estates, who often derive significant income from the letting of residential property. There is also the concern that once such measures are introduced, they will be difficult to remove and will last beyond March 2023. When properties do fall vacant many will be tempted to remove them from the residential letting market and instead convert the properties to furnished holiday lets (FHLs), especially given the boom in staycations over the past two year.

Going forward though, the returns from FHLs may not be as great as expected due to several factors, including:

- The reopening of foreign travel leading to reduced demand.
- A reduction in holiday budgets as consumers adapt to the costs of living crisis.
- An increase in the supply of FHLs on the market because of new entrants and the conversion of residential lets to FHLs.
- Rising interest costs increasing the often substantial cost of conversion to high quality FHLs.

Owners of residential property are therefore faced with an unenviable dilemma. They can either stick with residential lets and face increased regulation and rent controls or switch to FHLs and face uncertain returns.

A well run, attractive FHL in a great location should generate attractive returns but anyone thinking about entering the FHL market at this late stage needs to think very carefully about the viability of the project, modelling projections at various levels of rent, occupancy levels and interest rates, before giving the project the green light.

Sector focus – Potatoes

At EQ we are fortunate to work with many potato growers. Plenty have enjoyed the financial benefits generated from this high risk/high return crop. However, margins have been under pressure over the last few years, with this trend likely to continue or even accelerate.

Potatoes are not a crop that you can jump in and out of, but growers must assess whether the likely future risk/reward trade-off provides sufficient incentive to invest in next year's crop.

We note below several points to consider.

- Input costs – with the significant rise in costs, in particular fertiliser, fuel, and labour, are predicted yields and prices sufficient to not only cover costs but provide for a reasonable return?
- Investment – the price of potato equipment has reached eye watering levels and shows no sign of letting up. Can your business afford to keep up to date with the "must have" machinery or are you over-equipped for the area that you grow?
- Markets – are you overly exposed in terms of tonnages sold on free-buy? Unless mother nature provides us with an exceptional weather event markets tend to struggle with excess free-buy crop.
- Storage requirements – over the course of the last few months we have seen significant increases in electricity prices. Growers may experience a 4-5 fold increase in cold store electric bills. Are forecast prices sufficient to cover the increase in storage costs? Several potato packers have been under pressure to contribute towards this additional cost, however are the incentives sufficient?
- Working capital – factoring in the above issues as well as the ongoing increases in bank base rate, the cost to produce a tonne of potatoes will be far higher than it ever has been.All growers must ensure that they have the necessary funds to produce the crop.
- Opportunity cost of land and building – Could you let out your own potato land and storage facility at an attractive rent? A localised shortage of land has led to very strong rents in certain areas.

The sector is certainly not for the faint hearted and with a decline in the overall demand for fresh market produce each grower must ensure the financials stack up for them. Now is the ideal time of year to take stock of tonnes lifted, assess growing costs, and make plans for the coming year.

As with other specialist areas we see a trend towards the sector being dominated by large scale professional growers who have the necessary capital and technical expertise to turn a profit in what is becoming an ever more demanding space to operate in.

Key points from the “mini” budget

There was nothing mini in the statement issued by new chancellor Kwasi Kwarteng on 23 September, as he announced a raft of tax cuts designed to incentive enterprise and hopefully turbocharge growth. However, no plan survives contact with the enemy as they say, and since the original announcement the plan to cut the top rate of Income Tax has been reversed. The key points were as follows:

- The planned increase in the Corporation Tax rate from 19% to 25% from April next year is now cancelled, with rates to remain at the current 19%.
- The 45% additional rate of Income Tax payable on general income over £150k in the rest of the UK was to be abolished with effect from 6 April 2023, with the top rate reducing to 40%. Policy now abandoned.
- The basic rate of Income Tax in the rest of the UK on general income is to be reduced from 20% to 19% from 6 April 2023.
- The rates of tax on dividends to be reduced by 1.25% from next April. This change applies to the whole of the UK.
- Rates of National Insurance for employers and employees to be reduced by 1.25% each from 6 November 2022.
- The Annual Investment Allowance for Capital Allowances is to be set at a permanent basis at £1m in line with the current level. It had been scheduled to reduce to £200k from April next year.

The changes to corporation and dividend tax rates will have been particularly welcomed by our corporate farming clients as the changes will enable them to retain more profits within the business to either fund investment or pay down debt, or where they choose to, extract profit via dividends in a more tax efficient manner.

With Income Tax on general income being a devolved matter for the Scottish Government it remains to be seen what changes Scottish taxpayers will face.

AgriScot – The Farm Business Event

Our Agriculture team will once again be represented at AgriScot, which takes place at the Royal Highland Centre on Wednesday 16 November 2022.

Doors open at 9am and there is free entry and free parking. Full details at www.agriscot.co.uk.

We look forward to welcoming clients and contacts to our stand, 106 in the Highland Hall.

Consultation launched

On 29 of August the Scottish Government launched a consultation on making Scotland a global leader in sustainable and regenerative agriculture.

The consultation closes on 21 November.

Readers can give their response by **clicking here**.

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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