Agriculture
News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

WINTER 2022/23

Happy New Year

At the start of 2022 few people would have predicted all the events and changes that would unfold. No doubt 2023 will also contain many unexpected twists and turns in what seems like an increasingly challenging environment.

However, whatever the New Year holds, we look forward to working with and advising our clients over the coming months.

We wish all our readers a Happy New Year and hope you enjoy reading the winter edition of our agricultural bulletin.

The Price of Time

The Bank of England raised the base rate to 3.5% on 15 December, the ninth increase since it started to increase rates from December 2021. Assuming a typical bank margin of 2.5%, the cost of borrowed capital will now be 6% for many clients.

For most of 2020 and 2021 the base was 0.1%. Money was effectively free, and the cost of borrowing could be ignored. This is no longer the case and farmers should factor this into their costings if not already doing so.

For example, the interest cost of storing a tonne of wheat valued at £235 now amounts to £1.18 per month while financing a £1,000 cattle store for 6 months would cost £30. Enterprises with high costs and long production cycles such as potatoes will be most affected. As they say, time is money, and the price of time just got more expensive.

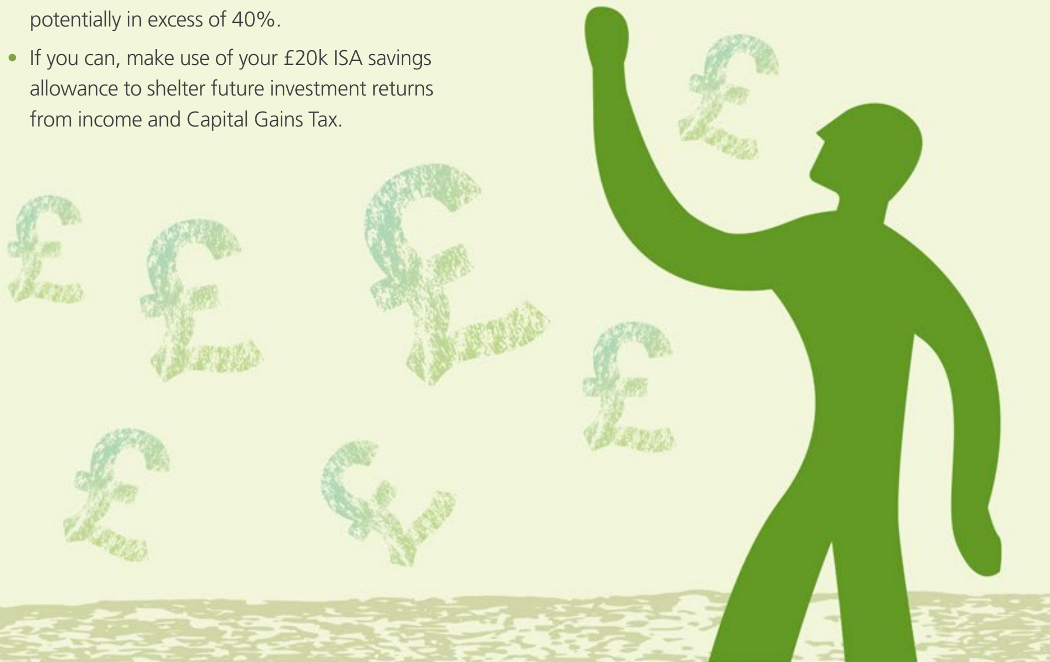
Pre Year-End Tax Planning

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.



Another Budget...

In our Autumn issue Liz Truss's Chancellor, Kwasi Kwarteng, had just delivered his Mini-Budget. As we went to press things were already starting to unravel. With both now gone, and new Chancellor Jeremy Hunt reversing most of the announced changes in his budget of 17 November, it has been a grim period for taxpayers. Follow the link for full details.

In the light of all the gloom and doom it is perhaps worth mentioning areas which could have been changed to the detriment of taxpayers but have been left untouched for now.

Notable areas are as follows:

- No change in the main headline rates of Capital Gains Tax (CGT) – 28% for residential property and 20% for other assets.
- CGT Gift Holdover Relief remains in place for gifts of business assets.
- Business Asset Disposal Relief remains unchanged, enabling £1m of gains at 10% on the disposal of a business.
- No change to Inheritance Tax reliefs – Agricultural Property Relief (APR) and Business Property Relief (BPR) remain in place.
- Full tax relief at your marginal rate on any pension contributions despite concerns that the abolishment of higher rate relief would make an easy target for cost savings.
- £1m Annual Investment Allowance remains unchanged for Capital Allowances.

Things have certainly got tougher but there are still windows of opportunity for effective tax planning. How long this lasts for is of course anyone's guess.

Scottish Tax Rates to Increase

The Scottish Budget was announced on 15 December, with the main highlights as follows:

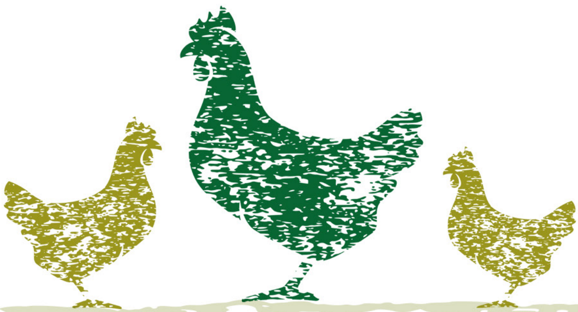
- The rate of tax on the two top income bands is to be increased by 1% each to 42% and 47% for 2023/24 tax year.
- The threshold for paying the 42% rate will remain frozen at £43,662 while the threshold for payment of the top rate will reduce from £150,000 to £125,140, with the later change in line with the rest of the UK.
- Addition Dwelling Supplement (ADS) for Land and Building Transaction Tax (LBTT) to be increased from 4% to 6% from 16 December 2022.

The changes will have come as a blow to hard working, aspirational and entrepreneurial Scottish taxpayers.

The rates of income tax only apply to earned and rental income, with UK rates and bands applying to dividends and interest.

With inflation in excess of 10%, higher rate tax now applies to relatively low levels of income in Scotland. The interaction of Income Tax and National Insurance can also create some eye watering marginal rates of tax within specific bands. For example, the self-employed in Scotland will suffer a marginal tax rate of 51% on income between £43,662 and £50,270 due to non alignment of Income and National Insurance tax bands with the rest of the UK.

With tax rates rising the importance of effective tax planning has certainly increased and we look forward to advising our clients in this regard in 2023.



Beef Focus

Scotland is renowned worldwide for the quality of its beef cattle, but the sector has been contracting over many years. Total Scottish cattle numbers peaked at 2.68m in 1974 but had reduced to 1.72m in 2021, the date of the most recently available statistics, representing a decline of almost 1m head over the period.

Prices have been buoyant of late, with finished cattle selling for over £1,700 per head. Costs have also increased, notably feed, so margins remain under pressure. Cattle numbers appear to have stabilised for now at least.

However, at the farm level, those still in the sector should regularly review the place of the beef enterprise in their business model, as indeed you should do with any farm enterprise. In this article we highlight some of the questions to consider.

Why are you in the cattle sector?

Producers need to consider why they are in the sector in the first place. Possible reasons include:

- Diversify the business.
- Additional profit centre.
- Utilise marginal land or a grass break in an arable rotation.
- Using FYM to boost soil fertility.

You may just be in it because you enjoy it, which of course is fine if you can afford to do so.

What are the main challenges facing the sector?

The sector faces several headwinds, including:

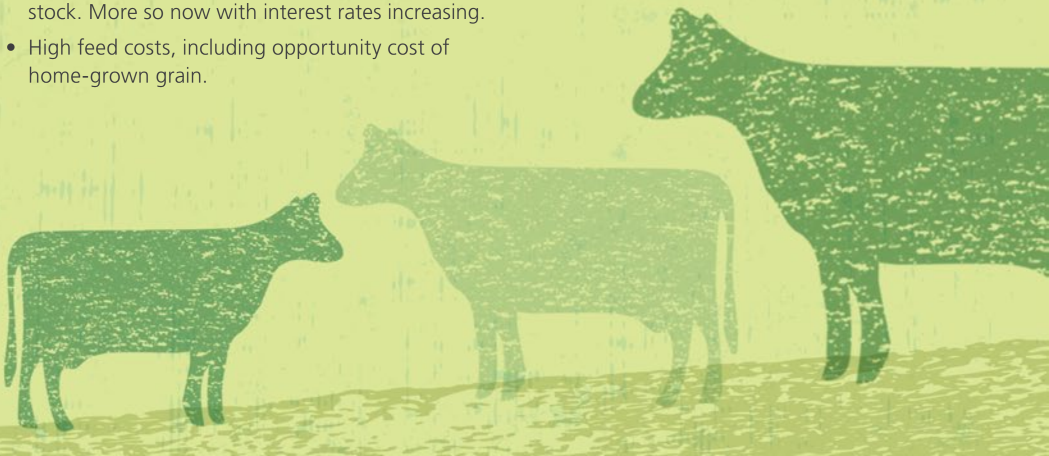
- Availability of skilled labour.
- High capital cost of associated infrastructure – buildings/plant and machinery.
- Cost of financing the working capital tied up in stock. More so now with interest rates increasing.
- High feed costs, including opportunity cost of home-grown grain.

What can drive profitability?

Many factors will influence this, but key factors are likely to be:

- Operating at sufficient scale to make it worthwhile, assuming the enterprise is profitable in the first place of course.
- Technical performance of the breeding herd – tight calving period, high calving % and long cow life.
- Getting the most out of summer grazed grass, the cheapest available feed.
- Adopting a capital light model in terms of infrastructure.
- Short intensive finishing periods are likely to be more efficient as the proportion of feed going on maintenance is less.
- Setting targets and monitoring key performance indicators (KPIs) on a regular basis.

Beef production certainly has a place in Scottish agriculture and there will always be those who are able to turn a profit even in challenging times. Like all aspects of running a farming business, producers need to approach the enterprise in a professional and systematic way to maximise the chances of success. Know why you are in the sector; recognise the challenges you face and have a clear understanding of what drives profitability in your particular system.



Farming Retail

The demand for agritourism amongst the general public is proving to be a growing and unique opportunity for Scottish farmers. Whilst agritourism takes many forms a key component is farm retail. Fresh and high quality local produce is becoming more popular allowing a clear market direct to consumer, reducing reliance on supermarkets and their pricing policies.

However, with every opportunity there are a variety of hurdles. Many new ventures struggle to overcome these challenges and face closure before their new enterprise is even off the ground. Some initial homework will go a long way.

Areas to consider:

Viability - Whilst this presents a fantastic opportunity, there are undoubtedly challenges not least the cost and time in establishment. However, it is important to remember that not every farm retail venture requires the cost of a bricks and mortar farm shop. Farm retail can take many forms from online shops, local delivery services run on subscription, meat and vegetable boxes and even vending machines.

Promotion - Perhaps the most important factor in the success of all farm retailing ventures is one not normally faced by those in the farming industry - marketing. It is important to connect to potential customers with a clear brand and message. Consumers place importance on both the locality and story behind a product, so it is vitally important to promote both aspects to potential customers.

Price – This appears to be a major stumbling block among many in the farm retail sector and can greatly impact the profitability of these projects. Farmers for so long have been forced to accept low prices and continue to undervalue their produce and are afraid of charging what their produce is actually worth. In any farm retail venture it's important to remember that you are offering a product different to supermarkets and a product which most importantly customers want!

If you would like to discuss the impact of diversifying into any aspect of agritourism then please get in touch with your EQ advisor.

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 due to poorer trading results or even a planned spending spree on new machinery, your overall profits will be reduced, 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.

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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