Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

SPRING 2023

Welcome to spring

Spring is a time of optimism, and as the spring sunshine starts to warm the ground and the dark days of winter recede into memory farmers will look forward to the growing season ahead. A natural time to reflect on the lessons learnt from last year in the hope of making further improvements in the season to come.

Every year is of course different, and no one wants to be like the general who plans for the last war. The tricky part is of course trying to learn lessons from the past while also trying to anticipate the new threats and opportunities that may lie ahead. Would it be too much to ask for kind weather and decent prices for 2023? We can only live in hope.

Farm incomes increase

Figures released by the Scottish Government at the end of March showed that the average Scottish farm had an income of £50,000 in 2021/22, an increase of £11,000 on the previous year and the highest in a decade in real terms.

Excluding support payments, the average farm would have had an income of £5,100, with 56% of businesses making a loss in the absence of support payments.

While pleasing to see, the figures do show the continuing reliance on subsidies for many farm businesses despite the buoyant prices that existed last year.

We would advise readers to deduct support payments from their reported profits to test the resilience of their own business. A significantly negative figure may indicate the need for a rethink.

Corporation tax changes and associated companies

After a series of "do we" or "don't we" Chancellor debates, the planned increase to the UK corporation tax rate took effect from 1 April 2023. The rate was increased from 19% to 25%, marking the largest rise the tax rate in almost 50 years.

The corporation tax rate increase will apply to companies whose taxable profits exceed the "upper profit limit" of £250,000.

A new "small profits rate" has been introduced at the old rate of 19% for those companies whose total taxable profits do not exceed the "lower profits limited" of £50,000.

Profits between £50,000 and £250,000 will be taxed at a marginal tax rate of 26.5%.

It should also be noted that the "upper" and "lower" profit limits will be divided by the number of associated companies. Therefore, companies should evaluate their group structure and associates to ensure that it is not pulling them into a higher rate of corporation tax.

Broadly speaking, a company is associated with another company at any time when:

- One company has control of the other
- Both companies are under the control of the same person or group of persons

If you would like to discuss your company structure or how the new rates will impact your business, please get in touch.

Combinable crops focus

Combinable crops at c. 470,000 ha account for 80% of Scotland's cropped area. The profitability of the sector therefore has a material impact on the earning potential of Scottish Agriculture.

To say the last twelve months have been a rollercoaster for combinable crops would be an understatement.

Wheat prices peaked at over £350/t last March in the wake of the Russian invasion of Ukraine but have now drifted lower, with wheat futures trading at £195/t and £213/t for May and November 2023 respectively at time of writing.

The 2022 growing season was also very favourable with an early spring, plenty of summer sunshine and a dry harvest. Many of our clients produced record yields with minimal requirement for crop drying.

Key input costs have also tracked crop prices downwards, with ammonium nitrate peaking at over £800/t last autumn before falling back to under £600/t currently.

Good margins are still possible in the sector but the "excess profits" that some enjoyed last year have disappeared for now.

In addition to the cost of variable inputs the price of machinery also continues rise. While the effect of expensive fertiliser may only last one season, expensive machinery will have to be written off over several seasons, essentially baking in the current high cost of these items for years to come.

Given output and input price volatility, actual margins at the farm level will vary considerably depending on when sales and purchases are made.

Output prices have always varied depending on global supply and demand, with weather events in one region having the potential to materially reduce or increase supply and precipitate a price spike or slump accordingly. The conflict in the Ukraine creates an additional level of uncertainty, with the potential to magnify normal price movements in ether direction.

Given all that is happening it is perhaps difficult to offer advice, but growers should perhaps consider the following points to get the most form this enterprise.

- Have a marketing plan so that you at least have a chance of selling a proportion of your crops at a high price. The old advice of selling forward a third at planting, a third at harvest and storing the remainder for movement late season may be one way to hedge against volatile prices.
- Combinable crops are commodities. Producing high tonnages that meet specification at minimum cost is what wins. Maximising yield and reducing cost of production through attention to detail is still key. Focus on what you can control.
- Given the high cost of fixed equipment combinable crops need to be operated at scale to be profitably over the long term. Growers may well be better off entering into a contract farming operation where crop areas are insufficient to justify new investment in plant and machinery. It may be foolish to base investment decisions on current inflated prices.

Does your year end date need to change?

The UK Government has once again 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 unaffected by this new legislation.

These changes will come into play from 6 April 2024 and will affect all businesses who do not use 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.

The additional profits that arise from the change in the year end can be spread over a 5 year period to spread out the tax burden.

If your accounts end year is not already aligned with the tax year you need to think about how this will affect your business.

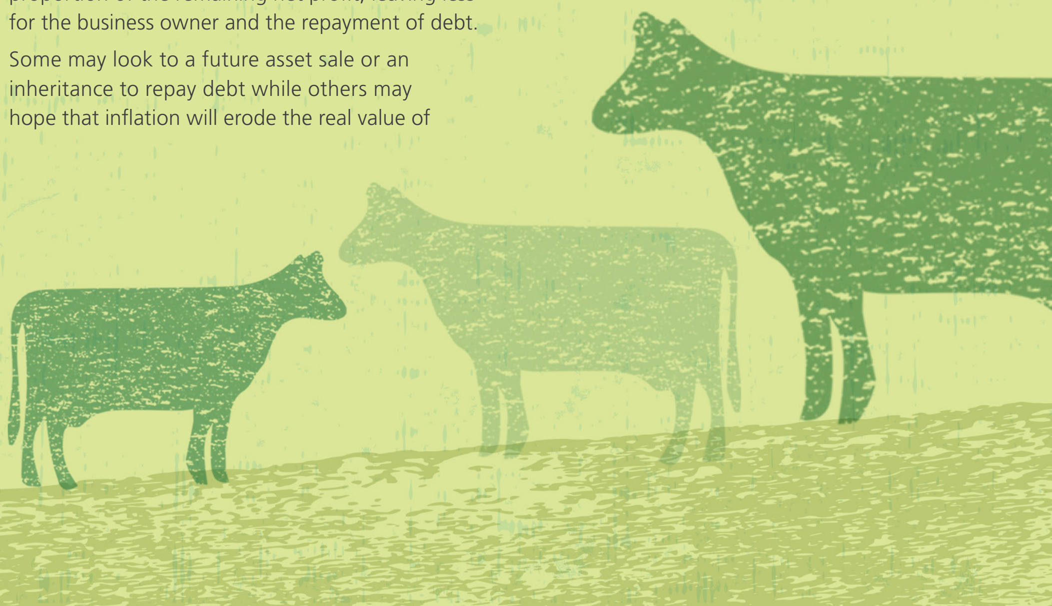
A bad combination

Since our last bulletin in December 2022, we have seen two further increases to the BOE base rate, from 3.5% to 4.25%.

Scottish and UK Budget announcements have also confirmed tax increases from April this year, with increases in corporation tax, either frozen or reduced allowances and increased tax rates at certain income levels for income tax.

The two make a bad combination for those seeking to repay borrowing from trading profits as increased interest costs reduce profit levels and then increased taxes are likely to take a bigger proportion of the remaining net profit, leaving less for the business owner and the repayment of debt.

Some may look to a future asset sale or an inheritance to repay debt while others may hope that inflation will erode the real value of any borrowing over time, so may not be overly concerned. Those seeking to repay debt from trading profits should however be aware of the impact of these changes. Stress testing the viability of new investments financed by borrowed capital and ensuring an appropriate repayment term will assume greater importance going forward.



Agricultural reform route map

The Scottish Government published its "Agricultural Reform Route Map" back in February, highlighting plans for the replacement of the current BPS regime with a new system of support. **Follow this link for full details.**

The document does not yet answer all the questions about the new support framework or the level of support that will be available. It does however provide dates when current schemes will end and the structure of future support arrangements.

The direction of travel would appear to be clear however, with half of future funding targeted towards biodiversity gains and a drive towards low carbon approaches. Those with an interest in the area would be well advised to study the document.

VAT changes – points don't win prizes!

For VAT return periods starting from 1 January 2023 onwards, the VAT default surcharge regime has been replaced by a new penalty system with separate penalties for late VAT return submissions and late payment of VAT.

The new penalty points system is intended to be less punitive where the taxpayer misses the occasional deadline. HMRC will allocate a taxpayer 1 point each time a filing deadline is missed and like driving licence "points", your points for late returns will expire after a specified period has elapsed, unless you exceed the penalty thresholds. An important new development is that points can be "earned" for late £Nil returns and even repayment returns.

When you reach the relevant number of points, a £200 fine will be charged. All subsequent missed deadlines will trigger a penalty.

A penalty will be charged when your total equals these thresholds:

Submission period	Points threshold
Annual	**2 points**
Quarterly	**4 points**
Monthly	**5 points**

If you are facing a VAT penalty or would like to understand these changes in more detail, please get in touch with us.

It's Show Time

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 – 20 May**
- **Angus Show – 10 June**
- **Royal Highland Show – 22 to 25 June**
- **Scottish Game Fair – 30 June to 2 July**
- **Kirriemuir Show – 15 July**
- **Turriff Show – 30 to 31 July**
- **Perth Show – 4 to 5 August**
- **Potatoes in Practice, Balruddery Farm – 10 August**
- **Future Farming Expo – 10 to 11 October**
- **Agriscot, Ingliston – 22 November**

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.

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