Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

SUMMER 2023

Welcome to summer

With the busy spring period now complete, hopefully our readers can appreciate a relatively quiet few months before harvest commences. Crops and livestock are currently looking well, albeit often established with very expensive inputs. We can only hope that with some fair weather and decent prices 2023 will turn out reasonably well. The quieter summer months also provides an opportunity for reflection and to start making plans for next season, which of course starts as soon as the current harvest is complete. Despite the challenges facing the sector we hope you take time to enjoy the season and reading this quarter's edition. Keep the sun in your face and let the shadows fall behind you as they say.

Don't create your own Succession drama!

For those of you who watch the TV series Succession, you will be well acquainted with the issues that surround the planning of one's future.

In the world of farming, advisors frequently encourage families to consider succession, with varying degrees of success. But why is it often such a contentious issue and what solutions can make it easier for a family to reach consensus around a succession plan which satisfies all concerned?

The problems can be obvious. The older generation may not feel ready to relinquish control or reduce their input. As much as adult children coming through may want their parents to start taking it easier as the years roll on, the parents may have no desire to do anything differently just yet. An enforced retirement is rarely a happy one!

Fresh blood and new ideas are usually good for a business, as very few entities stay the same decade after decade without evolving and adapting to the changing environment within which they operate. But new ideas and change can only work well if they have buy-in from everyone who will be affected, rather than imposed by the individual whose idea it is.

However, once the topic of succession is out there and conversations begin, many families quickly find that they are all on the same page and a course of action can quickly and easily be agreed. Discussions must also take into account non-farming children. This may, or may not, be part of the master plan.

The tax implications and mechanics of how to implement an agreed succession plan will rarely derail that plan, although it is important that appropriate advice is taken throughout the process.

Now more than ever talking is good and talking about the future, for individuals, families and businesses is even better.

Where did it all go wrong?

Last autumn, cereal farmers had just enjoyed a very easy harvest and were looking forward to marketing their crops over coming months. Wheat at harvest was trading at c. £265 per tonne and the expectation was that prices would then rise from this point through to next harvest to reflect the costs of storage, with potential greater upside than normal due to heighted geopolitical risk. Many were hoping for a replay of the 2021/22 marketing season when prices topped out at over £350 per tonne. Unfortunately, events have not turned out as planned and wheat is currently trading ex farm at c. £170 per tonne due to greater than expected supply out of the Black Sea and possible demand destruction because of high prices earlier in the season.

If anything, the last few months highlight the extreme volatility possible in commodity markets, even within short time frames. With the benefit of hindsight, the lesson perhaps is to take some money off the table when you are well ahead in the game and not bank on your luck continuing. Any grain bought at high prices and still held in stock at your year end should be written down to market value in the accounts so that any loss can be crystalised and offset against other profits in the business.

Preparing for tax payments on account

Tax payments on account due by individuals for 2022/23 tax liabilities are payable by 31 July 2023. Now is therefore the time to discuss with your tax advisor whether or not your 2022/23 taxable income levels have changed materially from the previous year. If income is expected to be down, then there may be an opportunity to reduce tax payments on account.

Ideally, draft accounts on which 2022/23 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.

Pension changes

In the latest UK Budget on the 15 March 2023, the Chancellor announced that the annual pension contribution allowance was to be increased from £40,000 to £60,000. He also advised that the pension Lifetime Allowance of £1,073,100 was to be abolished. These came into play with effect from 6 April 2023.

Both changes came as a welcome surprise to those who plan for their retirement. Reported profits for the 2023/24 tax year are likely to be higher than normal in many cases on the back of recent strong commodity prices. Increasing pension contributions could be one way to mitigate the tax bill arising and provide a fund for retirement.

Sheep focus

After the 2016 Brexit vote we were assured by "the experts" that the sheep sector was doomed and the lack of access to European markets would lead to a crash in prices and mass exodus from the industry. Fortunately, events have not turned out as expected as is often the case with predictions on the future. The Scottish ewe flock has remained relatively constant at c. 2.6m ewes over the past decade and producers have enjoyed very firm prices over recent years, with finished lambs and cull ewes currently trading for £140 per head and £100 per head respectively.

At these prices a sheep enterprise has the potential to compete with combinable crops in gross margin terms, especially on more marginal arable land. A renewed interest in regenerative agriculture has also brought into focus the benefits of grass breaks and the importance of livestock as part of an arable rotation. Is it therefore time to reassess the merits of a sheep enterprise in a mixed farming setting?

We set out the pros and cons below.

Positive points	Negative points
Minimal building requirements compared to cattle	Investment in stock proof fencing essential
Can utilise grass break in arable rotation	Lambing will clash with spring arable work
Increased arable yields through improved soil fertility	Difficulty in sourcing skilled staff
More diversified business income	Current high sheep price could reverse
May tick more environmental boxes	Current high price of breeding stock for new entrants

The key performance indicators underpinning the successful economics of a sheep enterprise are as follows:

- Operate at scale, ideally over 1,000 ewes.
- High lambing percentage. Target over 180% for low ground flock.
- Good grassland management to achieve adequate stocking density and finish a high proportion of lambs off grass.

Producers would be well advised to focus on these metrics to get the most out of their enterprise.

Those who don't have the commitment for a full-scale breeding flock may be tempted to get some of the benefits by purchasing store lambs to fatten. While this of course can be a highly profitable enterprise if done at scale, it is dependent on getting a big enough margin between purchase and sales price. Well bought is half sold as they say and the ability to do this may not exist every season. Set a budget when purchasing and stick to it.

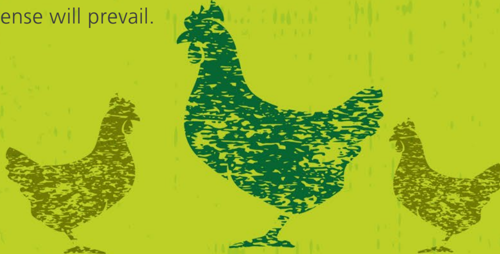
Rishi makes "eye-catching" policy announcement

The farming sector is once again facing some uncertain times after the UK Government announced its proposal to put a voluntary retail price cap on certain food items, including eggs and dairy.

Surprisingly this statement follows on from the first ever "Farm-to-Fork" summit held at Downing Street one month ago, when the Prime Minster spoke of only support for farmers throughout the UK. To say that the reaction from retailers and farmers alike has been less than positive would be an understatement.

Large food retailers are not charities, and any government-imposed price cap is likely to be reflected in the price paid to primary producers, disincentivising production, leading to shortages and, yes, eventually higher prices for consumers. We have already seen a similar dynamic play out in the residential letting market in Scotland following the imposition of price caps.

In a crowded field of third-rate policy announcements this one seems particularly ill conceived. We can only hope that common sense will prevail.



Effective working capital management

When base rates were at 0.1% and money was essentially free, it was easy to ignore the importance of sound working capital management. With base rates increasing to 4.5% on 11 May and expectations of further increases to come, it is now more important than ever for farmers to optimise their working capital management, i.e. reduce the capital required to operate the business, in order to minimise finance costs. We set out our top tips on how to achieve this below.

1. Make sure VAT and tax returns are up to date. If you are due a repayment, the quicker you get the money in the better.
2. Make full use of credit terms provided by suppliers.
3. Chase in debts.
4. Minimise stock of inputs is possible, but subject to security of supply.
5. For infrequently used machines consider using a contractor compared to outright purchase.
6. Consider timing of sale for livestock and crops. Earlier sale improves cash flow so potential gains from deferment need to be relatively certain.
7. Be able to retain profits within the business so that you are less reliant on external finance.

While no borrower likes to see interest rates increasing it may just however provide the necessary catalyst to sharpen up business management.

Cultivate your career at EQ

At EQ, our people are at the heart of what we do. It's our passion, drive and understanding of real farming issues that can make a difference to our clients. As a firm, we pride ourselves on offering a fantastic training experience with an emphasis on practical learning that suits those that prefer to be more hands on. We can help develop a range of skills that will allow everyone to grow both professionally and personally – and understand that nothing can beat practical experience.

A large proportion of our team come from an agricultural background, with many starting with us as trainees with little knowledge of accountancy, but a passion for farming. If any of our readers are interested in a career at EQ, or know of anyone who would be, then please get in touch for more details.

Supporting our charity of the year – Alzheimer Scotland

This year sees Alzheimer Scotland as our chosen charity at EQ.

In Scotland, over 90,000 people have dementia. It is most common in the elderly however it can affect people in their 40s and 50s. Alzheimer's disease is an illness of the brain which causes dementia. Over half of the people in Scotland who have dementia have Alzheimer's disease.

Alzheimer Scotland is an exceptional charity that provides services and support across Scotland.

As part of our efforts to support it, we have undertaken a variety of fundraising events which have been extremely successful. We are also organising a planned walk of Jock's Way (Braemar to Glen Clova) later on this summer. Fingers crossed the weather behaves.

Please look out for our fundraising efforts for a very worthy charity!

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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