Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

AUTUMN 2023

Welcome to autumn

"Season of mists and mellow fruitfulness" was how poet John Keats described autumn. Hopefully our readers are starting to enjoy the fruits of their own labour after what can only be described as a mixed growing season, with unusually high levels of volatility in terms of both input and output prices. Of course, as one season comes to an end another starts. We hope that you enjoy looking forward, realising your plans for next year, and to reading this edition of our bulletin.

The next generation

Many farming businesses trade as family partnerships and a question that often arises is when to bring in the next generation as partners.

Understandably, some may be reluctant to do so as they assume that this automatically gives the new partner a share or part ownership of the actual farm. Providing all documentation is in place, this need not be the case and often, initially at least, the new partner is only entitled to a share of trading profits or losses.

A well thought out partnership agreement is of course essential to make sure all parties are aware of their rights and obligations from the start. Decisions on actual land ownership can be made at a later stage and, if appropriate, an interest in the farm itself can be gifted in due course.

Bringing in a new partner is often important from a business succession perspective and if the business is looking to borrow money long term, then the bank will often review the age profile of the partnership to assess whether there will still likely be someone around in 20 years' time to service the borrowing! Partners are of course jointly liable for any partnership debt and any new partner needs to be comfortable with this after an assessment of the risks involved.

An alternative to appointing a partner is of course to treat the next generation as employees of the business initially and this can be a useful stepping-stone to partnership status.

From a tax perspective, being treated as a partner is normally advantageous compared to employee status and will result in savings in national insurance. It will also allow the business to avoid employee related legislation and obligations.

The right approach and timing of events will often depend as much on family dynamics as tax, finance, or business succession requirements. As always, it is best to consider these issues at an early stage and discuss with your professional advisors as appropriate.

Spreading the cost of loan repayments

Base rates were increased by a further 0.25% to 5.25% on 3 August 2023. Thankfully, rates were not increased further as expected when the MPC met again on 21 September 2023. With base rates at 0.1% for most of 2020 and 2021, the cost of servicing a variable rate term loan will have increased considerably.

Can anything be done to ease the cash flow pressure? One option may be to repay the loan over a longer period to reduce the cash outflow.

By way of example, the table below sets out the annual cost of servicing (interest and capital repayments) a £1m loan over various repayment terms at an interest rate of 8%.

Term – years	Annual servicing cost - £
5	250,438
10	149,031
15	116,836
20	101,854
25	93,677

If your bank is agreeable this may be one option for those struggling to cope with recent interest rate increases, although with rates at higher levels extending the term has less impact than you might think as interest makes up a greater proportion of the annual payment.

Basic Payment Scheme 2023

Farm cashflows are starting to receive a much needed boost with the early payment of this year's subsidy. Funds have been hitting farm bank accounts since Tuesday 12 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 proceeds 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.

Sector focus – Furnished holiday lets

Furnished holiday lets (FHLs) have been a growth sector for many farming and rural businesses over recent years. COVID lockdowns created a boom in staycations, driving up rates and encouraging new entrants into the sector. E-commerce platforms such as Airbnb have also made it much easier to market a holiday property to a global market.

While FHLs have the potential to deliver significant profit, success is ultimately dependent on achieving a high occupancy rate at a decent price, while minimising costs. Location, quality of accommodation and value for money are key.

Besides being potentially more profitable, FHLs have several advantages over traditional long term lets. There are summarised below.

- Generally, more favourable tax treatment in terms of Capital Gains Tax, Inheritance Tax, and the deductibility of interest costs against income.
- Greater scope to reclaim input VAT on costs (but if VAT registered will have to account for VAT on sales).
- No issues with rent controls or security of tender.
- Provide a diversified income stream for the business and source of employment for family members.

So far so good, but what about the potential drawbacks?

Periodic renovations and refurbishments to keep a property up to standard are likely to be a regular expense which will need to be written off and financed. Commission for bookings made through online platforms are significant. Frequent changeovers can be time consuming or expensive if a third party is required. There are also the challenges that come from dealing with the public and of course not all farm locations are suitable for FHLs due to either operational or health and safety reasons.

Clearly anyone thinking of entering the sector should undertake a thorough investment appraisal before proceeding.

You also need to consider whether your farm is the best location for such an enterprise. It might make more sense to locate a FHL business in a popular holiday destination such as Aviemore to secure better occupancy, higher rates, and potentially superior longer term capital appreciation. Locating the enterprise off farm may also make a future exit easier and potentially help with succession planning if there are non-farming children with aspirations to inherit a business at some point in future. Much to consider.

Charity walk

A group from our Forfar office walked the 14 mile route from Auchallater, Braemar to Glen Clova, in order to raise funds for our chosen charity of the year – Alzheimer Scotland.

The walk, which coincided with Alzheimer Scotland's memory walk weekend, saw them climbing to 730m over the course of 6-8 hours. No mean feat!

As part of our efforts to support them, we have a fundraising page set up for the challenge. Please give what you can to support a very worthy cause.

www.justgiving.com/page /eq-accountants-1690282350767

Machinery investment decisions

Like many farm inputs, the cost of farm machinery has soared in recent years. Decisions on new investment therefore require careful consideration.

The cost of operating a machine over its lifetime is based on the following: -

- Cost to purchase less eventual sale/trade in value - depreciation.
- Cost to finance purchase - overdraft, HP interest or opportunity cost of own funds. Now significant with base rates at 5.25%.
- Insurance.
- Repairs and maintenance.

What ultimately matters of course is unit cost per acre, with unit costs dropping with every additional acre covered. Economies of scale matter.

Most costs can be assessed relatively accurately except for the drop in value of the machine over its lifetime as the second-hand value can only be guessed at time of purchase and machines that are well looked after can hold their value surprisingly well.

Once you have assessed the likely cost of a new purchase, you can then consider the alternatives which normally include: -

- Do nothing and retain existing machine and accept potentially higher repairs bills and downtime that comes with older equipment.
- Consider alternatives such as using a contractor.
- Look at ways to reduce costs, which could include sharing a new machine with a neighbour.

You also need to consider the other benefits that may come from having a new modern machine relative to your existing equipment. This could include: -

- Increased productivity/ reduced labour costs.
- Improved staff retention.
- Input cost savings.
- Better quality through less crop damage for example.
- Improved crop yields through improved timeliness/soil conditions.

What at first seems like a simple decision can be far more complex when you drill down into it. There is also the up-front tax relief that is often available on a machinery purchase which is an additional factor to take into consideration.

Please feel free to talk to any of our agricultural experts if you need any assistance in assessing your next potential machinery purchase.

Year end change reminder?

As we have indicated in our previous bulletins, all sole traders and partnerships who do not have a 5 April or 31 March year end will be affected by the upcoming basis period reform.

These changes will come into play from 6 April 2024 and dependant on your year end, this could see more than 12 months' worth of profit being taxed in a single tax year which, in turn, could significantly increase tax liabilities.

The additional profits that arise from the change in the year end can be spread over a 5 year period, commencing 23/24 tax year, to smooth out the tax burden.

To confirm, limited companies, irrespective of their year end, are unaffected by this new legislation.

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

Future Farming Expo Scotland

Scotland's first Future Farming Expo event is to be held on Tuesday 10 and Wednesday 11 October. The exhibition is to focus on some first-hand innovative experiences and technology advances which are aimed at increasing productivity, profits and resilience of all farm businesses.

The event takes place at the P&J Live, Aberdeen. Admission and parking are free with entry from 9am. For full details visit **www.futurefarmingexpo.com.**

Our EQ Agriculture team will be there on both days so please do look out for us. We look forward to seeing you all there.

Date set for next UK Budget

The Autumn Statement has been scheduled for 22 November, most likely the last before the next general election, which must be held by the end of 2024.

We will of course cover any significant announcements in due course but given the state of the public finances and the very significant tax increases already announced by Jeremy Hunt, we are not anticipating anything major at this late stage of the electoral cycle.

NFUS calls for fertiliser market to be referred to Competition and Markets Authority (CMA)

Many will have noticed that fertiliser prices have an uncanny habit of rising significantly when there is a spike in farmgate output prices, prompting the accusation that fertiliser manufactures are using their concentrated market power to profiteer at the expense of farmers and, ultimately the consumer through higher food prices.

Last July, the UK made ammonium nitrate averaged £841/t compared to £326/t and £206/t in July 2021 and July 2020 respectively. In their defence, manufactures will cite increased production costs, particularly the cost of natural gas.

NFUS is not entirely convinced by this argument and intends to approach the CMA and UK government on the state of the UK fertiliser market. We await the outcome with interest.

The perceived problem with the fertiliser market may however just highlight a much wider issue in the agricultural sector, that of fewer buyers and suppliers generally, leading to a loss of pricing power and ultimately margin.

EQ farm visit

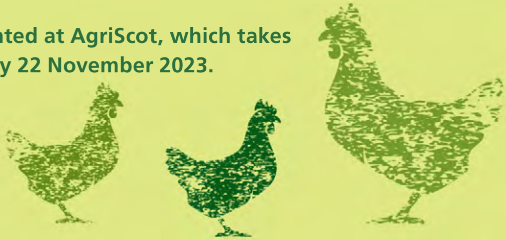
At EQ we take training seriously, not only when it comes to accountancy and tax matters, but also in ensuring that all staff involved in advising agricultural clients have a practical appreciation of farming. We were therefore delighted to be able to visit Cotton of Ovenstone Farm, Forfar, in August to view the mixed farming operations courtesy of the Smeaton family. Thanks again to Mark Smeaton, Partner at EQ, and his family for hosting the visit.

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 22 November 2023.

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

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



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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