Agriculture News

CHARTERED ACCOUNTANTS

Regular News from our Specialist Agriculture Team

WINTER 2023

Basis period reform – the final countdown

We have already trailed in previous editions that from 2023/24 tax year all sole trades and partnerships will need to report profits in line with the tax year end rather than in line with their accounting year end, as has historically been the case.

In practical terms, this means that your next accounts will be prepared to 31 March 2024 and then yearly to this date thereafter. It could also mean additional tax liabilities over the next five years for some businesses depending on circumstances.

Limited companies and those that already prepare accounts to either 31 March or 5 April are unaffected by the change.

If you are in any way unsure how this will affect you then please look back over past articles or, better still, speak with your normal EQ contact - now is the time for action.

Autumn Statement 2023

On 22 November, Chancellor Jeremy Hunt delivered the Autumn Statement which was spun as a great tax cutting budget on a par with those delivered by the late Nigel Lawson in the early 1980's. Wry commentators were probably imagining the real tax cutting Tory legend spinning in his grave as the speech was given.

As has been previously announced, Corporation Tax has been raised from 19 to 25%, Income Tax personal allowances are frozen until 2028 and active cuts to the tax-free dividend and Capital Gains Tax allowances are already taking place. Hard pressed taxpayers could therefore be forgiven for failing to feel the love.

That said, there was a significant cut to National Insurance Contributions (NICs), with the main employee rate dropping by 2%, from 12 to 10%, on 6 January 2024 and the self-employed receiving a 1% cut from 9 to 8% on income in the band £12,570 to £50,270 from 6 April 2024. The self-employed will also no longer be required to pay Class 2 NICs where income exceeds £6,725, saving an additional £179.40. Scottish taxpayers will also fully benefit from these changes as NIC rates are set at a UK wide level.

Full expensing for capital allowances was also made permanent for companies beyond the current three-year period which runs from 1 April 2023 to 31 March 2026. This is irrelevant for most businesses who already access full expensing on certain capital expenditure on up to £1m through the existing Annual Investment Allowance (AIA). In any event, while accelerated capital allowances are extremely useful the overall tax relief remains the same over the life of the asset, so this is not the "tax cut" as it first appears.

For full details please refer to the excellent summary available on our website by following this **link.**

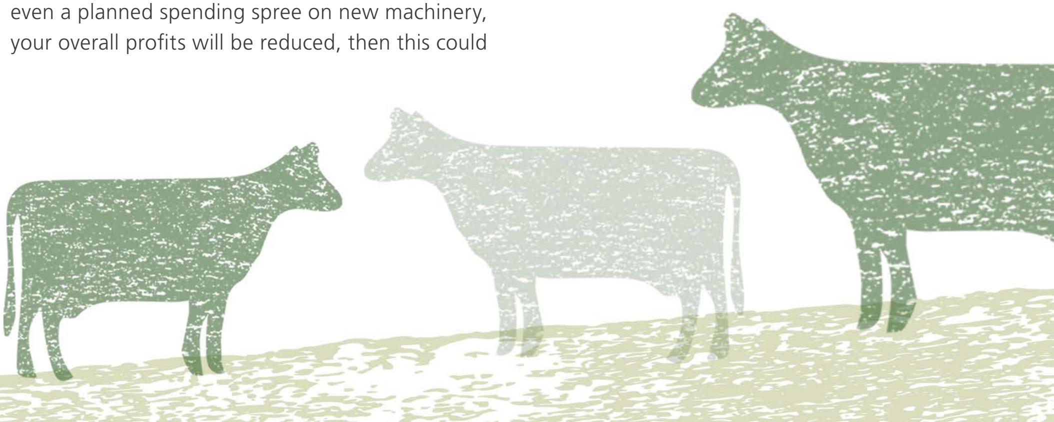
Tax payments on account

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.



Sector Focus – Contract Farming

Contract farming has greatly increased in popularity over recent years and has provided a means to manage land for those who do not want to actively farm themselves. They are most commonly used in relation to the production of combinable crops although the same principles can be extended to other enterprises with some additional thought.

What is contract farming?

Contract farming is a way to farm in which "the farmer" engages with "a contractor" to work and manage the land.

Legally, it is best described as a contract for services and should not in any way be confused with either a partnership, contract of employment or farm tenancy, all of which have very different legal and tax implications.

The contractor provides all the labour and machinery required to do the work and in typical agreements receives a basic fee to cover costs. Once this has been paid along with the other direct costs of production (seeds, fertiliser & sprays), if there is any margin left following the sale of the crop the farmer deducts a sum roughly equivalent to the rental value of the land. If there is any surplus remaining after this then it is divided between the two parties along the lines of some predetermined percentage split, normally weighted in favour of the contractor.

Advantages to the farmer:

- No requirement to invest in machinery.
- Frees up time for other more profitable or enjoyable activities.
- Avoids complex tenancy legislation.
- Potentially retain all the tax advantages of active in hand farming in relation to Income Tax, VAT, Capital Gains Tax and Inheritance Tax.
- Professional contractor may be able to deliver higher profits relative to working the land inhouse.

Advantages for the contractor:

- Provides a route to expand the business without the need to buy land.
- Allows machinery costs to spread over more acres.
- Basic fee will cover the bulk of costs so limited downside.
- Potential to earn significantly higher fees from share of surplus in good years.
- Makes investment in modern machinery viable, further enhancing productivity and yield increases.

What do you need to watch out for?

By and large these agreements work well provided there is openness and trust between the parties. Most problems can be avoided if the following points are adhered to.

- The contract should be backed up by a legal agreement between the two parties that clearly sets out the responsibilities of each party and how the contractor's remuneration will be calculated.
- If the farmer sells his own machinery on entering the agreement, then there is the potential for a significant Income Tax charge on proceeds depending on the tax written down value of the equipment. This needs to be thought about and planned for accordingly.
- All payments to the contractor, including the share of any surplus, are payments for contract services and are subject to VAT at the standard rate.
- The farmer needs to be seen to be "the farmer" to retain the tax advantages of trading as a farm business. This will include being sufficiently involved in setting the annual farming policy and in the management of the agreement. It will also involve structuring the agreement in such a way that ensures that sufficient risk is retained by the farmer and that the agreement is not seen as a de facto rental agreement.

Cash becomes INTEREST-ing

We have covered the impact of rising interest rates and their impact on finance costs in recent bulletins as this is clearly an issue for those businesses partially reliant on debt finance.

Borrowing within the sector is of course skewed to a small number of businesses, others have little in the way of debt and some have very significant cash balances.

Over the last few years, when base rates were at 0.1%, the return on cash for the latter group has been next to nothing.

Circumstances have now changed, and it is possible to get c. 5% on many accounts although some accounts may still be stuck on historically low rates with the best rates often only available on new accounts.

If you are fortunate enough to be sitting on significant cash balances, make sure and check the interest rate you are receiving is competitive. You might just be pleasantly surprised by the increase you can achieve by switching accounts.

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 £1k 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%. The annual pension allowance has also increased from £40,000 to £60,000 as of 6 April 2023, allowing further contributions to be made, if deemed appropriate.
- If you can, make use of your £20k ISA savings allowance to shelter future investment returns from income and capital gains tax. It should also be noted that qualifying AIM shares held in an ISA are free of Inheritance Tax after two years.
- 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 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.

June Census

October saw the publication of the results from the Scottish Agricultural Census: June 2023.

A few of the main highlights:

1 Cattle numbers continue to decline, following a long-term trend. Numbers now stand at 1.68m head with a three per cent decrease in 2023 compared to the last 5 years average.

2 Sheep numbers fell by two per cent in 2023 to 6.61m head compared with the five year average. However, numbers remain in line with the long-term trend over the past 10 years.

3 Winter planting of cereals in autumn 2022 rose by four per cent to 162,300 hectares, compared with the five year average. This was followed by a decrease of two per cent in 2023 spring planting, to a total of 266,900 hectares. The area of land used for growing cereals remains stable compared to the five year average.

4 Growing areas of vegetables for human consumption, excluding potatoes, grew by seven per cent compared to the five year average, equating to 21,500 hectares in 2023. The area of potatoes dropped by six per cent compared to the five year average, with 26,600 hectares planted in 2023.

5 The total workforce on agricultural holdings remained stable, increasing by less than one per cent to 67,000 people in 2023 compared to the five year average.

Follow this **link** for full details.

Top "predictions" for 2024

"There are two kinds of forecasters: those who don't know, and those who don't know they don't know." ***John Kenneth Galbraith***

At the risk of being very wrong, we thought it would be worthwhile to use this opportunity to make some bold predictions for the year ahead. Not all, if any, of them will come to pass but in a world where "the science" is always "settled", self-censorship exists, and groupthink prevails, someone surely has a duty to provide an alternative narrative?

If all it does is stimulate debate then we'll happily take that as a win! **Here goes…**

1 **Bank of England officially abandons its 2% inflation target.** Expect policy makers to tolerate higher levels of inflation. They need to as it's the most likely means of reducing the scale of government debt in real terms. The transition to net zero, with the associated increase in energy costs, will also be highly inflationary. This could well be positive for agriculture as demand for tangible assets such as farmland increases in an inflationary environment and the value of associated debt reduces in real terms. On the downside farm input costs are likely to track inflation whereas outputs may not, putting a squeeze on margins.

2 **The current oil price of c. $75/barrel is too cheap.** Global demand remains at c. 100m barrels/day and there is scope for a rapid escalation of geopolitical tensions in the middle east. Enjoy the current price while it lasts. It will be over a $100/barrel by the end of 2024.

3 **The West's support for Ukraine wanes and the MSM circus moves on to the next story.** Harsh but probably true. Political priorities change and budgets are directed elsewhere. Ukraine is unlikely to get sufficient weaponry to defeat Russia. Expect a frozen conflict or eventual Russian victory. Either outcome could have major implications for global food, security and commodity prices.

4 **The relative power of big brands decline.** Consumers increasingly seek out lower cost/own label options to cope with the cost-of-living crisis. Two corporate stalwarts, Unilever and Diageo have both struggled over the past year with their share prices down by 7% and 25% respectively. In contrast, quoted pork and poultry producer Cranswick has had a much better year, enjoying a share price rise of 25% as consumers appreciate its value proposition.

5 **The wheels start to come off the energy transition.** While some battery storage units will be built due to political support and to provide proof of concept there are not enough metals/minerals in the world to allow this technology to adopted at either speed or scale. More imaginative solutions will be required.

6 **Expect a "shock" result in the next General election.** Voters appear to be deserting the Conservatives but are not exactly enthused by any of the mainstream alternatives. The field would appear to be wide open for a "populist" to make significant gains. Now who could possibly fit that bill?

Whatever 2024 may bring it is unlikely to be boring!

Light at the end of the tunnel?

Many arable farmers will have mixed memories of 2023. It is unlikely to be a vintage year due to a carryover of high fertiliser prices from 2022, reduced cereal prices and a wetter than normal autumn making establishment of 2024 crops particularly challenging.

Looking ahead, there may be indications that things could improve, with fuel and fertiliser prices down and futures indicating improved wheat prices for 2024 crop.

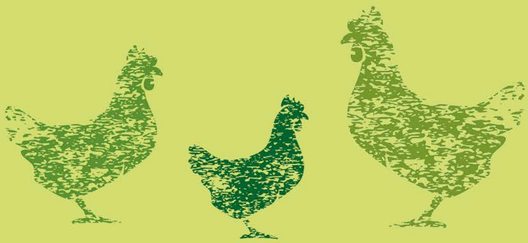
The position is summarised below.

Fertiliser – 34.5% AN	Oct 2022 - £870/t	Oct 2023 - £361/t	Down 59%
Red diesel	Nov 2022 – 109.36p/l	Nov 2023 - £92.47p/l	Down 20.7%
Wheat futures	Jan 2024 - £185/t	Jan 2024 - £211/t	Up 14%

Early days yet and some of the wheat price rise will reflect the anticipated smaller UK crop for 2024 harvest due to a reduced area and yield potential following the wet autumn of 2023. Nevertheless, the terms of trade are at least getting better not worse.

Signing off for 2023

We would like to wish our readers a very Merry Christmas and a prosperous New year. We hope you enjoyed reading our winter bulletin and look forward to catching up with you all in 2024.



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