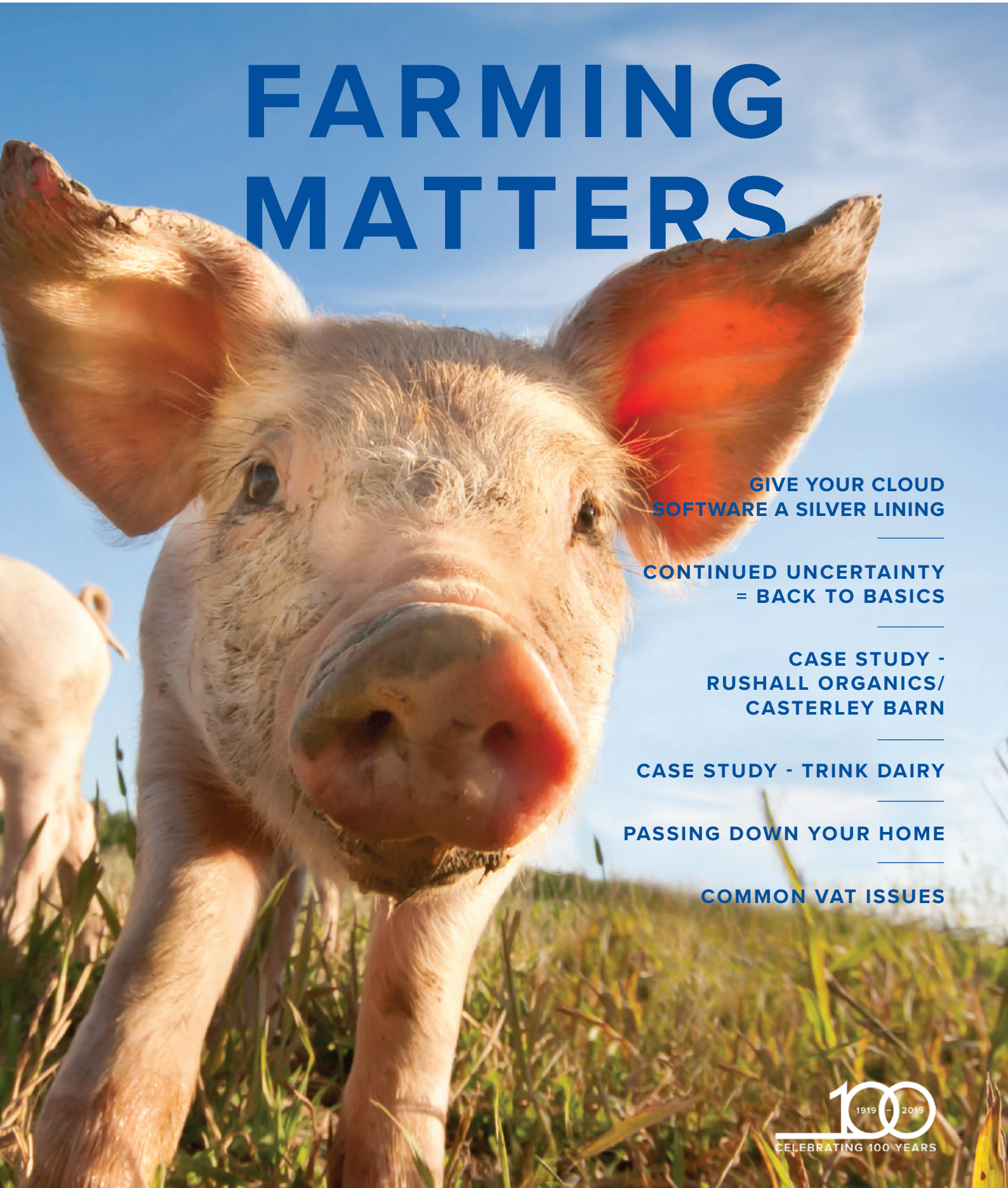
PKF FRANCISCLARK
Chartered accountants & business advisers

SHAREDAMBITION

SUMMER 2019

FARMING MATTERS



GIVE YOUR CLOUD SOFTWARE A SILVER LINING

CONTINUED UNCERTAINTY = BACK TO BASICS

CASE STUDY - RUSHALL ORGANICS/ CASTERLEY BARN

CASE STUDY - TRINK DAIRY

PASSING DOWN YOUR HOME

COMMON VAT ISSUES

1919 – 2019
CELEBRATING 100 YEARS

Welcome to the summer edition of farming matters which I had envisaged would focus heavily on the first months of post Brexit Britain and the immediate implications for the agricultural industry.

I was also expecting to give an update on the progress of the Agricultural Bill through Parliament and some clarity to the specifics of the Environmental Land Management projects, what they might look like and what this might mean in terms of availability of government support for the agricultural sector in general and, ideally, for the individual farm.

Alas, this will need to wait until the next edition (at the earliest) and the unwelcome uncertainty surrounding what the future holds continues.

2019 has seen an interesting start to the farming year. The threat of a hard Brexit has hung around like a dark cloud, and the possible impacts have been unwelcome distractions. The industry and business in general crave some certainty, but this seems to be too much to ask at the moment.

Thankfully, for most, the BPS payments dropped in December which allowed for some bills to be paid. The winter weather has also been kind, enabling a good planting season and allowing animals to be put out to pasture early. This has been vitally important for many still suffering from the wet spring and dry summer of 2018, who simply would have struggled to survive a long cold winter.

In terms of cereals, the good planting season and increased planting area suggests a large 2019 harvest. This has contributed to a decline in grain values, but as we saw last year, this can change very quickly depending on the weather.

Dairy is also seeing strong domestic production, and after all of the fears that there would now be a milk shortage due to the 2018 weather, this has not happened and in fact we have record supplies for the year. Now we all wait with bated breath to see how this is reflected through the milk price. The message to dairy farmers as always is to focus on the cost of production.

The beef and sheep sector have seen animal numbers decline, with the relatively subdued prices, the uncertainty of Brexit and level of future support not helping matters.

The spring has also seen a lack of available labour, particularly seasonal workers. This continues to be a major concern which remains unaddressed and has already led to flowers and crops not being harvested. This issue is only likely to get worse unless a solution can be found.

With this continuing uncertainty, I see the underlying theme of this edition being one of back to basics and advising farmers to control what is controllable and generally manage your key risks.

When considering topics for articles in Farming Matters the intention is to have a variety of topics which will be of interest to the reader whether they are a client, potential client or fellow professional. Ideally, one or two of the pieces will strike a chord and encourage the reader to take action and contact us. To that extent I was delighted at how my article 'Who owns the Farm?' was received in the winter 2019 edition. It has given rise to a number of enquires and made people ask the question of themselves, and then seek the answers.

I hope that the articles included in this summer edition will similarly be of interest and make you, the reader, think and ask yourself questions such as: how does the business operate and could things be done better; how, or indeed if, cash flows are managed and monitored against forecasts; what renewable opportunities might be available; is now a good time for delayed capital investment; is VAT correctly accounted for or whether or not a partnership agreement is needed (and the answer is yes!).

Amongst the articles and case studies, I hope you spot our recruitment advert. We are very excited to announce that as a department we are growing, and there will be further announcements regarding this in future months, but the future looks very bright. As a result we are recruiting to further expand our rural team and in particular we are looking for accountants with an interest in the agricultural sector to join our teams in Salisbury and Taunton.

We are looking for talented, passionate, ambitious people who live and breathe 21st Century farming to join us. This year PKF Francis Clark celebrates our 100th anniversary. Advising and supporting rural businesses has always been at the firm's heart. As Head of Agriculture I am delighted that this continues to be the case, and we are all looking forward to the exciting future ahead.

Finally, we look forward to seeing many of you at a good number of agricultural shows over the summer months. We hope to have a birthday celebration at our stands at the Royal Cornwall on Friday 7 June and at Honiton Show on Thursday 1 August, so please come along and help us celebrate and hopefully enjoy some sunshine!

BRIAN HARVEY
PARTNER & HEAD OF AGRICULTURE
brian.harvey@pkf-francisclark.co.uk

RENEWABLES UPDATE

OUR ENERGY & INFRASTRUCTURE CORPORATE FINANCE TEAM ARE A LEADING ADVISER TO LANDOWNERS, DEVELOPERS AND INVESTORS THROUGHOUT THE UK, BUT AS A SOUTH WEST BASED TEAM WE ARE IDEALLY PLACED TO HIGHLIGHT THE AREAS OF THE MARKET WHICH ARE MOST RELEVANT TO LOCAL BUSINESSES, FARMERS AND LANDOWNERS AT THIS TIME.

SUBSIDY FREE SOLAR

In the South West, more so than elsewhere in the UK, we are blessed with a fantastic natural resource which means solar is still commercially viable despite the removal of subsidies. The evolution of this market has taken time as the supply chain and project stakeholders adjusted their return expectations and business models to suit, but with EPC prices now <£500k/MW, which is a key enabler, in the South West particularly we should all remain open to the prospect of capitalising on development opportunities in the area.

ONSHORE WIND

With a lower cost in £/MWh than solar, it is not surprising that on a UK basis we are seeing more transactions in subsidy free onshore wind than other subsidy free renewable energy technologies. That said, these are typically larger projects in Scotland where a more relaxed planning regime and higher wind speeds help in making these projects viable. There is still an opportunity for schemes in the South West however, with an emerging market for the use of cheaper second hand turbines, which often come from the continent in very good condition and a bankable warranty package.

In terms of operational projects, the market continues to consolidate and with privately owned turbines becoming a scarce resource, we have seen a material uplift in prices over the past 12-18 months. We have clients in this market who are looking for opportunities to acquire assets and are seeing a typical 500kW turbine may now be worth £2.5m-£3m depending on project specifics. Many farmers have diversified into such turbines and perhaps now might be a good time to consider whether it is the right time to realise this investment and we would be happy to discuss this further with you.

ANAEROBIC DIGESTION

The secondary market for plant is thriving as many of the plants initially financed by EIS or VCT funds are able to refinance or sell now, with minimum hold periods to maintain certain tax benefits expired. This wave of plant sales is attracting some new capital and consolidators to the market, who are also looking at financing new build plants with an RHI tariff guarantee in place. Longer term interest in waste based AD plants is strong with green transport options increasingly on the horizon.

BATTERY STORAGE

The long term case for more storage is clear, but near term, the frequency response market looks well supplied. The economics of load shifting (storing electricity when it is cheap and selling when expensive) remains challenging, but is expected to trigger substantial growth in the sector in the medium term.

ELECTRIC VEHICLE CHARGING

Government is focusing support to increase the adoption of EVs in the UK as reaching their goals for the decarbonisation of transport become challenging. This includes a substantial infrastructure fund for the roll out of the EV charging network and with it a rise in companies targeting this sector. There is a new and evolving opportunity for land owners, especially those near major roads, to home publicly accessible 50kW rapid charging units which can provide an 80% charge in around just 30 minutes with increased charger capacity units being an imminent development.

IF YOU WISH TO DISCUSS ANY OF THE OPTIONS RAISED HERE, PLEASE GET IN CONTACT WITH YOUR LOCAL PKF FRANCIS CLARK ADVISER.

RICHARD HARRIS
CORPORATE FINANCE DIRECTOR
richard.harris@pkf-francisclark.co.uk

GEORGINA STEPHENS
CLOUD ACCOUNTING SPECIALIST
georgina.stephens@pkf-francisclark.co.uk

GIVE YOUR CLOUD SOFTWARE A SILVER LINING

For those of you who have chosen to use Xero cloud accounting software we are pleased to announce that we have partnered up with Figured, an add-on specifically designed for the agricultural sector. Figured was founded in 2014 in New Zealand to help rural businesses, as a financial tool, to incorporate livestock and crop tracking, production costs, farm budgeting and forecasting into the day to day farm financials, without too much additional stress. Having come to the UK in June 2018, we are working with Figured to offer the software solution to our clients.

Many families sit around the kitchen table at the start of the financial year or farm season to prepare cash flow and production forecasts for the forthcoming 12 to 24 months. These might assist making key decisions, whether this is stocking, planting or dietary decisions, all of which have a knock on effect to your cash flow - good, bad or ugly! More often than not, these are discarded and then it's a case of wait and see!

Why should this be the case? Shouldn't these be monitored to see whether the decision has paid off, or whether the plan needs tweaking along the way? Sometimes you may need to stop before you are in too deep! Figured extracts your actual figures from Xero, using them to plot your cash flow. These include some commonly forgotten areas of a cash flow such as drawings, hire purchase repayments and loan repayments.

With constant pressure being applied by the consumer; margins and cost per unit produced have never been more important to monitor to ensure there is no unnecessary black hole in your business. Using the production function on offer you are able to generate cost of production schedules at the touch of a button, enabling you to see very efficiently where margins can be improved.

Figured also allows you to track stock movements on and off the farm, making your year-end stock calculation simpler. They have also recently added an integration with BCMS, which will reduce the data input required. Further features include scenario planning, assisting in outlining the costs of larger decisions.

Using Figured alongside Xero is an accessible, real time, more secure and cost effective way of managing your finances. In these uncertain times, your business needs to be ready for whatever gets thrown at you next. If Figured is something that might be of interest to you and your business, please contact your local PKF Francis Clark adviser.

Making Tax Digital for VAT is now upon us and we would like to make sure you are utilising the functionality within your chosen cloud software to its full potential, after all you wouldn't buy a tractor and leave it in the shed!

CONTINUED UNCERTAINTY

= BACK TO BASICS

23 June will mark the third anniversary of the UK voting to leave the EU and whether you voted to leave or remain, I don't think that many would have predicted that now, three years on, we are still no further forward in leaving the EU.

On 11 April the leaders of the EU offered the UK an extension to Brexit until 31 October.

Whilst I do think that a no-deal Brexit would potentially be bad for British agriculture, I do wonder whether we will see little change or progress over the next six months, given that little has been achieved in the previous thirty six! For now at least, all eventualities appear to remain on the table and therefore this prolonged period of uncertainty continues.

Uncertainty is unhelpful for everyone and everything and to that extent, when questioned by clients as to what they should do in terms of their farming business, I suggest that it is a time to go back to basics.

There are many things that farmers cannot control; not only Brexit, but also exchange rates, the weather, global markets and the vagaries of the consumer to name but a few. Therefore, in uncertain times, I go back to recommending that they focus their attention on controlling what they can control.

This is, and will continue to be, a key attribute which is shared by top quartile businesses and is what sets them apart from their peers.

Other important attributes of the top performers are that they:

- Have a clear business strategy and an understanding of the market in which they operate
- Have a positive mind-set for change and innovation, and an appreciation that increased efficiency equals increased profitability
- Consider office work to be valuable and not wasted farming time
- Prepare budgets and forecasts
- Understand their key performance indictors (KPIs) and benchmarks, and not just in their sector
- Maintain a good relationship with professionals, their supply chain and other farmers

I guess that none of the above is rocket science and should not be surprising to anyone. However, it is worth noting that the difference between the top and bottom quartile in any farming benchmarking report remains stark and the differential between the top and the bottom performers has arguably never been wider.

No one likes uncertainty in life and I think all we can say at the moment is that life goes on, and it has to be very much business as usual and, in order to survive and thrive, farmers need to keep getting the basics right.

I believe that it is useful to regularly remind ourselves of the fundamental traits of a successful business, in whichever sector we operate. These are also areas where everyone can make improvements.

We will continue to recommend clients adopt these best business practices to ensure that they are best placed to tackle whatever obstacles and uncertainties they face, with as strong and robust a business as possible.

IN UNCERTAIN TIMES THERE IS ONE POINT OF ABSOLUTE CERTAINTY, WE AT PKF FRANCIS CLARK WILL ALWAYS BE HERE TO ADVISE AND ASSIST BUSINESSES TO CONTINUE TO SUCCEED.

BRIAN HARVEY
PARTNER & HEAD OF AGRICULTURE
brian.harvey@pkf-francisclark.co.uk

CASE STUDY

RUSHALL ORGANICS/CASTERLEY BARN

ORGANICS BUSINESS SHOWS HOW TO DIVERSIFY IN THE 21ST CENTURY

Planning for the future is in the DNA of the Wookey family. From being one of the pioneers of the organic farming movement to successfully adopting new revenue streams, the family is a shining example of how a diversified agricultural business should operate in the 21st century.

Joe Wookey, the latest generation to take the reins of the family business, doesn't mince his words.

"It's simple. We wanted to make sure we didn't have all our eggs in one basket and, in these uncertain times, that belief is stronger than ever," he said.

Joe, 30, added: "I won't pretend that some of our decisions, for example investing a lot of money in Casterley Barn, our wedding and events venue, don't give me the occasional sleepless night.

"But we believe that if the business is to not just survive, but thrive into the future then diversification is the key."

For more than 90 years, five generations of the Wookey family have farmed land in the Pewsey Vale in Wiltshire.

It all began when Charles Wookey, and his son Percy, took up the tenancy of the Upavon farm holding in 1928. Percy would go on to buy the nearby Rushall farm holding in 1946.

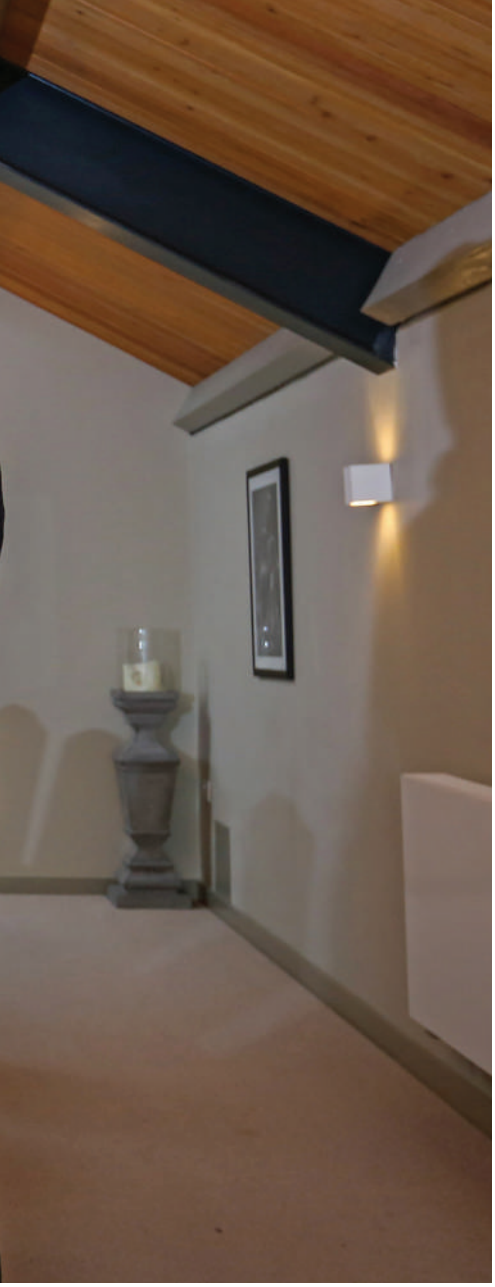
But it was 24 years later when the transition to today's diversified business first started to take root.

Percy's son, Barry, became one of the pioneers of organic farming by starting the conversion of the Rushall holding to organics in 1970, a process which took 15 years.

It was a cause taken up with enthusiasm by Barry's son, Nigel, who began converting the Upavon land to organics in the early 1990s, completing the switch by the turn of the millennium.

Nigel also oversaw the installation of an ultra high-tech 5,000 tonne grain store which can dry and clean not only Rushall Organics' grain but also grains for other organic farmers.

Its features include a colour separator which can be used to ensure that all products leaving the store are completely uncontaminated by unwanted objects.



Today Rushall Organics is one of the UK's leading organic farming businesses with Nigel, 66, and his son Joe, farming almost 5,000 acres of land. Half is arable land and the rest is permanent grass, woodland or military land which the farm rents.

But the business has also diversified into new revenue streams such as pheasant and partridge shooting, fly fishing on the River Avon and glamping with two refurbished shepherd's huts, Mayfly and Anglers Retreat.

The latest venture, Casterley Barn, was only launched in October 2017 but is already picking up awards. It won the New Business category of the South West Wedding Awards in Plymouth earlier this year.

Built on the site of an old derelict cattle shed the venue, complete with licensed bar and a kitchen, can hold up to 150 guests for seated dinner and 200 for a standing reception with stunning views for up to 40 miles across the surrounding countryside.

Rachel Davies, nee Wookey, has returned to the family business to manage Casterley Barn after a successful career in the London events market.

"A key element of the Rushall Organics ethos is sustainability and Casterley Barn is no exception," said Rachel, 32.

"We generate our own electricity through roof mounted solar panels feeding a battery array, while the under-floor and water heating is provided by an on-site biomass burner.

"Our licensed bar is stocked with organic wines and local ales while Casterley Barn, with its huge front aspect windows and vaulted ceiling, has been designed to sit in harmony with the natural environment. We're incredibly proud of it," added Rachel.

PKF Francis Clark has acted for Rushall Organics for just over 20 years with our Salisbury Partner, Nick Gooch, looking after their affairs for the last decade.

Our work has ranged from advising on capital allowances and VAT to assisting with future proofing the business for generations to come as well as cash flow, inheritance tax and income tax planning.

Nick said: "The family have successfully diversified from a pure organic arable farm into new areas such as the grain store, shooting and glamping.

"They continue to be very forward-thinking in their approach as well as brave enough to nail their colours to the mast and go for it. It's a very good business and we're delighted to have them as a client."

Joe Wookey of Rushall Organics said: "PKF Francis Clark are extremely professional, but without being too corporate. Farmers prefer loyalty and approachability and, for us, they certainly tick the right boxes.

"They're good people and good to us, providing a great service over many years. Their support and advice has helped lay the foundations for our successful business and we wouldn't hesitate to recommend them."

WE WANT THE BEST IN THE FIELD

We're looking for accountants specialising in the farming sector to help us grow, as we expand our agricultural expertise in Wiltshire and build a new team in Somerset.

As you'd expect from a business that works with over 450 farms and 45 landed estates across the region, we have deep, muddy roots in the rural farming community.

We work across the whole sector, advising some of the country's largest dairy, livestock and arable farms as well as related rural businesses. So we're looking for talented, passionate, ambitious people who live and breathe 21st century farming.

If you want to be part of a prize-winning firm with more than a century of experience sharing the ambitions of farmers, landowners and agribusiness, and you're excited by what might lie ahead in the next 100 years, we'd love to talk.

Find out more at www.pkf-francisclarkcareers.co.uk

1919 – 2019
CELEBRATING 100 YEARS

PKF FRANCISCLARK
Chartered accountants & business advisers

SHAREDAMBITION

THE IMPORTANCE OF PARTNERSHIP AGREEMENTS

Many a meeting has taken place between accountant and farming client where the client has been asked “Is there a partnership agreement in place?” followed by “No, do we need one?”

Any unwritten agreement is usually evidenced by the behaviour of partners. However, in the absence of this evidence, or your own written agreement, conflicts can be resolved by reverting back to the Partnership Act 1890.

If you are a partner in a business you might see no reason why there would be disagreements between you, your wife, husband, son or daughter. However, from our experience, whilst most partnerships start from a happy place sadly many don’t end there and to that extent often the existence of a partnership agreement can prove invaluable.

The **three D’s** are contentious areas which may result in differences of opinion at a later date:

DISPUTE

People can and do fall out with each other! Most disagreements can be easily resolved, but some cannot. Aggrieved partners may claim entitlement to pay outs from partnerships they were involved in and create problems within it until successful with a claim. Default rules of the Partnership Act state that “no majority of the partners can expel any party,” making it very difficult to remove a partner and in a worst case scenario can result in having to dissolve the partnership.

There are various tax consequences to this, notwithstanding a legal and administrative cost. Partnership agreements can provide for the removal of a partner with clauses that include the necessary notice period and the grounds and motives for expulsion.

DEVELOPMENT

If selling land to developers, arguments can follow between families as to the apportionment of sale proceeds. Setting out a partner’s capital entitlements in your partnership agreement can help ensure this is agreed well in advance. It is also good practice to ensure the accounts are signed by all partners, with their own manuscript signature, reinforcing what is in the partnership agreement. If there is debate as to whether sold land is a partnership asset then eligibility to entrepreneur's relief, a reduced rate of capital gains tax, can be affected.

DEATH

Where assets are included in the partnership accounts you would hope for 100% business property relief applying on death, providing relevant criteria are met. However, if it becomes hard to prove said land is definitely a partnership asset just from the accounts then the partnership agreement can be a way of confirming this. See Brian's article in the winter edition of Farming Matters 'Who owns the Farm'.

In the case of Ham v Bell [2016] whether a farm was included as a partnership asset was contested on the death of a partner. The QC stated "Accounts therefore, are no more than evidence and if they do not reflect what was agreed they fall to be disregarded” stressing the importance of having a partnership agreement which agrees to the accounts and vice-versa.

Having your own partnership agreement has many other benefits such as limiting liability and agreed sharing of profits/losses. However, the highest priority is to consider what could go wrong under your current arrangements, and how everyone is better protected with a good partnership agreement in place.

A solicitor will be responsible for writing the partnership agreement, but we would advise anyone currently in, or looking to be in, a partnership without a partnership agreement to have a discussion about this with your local PKF Francis Clark adviser first. By working together, we are able to ensure that the partnership agreement addresses all of the key points it needs to in order to avoid problems in the future.

ADAM WADDLE
MANAGER
adam.waddle@pkf-francisclark.co.uk

CASE STUDY

TRINK DAIRY

SPREAD OVER 500 ACRES OF LAND ON THE OUTSKIRTS OF ST IVES, A POPULAR CORNISH DESTINATION, LIES OUR CLIENT - TRINK DAIRY, A LONG STANDING FAMILY RUN FARM THAT CARRIES ALMOST 60 YEARS OF HISTORY. IT ISN'T JUST THEIR PASSION FOR DAIRY FARMING AND THE FAMILY'S STRONG RELATIONSHIP THAT MAKES THEM SUCH A SUCCESSFUL FARM, IT IS THEIR AMBITION, DRIVE AND THEIR EYES FOR THE FUTURE. THE KNOWLES FAMILY ARE NOT JUST FARMERS, THEY ARE BUSINESS PEOPLE.

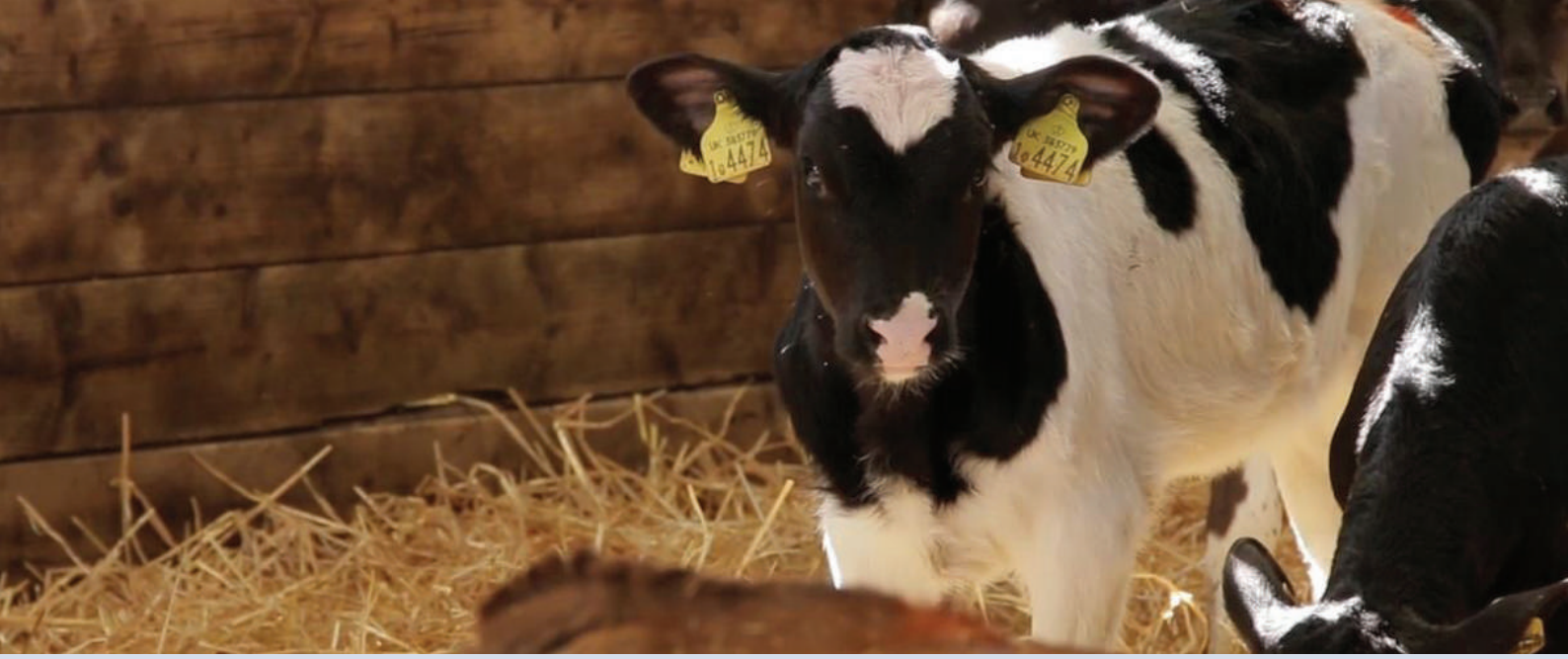
Dairy farming runs in the Knowles' blood and despite stretching back to the 1960s, they are a forward-thinking family. Since Chris took over the farm full time, supported by his wife Rachel, the farm, with over 300 spring calving Friesian and Jersey crossbreeds. They are producing 4,000 litres of milk, per cow, per year. The farm that prides itself in producing virtually unprocessed, great quality, local and environmentally friendly milk, has now become a staple in the Cornish community in a number of ways.

"The initial help and support that PKF Francis Clark gave us was to help us move from a partnership to a limited company. They give us continued tax advice annually and they also helped and supported us buy some land as part of a pension scheme" Chris said.

It is a cross breed of Friesian and Jersey cows that live on the farm and these small hardy animals are efficient for feeding and breeding. It was big change for Trink, following Chris's return from a trip to Ireland in 1999, a trip that was responsible for his 'eureka' moment that changed the future of dairy farming for Trink Dairy. The trip inspired Chris to harness the Cornish climate to nurture the land and graze the cows for a longer part of the year, which would require changing the farm's system to 'extended grazing and spring block calving'. As a result of altering the system, cows would be healthier and more content, the land would be maintained and the milk would taste like it should "smooth, wholesome and full of dairy goodness" as the family say. Since implementing this change around the millennium, Chris and Rachel have never looked back.

Served in early summer, the cows stay outside grazing until it gets too wet - usually late November. This allows them to harvest their own grass at peak season, with the cows' lactation curve mirroring the grass growth curve. Their size, and the soft-track routes to the fields, ensure they maintain good strong feet to walk the land. "Our aim is a contented cow, sustainable land management, and a quality product at the end of the once per day milking process" Chris added.

Commitment to an environmentally friendly business model is something that the team at Trink take seriously. The farm is dedicated to their green credentials and have reduced the machinery that could be used in their dairy process, meaning that they burn minimal diesel at the farm. In fact, the farming system has meant that tractors have been replaced with cows, who graze and take care of the farm's many fields. The family's innovative vision has meant that PV panels will now be seen on the dairy roof of the dairy at Trink, which has reduced their reliance on the National Grid. The power that is produced is used to heat water for cleaning and provides ice water to cool the milk and to power any electrical machines used in the farming process.



The farm that produces milk that is rich in Omega-3 fats, vitamin E, beta-carotene and CLA (Conjugated Linoleic Acid) is much appreciated by the local community. As well as selling their milk through Arla, a farmer-owned cooperative, the family's vision for business and innovation took another step further and enabled them to sell their traditional Cornish milk not only to local outlets and pre-schools all around West Cornwall, but also to members of the public through their very own farm shop.

Trink has embraced modern technologies which have allowed them to offer an exciting way of selling milk to the keen community. On-site at the farm, the team installed a self-service vending machine where customers can purchase their pasteurised milk in a range of sizes of bottles (which of course are 100% recyclable) which is open 24 hours a day, seven days a week. The dairy experience for customers doesn't end there. If visitors would like to get a taste of where their milk comes from and gain an insight into what goes on behind the scenes, there are viewing windows into the parlour where guests are able to see Trink's cows being milked.

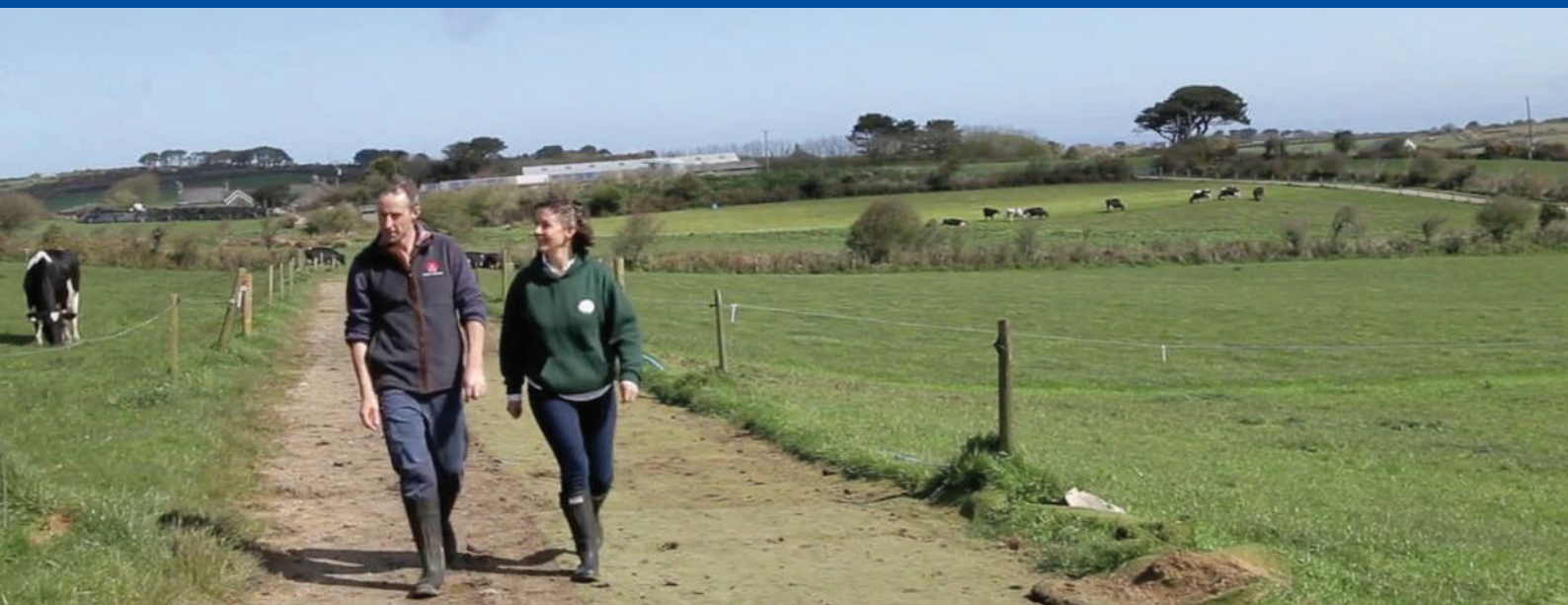
As part of their commitment to communicating with their local community Chris and Rachel have teamed up with FarmLink - a South West charity to promote farm visits to school children. We aim to talk to around 1,000 children each year, both on farm and in schools, to help them understand where their milk comes from.

"Our customers buy our milk because they share our passion for good quality food and drink. They are looking for produce that is virtually unprocessed, local and environmentally friendly - the most exciting part is having our customers come up to the farm and actually see the whole process, from the cows being milked through to the milk being pasteurised and bottled" said Rachel.

Chris added "PKF Francis Clark has been very helpful in supporting us with succession planning which proved invaluable last year. We have a very healthy, effective, and efficient relationship with our PKF Francis Clark adviser and any issues that we have are dealt with very promptly and that is worth a lot to us".

Mark Hastings, Director at PKF Francis Clark said "Trink Dairy has been a client of ours for a decade and are an extremely ambitious and forward thinking business. They always have their eyes on the future, thinking of ways they can develop the Trink Dairy brand that they started two years ago. Chris and Rachel have three daughters who all express interest in the farm and it's great to see the whole family getting involved in their passion and dedication to creating quality milk. We have seen the business grow massively over the years and we are delighted to support them in achieving their business goals.

"OUR CUSTOMERS BUY OUR MILK BECAUSE THEY SHARE OUR PASSION FOR GOOD QUALITY FOOD AND DRINK."



CAPITAL ALLOWANCES UPDATE

INCLUDING A BLAST FROM THE PAST

With headlines over the last six months being dominated by Brexit, budget and tax changes that have come into force have remained somewhat under the radar.

As the outcome of Brexit is still very much in the balance, the importance of quality, accurate budgeting and planning for the next 12 months and beyond, are even more relevant than have perhaps been previously considered.

Whilst the UK, Europe and the rest of the world sort out how they will work together in the future, businesses must continue to move forward and inevitably the need for investment in the farm will continue too.

The Finance Act 2019 did provide some snippets of positive news in respect of changes to tax relief available on capital investment.

ANNUAL INVESTMENT ALLOWANCE

The 100% annual investment allowance (AIA) for qualifying expenditure on plant and machinery has seen a temporary increase for two years, to £1 million from 1 January 2019. As in previous years, accounting years other than calendar year ends, just need to ensure that they consider the timing of their expenditure to maximise the relief, so that they don't fall foul of the transitional rules.

SPECIAL RATE POOL

The special rate pool will still apply for long life assets, integral features and cars emitting more than 100g/km CO_2 - noting that the deduction has reduced from 8% to 6% from April 2019.

STRUCTURES AND BUILDINGS ALLOWANCE

Industrial buildings allowance and agricultural buildings allowance have been re-incarnated, following a ten year absence, in the form of the new structures and buildings allowance (SBA), which will provide tax relief for expenditure on buildings (excluding dwellings), although the rate of relief is very low at 2% straight-line writing down allowance for 50 years. It is also worth noting that any claims for SBA will have the effect of reducing the base costs taken into account for capital gains purposes.

This relief took effect for contracts entered into on, or after, 29 October 2018.

Although the building will achieve some relief, it's important that the specification and build of any new building is reviewed at an early stage, in order that the fabric of the building and items classed as integral features are identified so that the maximum tax relief can be achieved.

Change is inevitable, but the business that manages the variables within its control is in the best place to react, adapt and take advantage of opportunities that arise, as well as being prepared to take on unforeseen challenges.

JUSTIN GLIDDON
DIRECTOR
justin.gliddon@pkf-francisclark.co.uk

PASSING DOWN YOUR HOME

A REFRESHER

As covered in previous editions of Farming Matters, since 6 April 2017 the residence nil rate band (RNRB) has been phased in as follows, and now forms an important consideration for inheritance tax (IHT) planning:

TAX YEAR	RNRB (£)
2017/18	100,000
2018/19	125,000
2019/20	150,000
2020/21	175,000

Like the general nil rate band (NRB) of £325,000, the RNRB is transferable so a surviving spouse's estate could currently benefit from £950,000 of combined NRBs (being 2 x £325,000 plus 2 x £150,000) and from 2020/21 it will reach the magic £1m mark as promised.

As you might expect there were conditions set. The death estate must contain a dwelling, which at some point has been used as the deceased's private residence and the residence must be passed to lineal descendants (e.g. children, grandchildren - and spouses of such descendants).

However, unfortunately for many farmers and landowners there is a catch, the RNRB is tapered where the death estate is in excess of £2 million - note that this threshold is prior to any agricultural property relief (APR) or business property relief (BPR). Once the death estate reaches £2.35 million (in 2020/21) the RNRB will have been completely eroded.

If the conditions are met then the IHT savings for a couple, or rather their beneficiaries, will be up to £140,000 from 2020/21. This should therefore be subject to careful consideration as part of overall succession planning and protecting the family farm.

In addition, it is important to note that the transfer of any unused RNRB from the death of the first spouse is not automatic and must be claimed by the executors within two years of the second death, a point that could be easily missed and cost your beneficiaries £70,000!

APR AND LIFETIME GIFTS

Whilst many farmers still assume their house will qualify for APR (although, please do not assume this - that is the subject of a different article for a different day) this does not mean that planning to protect your RNRB is not worthwhile.

It is important to remember that even if the farmhouse does qualify for APR, this only gives relief for the agricultural value of the house and the RNRB can be used to gain relief on the difference between the agricultural value and the market value.

Indeed, since the rules first came into play, we at PKF Francis Clark have been working with a number of our clients to consider this very matter and it is particularly relevant when the future death estate could be in excess of £2 million and where lifetime gifts are possible.

Clearly, the making of lifetime gifts needs careful consideration as they can trigger an IHT/capital gains tax charge in lifetime, but with proper consideration, in the right situation, this has proven to be very sensible tax planning.

Whilst most people are aware of assets reverting back into your estate for IHT purposes if you do not survive seven years from the date of death, it is important to note that there is no such restriction in assessing your death estate compared to the £2 million limit for the RNRB, as such gifts in the last seven years are not added back and this can represent a sensible death bed tax planning opportunity in the right situation.

Overall I believe that whilst difficult to quantify, by advising and working with our farming clients whose estate could be reduced to less that £2 million, we have already saved our clients - or to be more correct will save the beneficiaries of our clients - millions of pounds of IHT.
I wonder if there is a similar opportunity for you to do the same to protect a little more of the family silver?

DAWN PEATTIE
MANAGER
dawn.peattie@pkf-francisclark.co.uk

COMMON VAT ISSUES

The next quarter will see businesses across all sectors submitting their first VAT returns under making tax digital for VAT (MTDfV) and time will tell how successful this has been from a practical perspective.

VAT for most farming businesses is quite straight forward - the main sources of farming income are often zero rated which means no VAT is payable on monies received, but VAT on expenses can be reclaimed - hence regular repayments of VAT being received and many farming businesses opting to voluntarily submit their returns more frequently than they legally have to. Simple!

However, there are some more complicated scenarios where either VAT on expenses cannot be reclaimed or VAT has to be paid on certain types of income:

FARMHOUSE EXPENSES

A common query is how much input VAT can be recovered on expenditure within the farmhouse. Clearly, some of this expenditure will have a private element and part of the input VAT is non-recoverable. From a practical perspective this split of farmhouse expenditure is almost impossible to quantify, but fortunately many years ago HMRC agreed standard apportionments with the NFU and these continue to be used. The percentage recoverable is based on whether or not you are a full time working farmer. For a full time working farmer HMRC will allow between 40% and 70% recovery of the input VAT, whereas for a part time farmer this is limited to a maximum of 40%. If you are reclaiming all of your VAT on such expenses, you are probably claiming too much, but if you are not reclaiming any then perhaps you could be reclaiming more.

VAT ON COSTS: LET PROPERTY

As mentioned above, VAT relating to zero rated sales such as livestock, grazing and crops can be reclaimed in full. Similarly, VAT on expenses relating to standard rated income such as contracting income is also recoverable.

In contrast VAT relating to exempt income such as cottage rents or land let out on farm business tenancies is usually not reclaimable. A business which has both taxable and exempt sources of income is partially exempt and special rules apply to determine how much VAT can be reclaimed on expenses.

This involves allocating the VAT incurred into three parts - that wholly attributable to taxable supplies, that wholly attributable to exempt supplies, and the rest (usually related to the business as a whole, such as overheads etc.) - this last part then needs to be apportioned. CAUTION: 'taxable' includes supplies made at the standard, reduced AND zero rate - not to be confused with exempt!

Generally the total VAT then determined as relating to exempt activity is irrecoverable; however, if it is less than de-minimis limits there is no such restriction and all the VAT (subject to any other rules) can be reclaimed. This is a complex calculation which is beyond the scope of this article, but we are here to help you if needed.

B&Bs AND HOLIDAY LETTING

A common diversification to the normal farming trade is to run a B&B or a furnished holiday letting business. It is important to understand that the resulting income is standard rated and VAT will need to be paid to HMRC if it is part of the farming business.

It may be possible to undertake these diversifications in a separate business so that VAT does not need to be paid over. However, HMRC will look closely to check that the two businesses are genuinely separate. Thus all record keeping and marketing activities need to be kept totally separate and any resources used or utilised from other businesses are properly cross-charged.

Once again this is an area where we have considerable experience and advice should be sought.

IS IT A CAR OR A COMMERCIAL VEHICLE?

For VAT purposes there is a significant difference between a car and a commercial vehicle and with the development and increase in popularity of double cab vehicles and SUVs there is an inevitable blurring of the lines.

VAT incurred on the purchase of a car cannot be recovered, whereas input VAT incurred on a commercial vehicle (subject to the normal rules) can. It is therefore very important to distinguish between the two so that the VAT is dealt with correctly.

For example, broadly speaking, a Land Rover Discovery is classified as a car and the input VAT wouldn't be recoverable, whereas a Land Rover Defender is seen as a commercial vehicle and input VAT recovery is possible.

As a rule of thumb if the vehicle has windows or seats to the rear of the driver's seat it is normally classed as a car. The exception to this rule relates to double cab pickups, as these have two rows of seats you might expect them to be classed as a car. However, they are considered to be commercial vehicles as long as they have a payload of at least a tonne.

This blurring of lines is not helpful with the rules and distinctions being complex and nuanced; therefore I strongly recommend confirming the position prior to committing to the purchase of the vehicle.

CHRISTOPHER GULLY
MANAGER
christopher.gully@pkf-francisclark.co.uk