



Apples, Poultry and Property



James Cater
01553 774745
jamescater@whitingandpartners.co.uk

In this, the 14th issue of our Farming Group Newsletter, we again address a range of topics. Some are technical and biased towards tax or management issues whereas others give necessarily brief outlines of particular types of venture.

Some focus on legislative changes for example planning regulations and others are of particular topical interest - who can ignore computerised accounting packages in the face of the government's imposition of its Making Tax Digital legislation?

I hope the overall effect is to entertain but also to promote thought. In all our respective endeavours it is the capacity to evolve which characterises the successful. Perhaps there should be a future article on Darwin. Certainly, the pace of change will put paid to the dinosaurs. In the meantime, we address more prosaic subjects but hope that one or two may cause ideas to germinate.

IN THIS ISSUE

- Would you Adam and Eve it*
Tax laws around new orchards ... **Page 2**
- Trading structures*
What is best for business? ... **Page 2**
- MTD - not all bad news*
Less than 6 months to go... **Page 3**
- PDR legislation*
Important changes to review... **Page 3**
- Structure allowances*
New tax relief options ... **Page 3**
- Chicken or Egg?*
Which comes first ... **Page 4**

New Machinery Investment

After a period during which the level of reinvestment in machinery which can attract tax relief has been modest, at least by reference to new machinery costs, from 29 October the Annual Investment Allowance was increased five-fold to £1 million. Now that we can get the tax relief all we need to see are some healthy profits against which to claim the deduction and to finance the cost.

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Chartered Accountants &
Business Advisers

Would you Adam and Eve it?



Stuart Kierman

01945 584113

stuartkierman@whitingandpartners.co.uk

Tax laws are curious things highlighted by the treatment of the costs around establishing an orchard. Trees are considered to be owned with the land on which they grow. So, buying an orchard gives no right to a revenue deduction in respect of any established trees or fruit.

Similarly, the initial expenditure incurred by a fruit farmer in planting a new orchard represents capital expenditure and therefore

attracts no revenue relief for Income Tax or Corporation Tax.

However, after establishment, subsequent expenditure on cultivations is allowable in full as a deduction from profits.

Similarly, the cost of 'grubbing-up' an old orchard is also treated as being 'capital in nature'.

The peculiarity comes where 'grubbing up' is followed by the replanting of new fruit trees when, on an acre-by-acre basis, both the 'grubbing up' and replanting expenditure is normally allowable as a revenue deduction from profits.

For this to apply, planting must take place within a reasonable time of 'grubbing up' and this is generally interpreted by HM Revenue & Customs as two years, although this Renewals Relief can be claimed even if planting takes place on different land.



The relief is restricted to the extent that the replacement area exceeds the area that was 'grubbed up' although it is not necessary for the fruit type to be the same in the old and new orchards.

Adam and Eve? There have been many suggestions. It wasn't an apple but a pomegranate and we haven't got many pomegranate growers on our books!

Trading Structures – Take Advice



Philip Peters

01284 752313

philippeters@whitingandpartners.co.uk

A question we are often asked is 'which is the best trading structure for a business?'. The answer is, of course, 'it depends'.

For a new business, the choice of Sole Trader, Partnership, Limited company or Joint Venture will depend on the circumstances of the individual or people involved, the requirement for and sources of funding and the importance of having limited liability, should the new business fail.

For a mature business, like a second or third generation family farming enterprise, the same considerations will apply if a new venture is being contemplated. The landscape is broad but it could be growing a specialist crop, collaboration with a neighbouring farmer or diversification into renewable energy, property development or food production and processing.

Selecting the most appropriate structure for the new business demands careful consideration of the issues around taxation. If, for example, losses are anticipated in the early years of a new venture, an unincorporated business may provide earlier tax relief by enabling the offset of losses against other income. On the other hand, if third party equity funding is required or research and development expenditure is planned, then a corporate structure will be essential.

A high-risk venture will almost always be better undertaken by a limited liability company, whereas the family partnership structure may be preferable where the business is low risk but greater flexibility is required for the allocation of profit between partners.

A common message in our newsletters is the importance of seeking professional advice and actually acting on it. In this instance, the choice of business structure is not straightforward and thought must be given to the short, medium and long terms.

MTD – Not All Bad News



Ben Kilby

01553 774745

benkilby@whitingandpartners.co.uk

Just as night follows day it's reasonable to expect that improved management information will lead to improved management. For that reason, HM Revenue & Customs' imposition of computerised bookkeeping through the MTD - Making Tax Digital - initiative is not entirely bad news.

For years, Farmplan and Landmark have been significant providers of software for rural businesses and the ability of their packages to deal with the vagaries of agricultural trading is proven. Whether it is entering deductions

levied by merchants, reporting either by harvest year or by financial year, enabling machinery costs to be tracked or by linking with field-costing systems for compliance purposes, these packages are established.

New kids on the block Xero and QuickBooks Online, are not aimed at farmers in the same way but do offer many of the features that are offered by their more expensive cousins. Harvest year reporting is achievable and many of the other aspects that set Farmplan and Landmark packages apart can be replicated.

However, the great advantage of these packages is that they are cloud-based, as long as your farm doesn't fall into an internet black-hole then there is greater flexibility for access to the software. These packages will have their advantages and disadvantages but any farmer now looking to computerise in order to meet the MTD impositions should consider both the desktop-based and cloud alternatives.

Structures and Buildings Allowance

After seven years when there was no tax encouragement to invest in new farm buildings a new allowance, Structures and Buildings Allowance, offers tax relief on appropriate expenditure, albeit at only 2% per annum. In addition, the relief will be available for the capital cost of improving an existing building. Repairs to an existing building will continue to qualify for full deduction from taxable profits. The key date for this relief is October 29, 2019 as only contracts entered into after this date will attract the relief. On a subsequent sale of a building which has had this relief claimed against it there is no clawback of allowances and the purchaser receives entitlement to take over the remaining years of claim.

Time to Review Your Property



Stephen Malkin

01553 774745

stephenmalkin@whitingandpartners.co.uk

Part of the charm of the countryside may be the sight of ramshackle farmyards with traditional buildings and, often, an unwelcome but picturesque element of disrepair. Less scenic but far more practical are the modern buildings which tend to replace them.

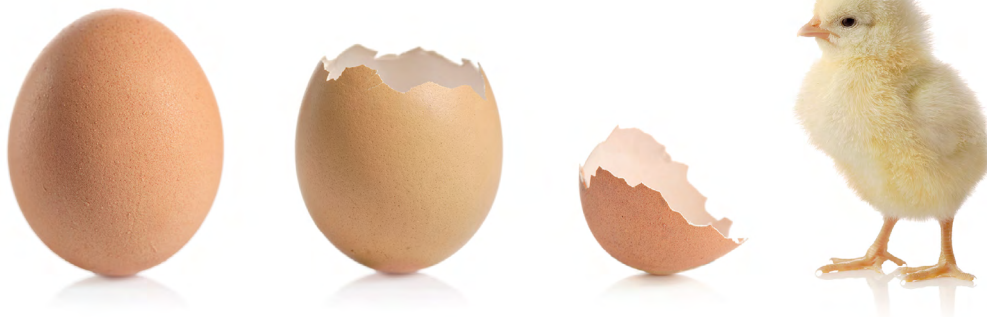
Permitted Development Rights – PDR - were introduced in 2013 and prompted many landowners to re-evaluate their buildings. As storage requirements evolve the revamping of old buildings becomes less practical, indeed often it ceases to be an option. Building a new store enables the full requirements of the business to be met but at a significant cost. This is where PDR may assist.

Recent changes extend the area of a new agricultural building constructed under PDR from 465 square metres to 1000 square metres and allow for the erection and repair of agricultural buildings, installation of farm tracks and other minor developments. Bureaucracy remains, as the need for the new building must be justified and a prior approval process must be completed. However, this should be a 28-day process

compared to the 56-days required for full planning.

Interestingly, Permitted Development Rights for converting agricultural buildings to dwellings, class Q, have also been amended. These now allow for up to five dwellings rather than three and up to 865 square metres of floor space to be converted as a mix of 'larger' and 'smaller' dwellings. To be precise, that's three at 465 square metres each and two at no more than 100square meters each.

Do these two changes herald an era of reinvestment in farm infrastructure as new buildings are financed by the sale of outdated sheds? This will not be suitable for every farm and there remains scope for local authorities to be obstructive but the new rules do encourage a review of the farm estate.



Chicken or Egg First?



Richard Alecock

01638 712267

richardalecock@whitingandpartners.co.uk

Farming itself is highly regulated and within the sector poultry farming is among the most scrutinised. Our client base includes a number of poultry farmers and we often receive queries from people wanting to start-up.

There are four key areas for discussion, egg production, welfare, broilers and finance.

Free-range birds, as the term implies, are not kept in cages but can roam freely outdoors.

There should be at least one hectare of outdoor range for every 2,500 hens. Cage-free birds are kept indoors but not in cages, in space limited to nine hens per square metre. Battery birds are caged 24-hours-a-day.

Laying is stimulated by daylight and artificial lighting can be used to increase egg production

by 20-30%. Frequent egg collection prevents hens from brooding eggs or trying to eat them. It also prevents the eggs from becoming damaged or dirty.

Broilers – chickens destined for the table – are delivered as day old chicks. In their first week, they can grow 300 percent of their body size. Indoor broilers are floor-raised on litter including wood shavings, peanut shells, and rice husks; in climate-controlled housing they reach slaughter weight in between five to nine weeks. They are not raised in cages but in ‘grow out houses’, large, ventilated and heated open structures which are equipped with mechanised food and water delivery systems.

Free-range broilers are reared under similar conditions to free-range egg-laying hens. The breeds grow more slowly than those used for indoor rearing and usually reach slaughter weight at approximately eight weeks of age.

Finally - Pullet Finance. This is a short-term loan to finance a flock over its lifetime. It can be used to ease pressure on working capital and free-up cash-flow which would otherwise be tied up in purchasing new birds.

Offices throughout East Anglia

Bury St Edmunds Office

Greenwood House, Skyliner Way,
Bury St. Edmunds, Suffolk. IP32 7GY
Telephone: 01284 752313
bury@whitingandpartners.co.uk

Ely Office

George Court, Bartholomew's Walk,
Ely, Cambs. CB7 4JW
Telephone: 01353 662595
ely@whitingandpartners.co.uk

Kings Lynn Office

Norfolk House, Hamlin Way,
Hardwick Narrows, Kings Lynn,
Norfolk. PE30 4NG
Telephone: 01553 774745
kingslynn@whitingandpartners.co.uk

March Office

The Old School House, Dartford Road,
March, Cambs. PE15 8AE
Telephone: 01354 652304
march@whitingandpartners.co.uk

Mildenhall Office

Willow House, 46 St. Andrews Street,
Mildenhall, Suffolk. IP28 7HB
Telephone: 01638 712267
mildenhall@whitingandpartners.co.uk

Peterborough Office

Eco Innovation Centre, Peters Court,
City Rd, Peterborough, Cambs. PE1 1SA
Telephone: 01733 564082
peterborough@whitingandpartners.co.uk

Ramsey Office

108 High Street, Ramsey,
Huntingdon, Cambs. PE26 1BS
Telephone: 01487 812441
ramsey@whitingandpartners.co.uk

St Ives Office

Unit 14, Raleigh House,
Compass Point Business Park,
St Ives, Cambs. PE27 5JL
Telephone: 01480 468931
stives@whitingandpartners.co.uk

St Neots Office

14 Eaton Court Rd,
Colmworth Business Park, Eaton Socon,
St Neots, Cambs. PE19 8ER
Telephone: 01480 470755
stneots@whitingandpartners.co.uk

Wisbech Office

12 & 13 The Crescent, Wisbech,
Cambs. PE13 1EH
Telephone: 01945 584113
wisbech@whitingandpartners.co.uk

“If it ain't broke, don't mend it”

While this sentiment can justify persevering with inappropriate trading arrangements there comes a time in the life of many businesses when difficult decisions are needed. Where a limited company structure is constraining individuals from following their chosen path a corporate demerger can result in all parties being able to better achieve their personal objectives. In many cases, the more entrepreneurial can be freed to take strides forward while the more risk averse can protect their asset base. This can also resolve problems arising from succession leaving ill-matched business owners.