



Farming – What a Surprise

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Early in the year one of my clients remarked that he hoped wheat prices might reach £200 per tonne; I replied that I hoped they reached £300. Neither of us anticipated the upswing in commodity prices which has occurred. Farming exists in an environment capable of springing surprises.

Despite the uncertainties which are inherent in this industry, accurate knowledge of performance and projections of what is coming can help protect from bumps in our path. Jasmine Jenkins has contributed an article giving an overview of Figured, industry specific software which can help provide better information and assist with cashflows and budgets.

Louise Bassett gives further information regarding the decline of the Single Farm Payment regime and I have addressed

specific problems that can arise from unwritten Tenancy Agreements created under the Agricultural Holdings Act 1986.

As we hear of difficulties being explained to members of a Co-operative Grain Storage facility in our region, Stephen Malkin considers another option available to farmers.

Jeannette Hume gives early warning of further upheavals on the tax front that will affect Sole Traders and Partnerships that do not prepare their accounts annually to the end of the tax year and Richard Alecock has written about Net Zero, a concept which on one level makes sense and yet which in the detail I, for one, find difficult to rationalise.

A nursery rhyme from my youth contained the phrase 'the butcher, the baker, the candlestick maker'. The farmer, the butcher and the baker are part of the food industry and endure. The production of candlesticks is currently a niche at the luxury end of the market and is less relevant but despite potential bumps in the road I believe farming will continue and retain relevance in society.

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Net Zero in UK Farming



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The UK Government has legislated to achieve net zero carbon by 2050 and agriculture is therefore key to reducing emissions and helping the United Kingdom to meet its climate targets.

This will require systemic change in farming practices and across the food-supply chain as farmers contribute to delivering net zero carbon. The industry is already responsible for carbon resource in soils, wooded landscape and semi-natural habitats.

Achieving net zero will look to incentivise the conservation of the farm carbon resource as well as its enhancement and whilst some of these changes will be simple, many will require support including funding and advice.

Conservation and enhancement can be achieved with changing land use to capture more carbon and deliver greenhouse gas emission savings through improving land management, optimising soils, maximising vegetation growth and stopping the management of unproductive areas, for example by:

- Enhancing soil carbon storage
- Enhancing and increasing hedgerows
- Increasing woodland planting on farms
- Peatland and wetland restoration

Support for this work through the Environmental Land Management Scheme (ELMS) may help achieve this.

As agricultural vehicles become more expensive, and add in the recent price rises as well as the eventual removal of the Red Diesel subsidy, biomethane tractors have started to appear.

Smaller electric farm vehicles, like quad-bikes and telehandlers are increasing in number, sharing space with the family's electric car.

2050 feels as if its a long way off but the ever-changing world of farming continues to evolve, and net zero is part of this modern farming evolution!

Have You 'Figured' Your Farm?



Jasmine Jenkins

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My headline is not a rhetorical question but a genuine enquiry about the software you use for your farming business. For the last few months we have been trialing 'Figured' which is farm specific management software that directly links into your Xero accounts.

It keeps all records in one place and allows you to monitor farm performance, stocks, forecasts and even scenarios before you invest in new plant or take on finance.

It has a 'Crop Season Tracker' so each crop's productive yield, field-by-field, can be followed easily alongside its financial performance.

'Product Tracking' can eliminate stock uncertainties. It helps you to keep a digital stock of all your farm consumables, from the point of purchase to applying them to your land. The quantities and values of any remaining products are accessible at the click of a button.

As you drill seed or apply fertiliser, the quantities are removed from the digital Product Store and automatically counted as a cost against the crop you're tracking.

As your costs accumulate, Figured summarises each crop's break even price.

Once your crops are harvested, they're recorded in the Product Store. As you make sales, quantities on Figured are released, with any profit-or-loss due to movement in crop price recognised at the point of sale.

A handy 'Crop Season Summary' gives you all the individual crop-specific data in one place. Your crop production is detailed by total yield, specific field, and yield per

hectare. Crops you have harvested are tracked by both sold tonnage and by tonnes remaining in your stores. Both the crop sales and costs incurred are summarised, with a breakdown given of cost per hectare and per unit tonne.

Figured can help you with decision making and with keeping the farm on track. It enables you to build in budgets - with forecast harvests and costs - into your financial reporting.

If you're thinking about a future asset replacement - Figured's 'Scenarios' tool has you covered. This enables you to act out any potential future investments or liabilities and see the possible effects on the farm's financials.

Figured can be fine-tuned to cater for any farming operation - from crops of all types, to livestock and dairy so providing farm-focused production and financial reporting in real time.

Define a Grain Store



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The timing of a farmer's decision to sell his wheat crop can make a big difference to what profit he makes, some will sell straight from the field, others will use cooperative grain stores like Fengrain and Camgrain. There is another option - build your own grain store.

The outcome from a recent First Tier Tax Tribunal case has supported a farmer's bid to allow a grain store to qualify for capital allowances. Historically, many grain

storage facilities have been ineligible for capital allowance claims as 'plant', falling instead under the Building and Structures legislation. However, in the case of *Stephen May vs HMRC (2019)*, the grain store qualified for capital allowances as it was proven to be:

- A silo under normal definitions
- Used only for temporary storage
- A building with specialist integrated features rendering it unfit for any other purpose and enabling it to function as apparatus with which the farmer carried on his farming trade, in particular facilitating the drying and conditioning of grain.

Claiming capital allowances gives the farmer the possibility to obtain 100% tax relief on the expenditure.

The other tax advantage currently available until March 2023 is the new 'super deduction' which allows the farmer to claim 130% of the cost of new plant purchased. A new grain store would fall under this legislation as long as the farmer is trading through a limited company.

Careful consideration should be given before claiming capital allowances on a grain store, including referral to the specifics of the *May vs HMRC* case and specialist advice should be sought. The principles of this case can extend to specialist storage facilities for other crops such as potatoes.

If you want to discuss in greater detail, then don't hesitate to get in touch with your usual Whitings LLP contact.

Tax Changes for Partnerships and Sole Traders



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HM Revenue & Customs has announced that the way in which unincorporated businesses are taxed will be changed from 6 April 2024 unless they already prepare their accounts to March 31 or April 5.

For all unincorporated businesses that have other year ends, it will bring forward the date on which taxable income will need to be calculated and tax will need to be paid. It could also require estimates to be made of profits generated in the latter part of the tax year unless a business changes its accounting year end to correspond to the tax year.

To bring the tax in line for all businesses there will be a mechanism to tax the 12-months' profit to the end of the accounting year together with any profits arising from the end of the accounting year to April 5 2024.

For example: A business with a September year-end will be taxed on the profits to September 30, 2023, and an additional 6-months profit up to April 5, 2024. Whilst some businesses may have Overlap Relief to deduct from this taxable profit, this typically arose in the 1990s and so inflation may have reduced the value of this Relief and there may still be additional taxable profits even after the use of this Relief.

For businesses where profits in the transition tax year are higher than if calculated under the current basis of assessment there will be the option to spread that additional profit over five years.

HM Revenue & Customs have recognised that this may affect farming businesses, as they may have accounting year ends that coincide with key dates in the farming calendar like harvest-time.

If you would like advice on how this change might affect your business, whether it might be advisable to change your farm's year end and if so, when to do this, we would be happy to assist you.



BPS and the Lump Sum Exit Route



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From 2024, Basic Payment Scheme (BPS) receipts will be de-linked from the land to which they currently relate. These payments will then be phased out by the end of 2027, in line with the government's Agricultural Transition Plan.

Once the payments are disconnected, recipients won't have to farm the land to receive the payments. In fact, a farmer could receive de-linked payments if they stop farming altogether.

This obviously opens the door for those who wish to quit the industry and they could effectively stop farming but still receive de-linked payments.

Another way to leave farming is to tread the route of the 'lump sum exit'.

Naturally, criteria have to be met. Land and any BPS entitlements must effectively be given up, with a few exemptions, but taking the lump sum path effectively accelerates the process for those wanting to leave.

The calculation of the lump sum available is based on average BPS receipts for 2019, 2020 and 2021 multiplied by 2.35 but there is a cap restricting the maximum lump sum available to £99,875.

Applications for this exit route are open now and will remain open until midnight on September 30, 2022. It's important to note that DEFRA does not intend to reopen this option in further years so, if you are considering an exit then it's imperative that you give this proper thought. This alternative has the added advantage of being taxable as a capital receipt rather than as income.

As you would expect, when it comes to giving up the land, there are rules around to whom the land can be passed. For those in a farming partnership or limited company, this becomes slightly more complicated but it can still be achieved with careful planning and could be a useful way to hand land on to the next generation.

To find out more information don't hesitate to get in touch.

Tenancies

When planning succession one of the stumbling blocks is often the existence of tenancies under the Agricultural Holdings Act 1986 (the Act). In arm's length situations these are normally evidenced by a written agreement but, in a family environment, they commonly will have arisen without the parties feeling the need to formalise any arrangements.

With unrecorded agreements there are generally no agreed express terms dealing with, for example, rent review and repair obligations. More worryingly for the landlord, there are often no provisions addressing alienation including assignment and sub-letting. It would be expected that, in a more formal written agreement, these would be prohibited.

Although, when created it was unlikely that either landlord or tenant envisaged the occupation of the farmland under the tenancy ever being by anyone other than a family member, when common interests diverge this can become a risk. In these circumstances the landlord should seek legal advice as a written tenancy may be the best way to restrict the arrangements to what was originally intended.

This may be achieved by the landlord serving a Notice under section 6 of the Act. This requires the tenant to enter into a written form tenancy agreement embodying all the terms of the tenancy. Although there still is requirement for agreement to be reached an immediate effect is that the tenant may not, without the landlord's consent in writing, assign or sublet any of the tenanted area until the terms of the tenancy are determined.

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