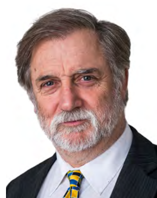
Sticks and Carrots – No Change Then



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Over recent years farmers have been incentivised periodically to change their crop choices. We have had 'yellow years' as Oilseed Rape coloured our landscape and 'blue years' when Linseed was dominant. I suspect that 'green years' may be the next favoured colour and I'm not just thinking of the green cover required overwinter as part of the sustainable farming incentive but the metaphorical green of solutions to problems others face with issues like excess nutrients and the need for biodiversity gain to offset development - net zero green.

The 'stick and carrot' approach emerged in the 19th century in racing but as new markets and products evolve governments will continue the approach of prohibitions and incentives as the net zero imperative seems dominant.

In this issue, Louise Bassett revisits the development of the new subsidy regime and warns we must be alert to changes in detail introduced to better achieve government objectives. I have indulged myself by considering why, as an accountant, I might want to have specialist knowledge of farming. Andrew Band considers aspects of VAT, Steven King addresses the Structures and Buildings Allowance and Ben Kilby addresses Retirement. Price volatility is always an issue for farmers and Richard Alecock considers Futures and Forward Contracts which are becoming increasingly popular for farmers wrestling with price unpredictability as they look to protect their positions.

Remember the McSharry reforms of the Common Agricultural Policy? Compulsory set-aside was among changes widely feared by farmers. Those reforms preceded a period of agricultural prosperity. Now, it's all about landscape regeneration with government blogs on 'getting the balance right between farming and nature'. Rewilding has emerged as an alternative land use. Are we about to see exciting opportunities appear through our fog of apprehension?

James Cater

IN THIS ISSUE

Page 2

Sustainable farming incentive payment rates increased.

Considering your Futures and Options contracts.

Page 3

VAT - File on time or face new penalties.

Bringing a farming business to an end through MVL.

Page 4

Claiming capital allowances on structures and buildings.

Supporting farmers through a dedicated Farming Group.

Whitings Chartered Accountants LLP

Horse. Water. Drink. Rearrange...

Louise Bassett

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Until now the uptake of the new Sustainable Farming Incentive, the SFI, has been low. Indeed, when the Green Party's Baroness Jones asked, just before Christmas last year, what steps the government is taking to increase SFI applications discussions revealed that fewer than 2,000 farmers had joined up. It's easy to see why.

Pitiful payment rates for the standards released in 2022 were compounded by the additional time-input required, both before and at the time of application. They were further compounded by the subsequent actions required to meet the objectives. It was not particularly enticing.

Within a month of this debate in the House of Lords, DEFRA announced a one-off SFI Management Payment of up to £1,000 – £20 per hectare up to 50 hectares - in recognition of the cost of entering the scheme and to, hopefully, attract more applicants.

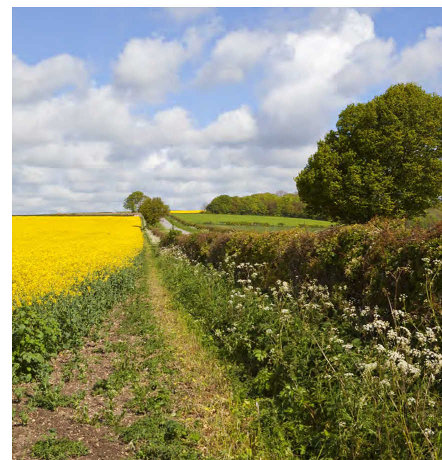
A few weeks later came a further announcement detailing revised criteria for 2023. Pleasingly, not only are the payment rates much more attractive but DEFRA has introduced more standards than first planned. Six standards are on offer in 2023 bringing the total number to nine.

These new standards are:

- Nutrient management
- Integrated pest management
- Hedgerows
- Arable and horticultural land
- Improved grassland
- Low/no input grassland

Of course, the payment rates vary considerably depending on the action but some of the headline payment rates peak at £732 per hectare. Additional evidence and records' requirements remain but perhaps DEFRA has finally begun to lead the horses to water.

Now, let's wait and see how many drink.



Futures and Options

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Volatility in wheat prices has underlined the importance of protecting future prices. The war in Ukraine and weather in major wheat producing areas have all impacted worldwide wheat prices.

Options Contracts gives farmers the right, to buy or sell wheat, at a pre-determined price at or before contract expiry. These can be purchased on any date.

A Futures Contract is a standardised contract that specifies the amount, quality, place of delivery and time of delivery of the specified commodity in this case wheat.

A Futures Contract price is negotiated at the exchange by supply – sellers - and demand – buyers. Futures markets are organised exchanges in which futures are traded.

These are the tools that can be used to 'fix' future prices.

Sugar beet has also seen prices change for future years after last year's summer drought, winter frost and yield drop, the NFU and British Sugar announced an historic high price of £40 per tonne for the 2023/24 sugar beet contract year.

The offer also includes a number of new options for growers to consider as part of their 2023/24 contract. These include:

- A 'yield guarantee' to protect income against yield losses.
- A 'futures-linked' variable price contract enabling growers to make more dynamic pricing decisions for up to 20% of their contracts.
- A binding agreement for that tonnage which cannot be changed once a grower has decided to apply the variable pricing structure to the sale of a portion of their beet year.
- A local premium, revised multi-year prices and the option of a cash advance

A message repeated in this newsletter is that as there are many more options for farmers, it is imperative to carefully consider cashflow and business planning.

This or VAT?

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VAT for farming business is generally straight-forward once the initial assessment of the applicable rate for output VAT has been determined. Those monthly or quarterly VAT refunds were always keenly anticipated after some large capital expenditure.

For those on top of their paper-work the timing was metronomic. For the less well organised, submission of VAT returns was something that could be delayed when there was something more pressing. For some it was a savings account and the six-month catch-up provided a nice cashflow boost.

The VAT reclaim position meant that if the farmer wasn't bothered then neither was the VAT man.

From the turn of the calendar year January 1, 2023, the goal posts have moved and we now need to focus on the penalty spot! Failure to score – file on time – now results in financial penalties. A totting-up system like driving licence points is now in place. Once the penalty threshold is reached, each late submission is £200 regardless of reclaim or not. Subsequent late-filing similarly attracts additional £200 fines. The only way out of this is through a period of consistent compliance and gradually those points reduce.

Turning to Partial exemption or PE. It's an area where VAT can become complex. It arises in farming entities where the level of exempt income, most likely property income, becomes significant, in either absolute terms or relative to normal farm incomes. In other more complex cases the recovery of input VAT on general overheads can also be restricted.

If you think you may be affected then please contact us because, with careful planning, VAT recoverability can be enhanced.

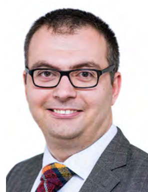
Late VAT Return = a penalty point

Penalty Points Thresholds:-

Monthly Returns	5
Quarterly Returns	4
Annual Returns	2
Next Late Return	£200

Points expire after 2 years

Ready for Retirement?



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Whitings LLP is often involved is the termination of farming companies and our advice to them is based on a combination of planning and caution.

One way to end a company's farming operation is through a Members' Voluntary Liquidation - MVL. The first step is with a Declaration of Solvency which must be accompanied by an up-to-date list of assets and liabilities.

As they prepare, Directors can convert assets to cash and settle liabilities but once the Liquidator is in place, their authority disappears. The Liquidator completes the final tasks prior to the company being struck-off the Companies House Register.

Before appointment of the Liquidator, Directors may sell any land held within the company including growing crops. Sometimes there is an AHA tenancy held by the Company over family land and thought must be given as to whether this can be assigned by the Company. This may not have been the original intention so documentation supporting this should be available. The sale of farm machinery may also be involved.

Work completed by the directors will reduce that of the Liquidator and can speed the liquidation process.

When all creditors have been paid any funds remaining will be distributed among shareholders and tax could impact at this point. Sidestepping anti-avoidance measures will result in Capital Gains Tax treatment and Business Asset Disposal Relief could further help reduce some tax from 20% to 10%.

MVL can be an attractive route to bring a farming business to an end. There can be pitfalls but providing care is taken in planning the steps a satisfactory outcome can be achieved.

Structures and Buildings Allowance

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Plant and Machinery Capital Allowances are usually claimed in preference to the Structures and Buildings Allowance (SBA) when available but there may be substantial unrelieved construction costs which can form the basis of a SBA claim.

The current SBA rate is 3% per year and this has been available since April 2020. Prior to this, the rate was 2% per year.

For the structure or building to qualify there are three principles:

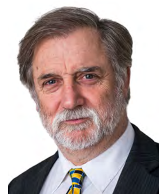
- Must be used for a qualifying activity
- Must not have been used as a residence the first time it was used and during the period being claimed
- Must have an allowance statement

Structures and buildings are not tightly defined in the legislation which means it is possible for a farming business to make an SBA claim in wider circumstances than may appear.

Relevant expenditure could be a farm building or an office, let-able commercial buildings, a reservoir, a new road, fencing, walls, bridges or tunnels. In fact, anything that effectively alters the nature of the land could potentially qualify for an SBA application.

Where farmers might naturally choose to claim Plant and Machinery Capital Allowances in preference to the SBA, where it is available, unrelieved costs of construction could be substantial and the likelihood of a farming business owning the building or structure for a long time would certainly make an SBA claim advantageous.

Farming is Unique



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Whitings LLP acts for a myriad of different businesses ranging from numerous sole traders and SMEs to larger corporates. Standing out in that mix is farming.

Farming is unique and that's why we have a dedicated Farming Group.

Farming suffers from economic in-elasticity. Demand is not hugely influenced by price. As most agriculture is on an annual cycle there is little scope for management intervention in reaction to price fluctuations and the market tends to dictate to the farmer. Food security is a political consideration and leads successive regimes to tinker with the industry.

Access to the industry by new entrants is constrained by the investment required and availability of land. The tenanted sector is extensive and complicated by both Agricultural Holdings Act tenancies and Farm Business tenancies existing in tandem.

The drive towards bigger farms, larger fields and huge machinery reduces the scope for small start-up businesses becoming established and growing. Many farming businesses endure down the generations and succession planning is vital.

Taxation for farmers has its own rules; for example, for Inheritance Tax there is Agricultural Property Relief and for Income Tax, farmers averaging over 2 or 5 years. We have the 'herd basis' of valuation for livestock and 'hobby farming' Loss Relief rules. Stamp Duty Land Tax and the Annual Tax on Enveloped Buildings affect many but are far most frequently dealt with in an agricultural context.

Farming isn't boring. Problems present and re-present themselves regularly. We work with Farmers. Our Farming Group ensures that we have the knowledge and resources to do this successfully.

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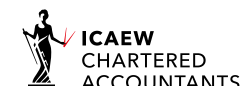

The information in this newsletter is supplied as guidance only, always seek professional advice.