Whitley Stimpson

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Agricultural Spotlight

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Welcome to the Summer 2024 edition of the our Agricultural Spotlight.

In this edition, we delve into the implications of Labour's victory in the 2024 General Election for the farming sector. We also examine the future of Furnished Holiday Lets (FHLs), the impact of penalties under the new VAT regime, and whether energy storage can provide financial benefits for farmers. Additionally, we discuss the economic challenges facing arable farms post-harvest and analyse DEFRA's report showing a 10% decline in farm incomes for 2023.

We hope you find this newsletter both useful and informative. If you have any comments or questions about the content or would like more information about our services, feel free to contact me or any member of our agricultural team. We're here to help!

What does the Labour General Election Win mean for farmers?

The recent Labour General Election win has sparked significant reactions across the farming industry. With Sir Keir Starmer's new government at the helm, industry leaders and organisations are assessing what this political shift means for British agriculture.

NFU President Tom Bradshaw: A Reset Moment for British Agriculture

Tom Bradshaw, President of the National Farmers' Union (NFU), described the election result as a "reset moment for British agriculture." He emphasised that while Labour's manifesto acknowledges the importance of food security, the new government's primary focus should be on revitalising farm business confidence. Bradshaw noted several key policies from Labour's manifesto that the NFU is keen to see actioned, including:

- Ensuring the new Environmental Land Management Schemes work for all farm businesses.
- Setting core standards for food imports.
- Boosting public procurement.

Bradshaw also highlighted the need for effective import controls, supply chain fairness, investment in infrastructure, and a flexible planning system. Additionally, he stressed the importance of continuing efforts to eradicate bovine TB, citing a 56% decline in TB outbreaks due to comprehensive and science-based eradication plans.

National Pig Association: Continuing a Close Working Relationship

Lizzie Wilson, Chief Executive of the National Pig Association, expressed her eagerness to continue working closely with Steve Reed and the Labour Defra team. She congratulated Sir Keir Starmer on his historic victory and underscored the need to address challenges such as African Swine Fever in Europe and ensuring fairness in the supply chain for pig farmers.

Meat and Poultry Processors: Ensuring Access to Skilled Labour

The Association of Independent Meat Suppliers (AIMS) emphasised the critical need for access to skilled and affordable labour in the meat and poultry processing industry. Tom Goodger, who manages membership communications at AIMS, stressed the importance of restoring frictionless movement of POAO products into mainland Europe, advocating for a veterinary agreement with the EU. Goodger also called for a reclassification of individuals who disrupt supply chains from "activists" to "criminals," urging the new government to take a firm stance on this issue.

Livestock Auctioneers Association: Concerns About Policy and Taxes

Chris Dodds, Executive Secretary of the Livestock Auctioneers Association, expressed discomfort with Labour's pre-election policy suggestions, particularly around the badger cull and potential tax increases. Dodds emphasized the need to maintain tax benefits for the farming industry and looks forward to seeing Labour's detailed plans for the sector.

Tenant Farmers Association: Clarity on Food and Farming Priorities

Robert Martin, Chair of the Tenant Farmers Association (TFA), urged the new government to clarify its food and farming priorities. In a letter to Sir Keir Starmer, Martin called for the implementation of the Rock Review recommendations, fairness in the supply chain, and a balanced policy framework that addresses food, environmental, and energy security.

Countryside Landowners Association: Learning from the Rural Community

Victoria Vyvyan, President of the Countryside Landowners Association (CLA), stressed the importance of the new government listening to and learning from the rural community. She highlighted the potential economic growth rural businesses can generate with the right support, closing the productivity gap and creating jobs and prosperity.

Agricultural Property Relief: Potential Tax Implications

Guy Coggrave, Managing Director of GSC Grays, warned of potential tax shifts under the new Labour government, which could impact land and farm sales, particularly in Northern England. He highlighted the importance of maintaining favourable tax regimes, such as Agricultural Property Relief (APR), and advised landowners to ensure their farms are active enterprises to benefit from these reliefs.

The farming industry is closely monitoring these developments, with leaders and organisations ready to work with the new government to ensure the continued growth and sustainability of British agriculture.

What is the future for Furnished Holiday Lets (FHLs)?

Many farmers rely on Furnished Holiday Lets (FHL) as a vital source of extra revenue to bolster the farm's core activities.

In recognition of this, FHLs have enjoyed beneficial tax treatments provided they meet certain conditions.

These include relief from Capital Gains and Inheritance Tax, as well as benefits from capital allowances, pension contribution advantages, and the ability to offset finance costs against business income.

But these advantages have recently come under fire from the government as they claim FHLs restrict access to rental property and open market accommodation in rural areas for local people.

Changing the tax regime, the government feels, would lead to a change of use for these properties, open them up and help ease the rural housing crisis.

Although these changes are not yet set in stone – they were announced in the spring budget but haven't made it into the resulting Finance Bill – there is a strong chance they will be enacted at a later date, particularly has we now have a new government.

With that in mind, Ian Parker, agricultural tax expert and director of Whitely Stimpson, is advising farmers with FHLs to get on the front foot and explore their options early.

According to Ian, the options include:

- Accept that the current tax advantages will be removed and continue with holiday lets
- Let the accommodation on a "normal" residential tenancy arrangement
- Sell the holiday lets and distribute the cash to children/other family members
- Pass the cottages to children/other family members tax-free, with holdover relief from CGT
- Sell the holiday cottages and roll over the cash CGT-free within three years into trading assets
- Sell the holiday accommodation property and claim Business Assets Disposal Relief (BADR), which brings the CGT rate down to 10%.

Ian said there are a number of drawbacks with all of these options and deciding which is best will depend on the individual circumstances of the farm.

He said: "If the tax benefits are removed, carrying on as holiday lets might work for second homeowners but it is unlikely to be attract to farm businesses running a commercial enterprise.

"Changing to a residential tenancy might require a change in planning status of the property and doesn't generate the same income as a FHL, and selling a property on or close to the farm means losing control of who owns it.

"However, in circumstances where holiday lets can be sold, there are advantages in being able to roll the cash CGT-free into other farm or tourism assets that still achieve good tax reliefs, so that could be a way forward for some farmers."

Ian added that anyone concerned about the future of FHLs should speak to an expert.

"There are a number of options to discuss which will help put farmers' minds at rest," he said.

"If this issue is a concern for you, get in touch and we can look at the best way forward."

To discuss FHLs or any other form of tax planning, contact Ian on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Points mean penalties under new VAT regime

New penalties for late VAT returns and payments have come into force and will impact on VAT-registered farming businesses.

Under the new regime, which saw a soft launch in January 2023, businesses accumulate penalty points for late VAT returns, as well as penalties for late VAT payments.

Once a threshold of points has been reached, the company will receive a fine.

Under the scheme, HMRC will award companies one point for each filling deadline missed, including for nil and repayment returns.

Once the threshold has been met, the company will be charged a total of £200.

For companies that file annually, the threshold for a fine is two points; those filing quarterly, it is four points, and for those filing monthly a fine will be issued at five points.

Penalty point expiration

Rather like the points on your driving licence, points for late filing of VAT returns do expire. This means that if you do submit a VAT return late, but are on time for subsequent returns, you will avoid a fine.

For companies filing annually, the expiration period is 24 months. Those filing quarterly it is 12 months and for those filing monthly, it is six months.

Late payment of VAT

HMRC have also introduced a graded scale of penalties for late payment of VAT which increases the further the payment is made after the original deadline date.

For payments that are 15 days late or less, there will be no penalty. However, payments that are between 16 and 30 days late will attract a 2% penalty, and those more than 30 days will be charged at 4%.

From day 31, there will also be a daily penalty charged at 4% per annum, meaning that a payment that is 13 months overdue will incur a total penalty of 8%.

Exclusions from the new VAT regime

There are a limited number of exclusions from the new regime which include the first VAT return for a newly VAT registered company; a final VAT return after the cancellation of VAT registration; and one-off returns covering a period other than a month, quarter, or a year.

Be on time …

Ian Parker, tax expert and director of Whitely Stimpson, said the best way to avoid penalty charges was simply to ensure your VAT is in order and to file returns and make payments on time.

He said: “Now the ‘period of familiarisation’ has ended, HMRC will be introducing the points system as a matter of course and any farming business that is VAT registered now needs to ensure they file their VAT returns on time, and they pay on time.

“Of course, it is always possible to challenge both the points, a fine, or the interest accumulated on a late payment, but this will only be successful if the taxpayer has a ‘reasonable excuse’ for not meeting the relevant deadline, which can be difficult to prove.

“So, it is definitely a case of prevention is better than cure when it comes to VAT.”

To discuss the new VAT regime or any other form of tax planning, contact Ian on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Will energy storage help farmers store up the pounds?

Energy storage is an essential component of transitioning our power networks from fossil fuels to renewable sources.

Until now, however, storing electricity generated from green systems has been a major issue. But with the advancement of battery technology, the problem has largely been dealt with.

What it does require, however, is land and unsurprisingly farmers are being targeted to adopt energy storage as the latest diversification opportunity. The battery units connect with the technology used to generate the power – wind or solar – and therefore need to be in close proximity to them.

So, is this form of diversification good for farmers or just the energy companies wanting to install them? We take a look.

Pros and cons

You probably won't be surprised to hear that there are pros and cons to getting involved with one of these schemes.

First of all, a major and the most obvious reason to get involved is they can be lucrative for the farmer who is paid a rental sum per acre for the land used to site the renewable energy project and the battery scheme.

Not only this, but the income is guaranteed for a long period of time, with the life-expectancy of a solar farm around 35 – 40 years.

The land can still be used for certain agricultural processes such as the grazing of livestock, which manage the grass around solar panels.

Comprising tax relief

However, there are some major issues connected to this form of diversification as well, meaning that even with the promise of a long-term source of income, the picture isn't entirely clear cut.

Agricultural Property Relief (APR) and Business Property Relief (BPR) are two forms of Inheritance Tax Relief (IHT) that apply to farm businesses and enable the farm to be passed down the generations without incurring huge inheritance tax burdens.

However, diversification and taking farmland out of food production for other business uses will generally see a reduction of the rate of BPR and APR farm businesses can claim. In a situation where a field or fields are taken out of food production due to solar panels, it is likely that land will lose APR and BPR altogether, even if it continues to be used to graze livestock.

Seek advice

Ian Parker, tax expert and director of Whitely Stimpson, said farmers must take advice on the tax implications of diversification before embarking on a project.

He said: "Energy generation and storage is the latest diversification trend and it can be extremely beneficial for farmers looking to establish new, long-term revenue streams.

"But the tax implications of this form of diversification can be far reaching and have a negative impact on the future of the farm business.

"It is essential anyone considering such a step seeks expert advice before making any decisions."

To discuss diversifying into energy production or any other new business sector, contact Ian on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Arable farms face 'economic storms' post-harvest

Arable farmers are being advised to 'work closely with their accountant' in the wake of figures forecasting post-harvest losses in 2024.

The figures, produced by Strutt & Parker, are based on a 131ha in-hand holding with an expected winter wheat yield of 7.5t/ha in 2024.

They predict an £80/ha margin – a drop of £119ha compared with 2023 – assuming growers have managed to drill spring crops on unplanted winter crop areas.

This would lead to a whole farm net margin of just £10,480 to cover rent, finance and reinvestment, placing farmers in a tight position.

The situation could be exacerbated for smaller farmers who often show a deficit of funds.

Whereas banks are supportive or larger, secure farming operations, they are starting to apply pressure to those that routinely go into the red to change from an overdraft facility to a repayment loan, placing even greater burdens on their finances.

Ian Parker, agricultural tax expert at Whitely Stimpson, said farmers must proactively manage the things they have control over to protect their businesses.

He said: "There are so many unforeseeable and uncontrollable elements that impact on farming from the weather to geopolitics, commodity price volatility, input availability and costs, and the increased cost of working capital.

"All of these have to be juggled as best they can be, which is why it is imperative for farmers to manage the things they can control, such as cash flow, fixed and variable costs, borrowing, efficient staffing, and other business and financial processes that will impact on how profitable and sustainable a farm enterprise will be.

"This is particularly the case for arable farmers heading into harvest 2024 and beyond, where predicted losses could take their toll."

Ian added with judicious management, farmers should be able to weather any financial storms during the medium term until harvest 2025, where margins are predicted to return to normal.

"Growers might have to endure some short-term pain," he said.

"But with solid advice and prudent management, there is light at the end of the tunnel."

To speak to us about cash flow planning or any other business advice, contact Ian Parker on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Farm incomes fell by 10% in 2023 Defra figures show

Total farm incomes fell by £800m in 2023, according to the latest figures from Defra, representing a 10% drop on the previous year.

Across the UK, farm incomes totalled £7.2bn last year, down from £8bn in 2022.

According to Defra, lower commodity prices were a large driver of the drop, as well as reduced cropping and lower yields.

Livestock accounted for just over half (51%) of total output, while crops accounted for 31.8%.

The remainder was made up of subsidies (7.8%), diversification (4.9%) and other agricultural inputs (4.3%).

Ian Parker, agricultural tax expert and director at Whitely Stimpson, said the issue was having ‘real consequences’ for farmers and their families in all parts of the country.

He added that with rain blighting last year’s autumn drill and most of this year, 2024’s figures could be equally bleak.

Ian said: “Defra release the big figures but what they don’t show is the human cost of this drop in income.

“Farms right across the UK are seeing a downturn in their earnings, due to external factors, and that is having a real impact on farm businesses, individual farmers, and their families.

“Commodity prices hit a high in 2022 and that shielded some of the farming sector against the large hikes in input costs. But now, with commodity prices falling and input costs still high, the picture is very different.

“Managing a farm business during difficult times such as this is not easy and farmers should not be afraid to ask for help.”

Cash flow, tax planning and efficiencies

Ian added planning and managing cash flow was an extremely important element of ensuring a farm business remains viable, as well as effective tax planning and finding efficiencies within the business.

He said: “Guiding any business through challenging times is always difficult, but this is especially so in farming because of all the external factors that impact on the sector.

“But with proper planning and advice, farmers and farm managers should be able to take the decisions they need to, to ensure the health of the enterprise.

“As well as ensuring the core business is run efficiently, there are many ways to diversify a farm business nowadays to create new streams of revenue, which can have a transformative impact on the business finances.

“Any farmers who are worried about the impact tumbling incomes are having on their farm should seek advice sooner rather than later, to ensure a robust plan is put in place to help them through what could be for some challenging times.”

To speak to Ian on tax planning, cash flow management, or diversification, get in touch on (01295) 270200 or email ianp@whitleystimpson.co.uk.

Talk to someone who understands the real issues

Accounting for agriculture, farming and rural business is a specialist area that requires expertise and an understanding of the industry. Our dedicated team come from farming backgrounds and offer a clear understanding of the issues facing farmers.

We provide professional knowledge and hands-on experience in the agricultural sector. We have worked with agricultural businesses for over 90 years, providing the expert advice that is required to help you enhance the potential of your farming business.

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