FARMING AND RURAL BUSINESS GROUP NEWS

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What does the future hold for the UK agricultural sector?

Christine Tacon, Keynote Speaker at this year's group annual conference, summarises the points from her talk on the future of the UK agricultural sector.

Major factors affecting the sector

'What does the future hold for the UK agricultural sector' was the title of my talk at the ICAEW Farming and Rural Business Group Annual Conference in September. I opened with a slide talking about the major factors affecting future food availability, such as:

- global population – predicted to rise to 9bn by 2050;
- diet change – as people in developing countries progress towards diets like ours, eating more meat and dairy, which are far less efficient as a food source than locally grown fruit and vegetables;
- water and land shortages – limiting agricultural expansion, with 2/3 of the world expected to be water-stressed by 2020;
- changing weather patterns – causing disruption to food production globally and which will make some current productive areas un-farmable and others newly productive;
- demand for energy – increasing such that most cities in China have smog from the coal-fired power stations; growing crops for energy doesn't solve the issue as the resources are needed to grow food.

Sustainable intensification

Professor Sir John Beddington, the Government's chief scientist, has indicated that we are experiencing a "Perfect Storm" and said that Sustainable Intensification is paramount. We have to grow more food on less land, using less inputs and less water while doing even more for the environment. The UK is far from self-sufficient in food, growing only 58% of its own vegetables and a meagre 11% of its fruit, so we are part of this global concern and the solutions. We can't ignore how much food is wasted: as many of the global population are obese as are undernourished, which is a form of waste, but on top of that we also throw away as much as 40% of food between the field and what we eat.

Common Agricultural Policy reform

In the near future we have reform of the Common Agricultural Policy, which is proving far harder than in previous years due to the introduction of co-decision making, with Parliament being able to comment and force amendments on the Commissioner's recommendations. The only certainty is that UK farmers will get less in future, due to EU budget pressures, however so long as there is equality with our major EU competitors, this should have marginal impact on farm profitability.

Water abstraction reform

Closer to home there is work on water abstraction reform which will affect existing licensing arrangements: licences may be cut back at times of shortage and there may be the ability to trade water abstraction licences; this could have significant impacts of farmers who have irrigated crops. Water businesses themselves are working more closely with farmers as they recognise that some of the water purification they are doing can be prevented by changes in farming practices upstream. One example of this is a concern over the use of metaldehyde in control of slugs being driven by the water businesses.

One area I find exciting is the opportunity from space: new satellites are being launched by the EU which will provide, day and night, views of our crops which could lead to much cheaper and widespread use of agronomy.

However all this is at a level which can seem remote to many farmers, so how can accountants help their farming clients?

Helping your farming clients

I suggest that every farm needs to know if it is:

- farming competitively, using economies of scale achieved through size, cooperation and contractors;
- niche selling to premium markets where superior taste or service is valued and paid for;
- or, like too many farmers in the UK, subsidising the farm through other members of the family earning money, working for low returns on the farm or using activities such as bed and breakfast, renting out barns to subsidise the farm.

All of the above are acceptable so long as the farmer is aware of which they are doing and ruthlessly pursuing the goals.

The next generation

An area where accountants can add significant value is in persuading their clients on the importance of training their successors. Farming is a complex, dynamic sector with a vast number of external factors affecting profitability. The next generation of farmers needs to be financially astute, strategic, brilliant with technology and excellent man managers.

Women in the boardroom

I finalised, as I spoke to an audience of 90% men, of the importance of women in the boardroom, and that there is a huge amount of evidence that diverse boards lead to better businesses. I realise that this is not an area that many farm businesses will easily embrace, but if it is right for the FTSE businesses, it is right for all of them.

If we look back over the last two decades, the areas where farmers have let themselves down are in communicating with the public and managing the environment. At a recent “Ladies in Agriculture” dinner, we realised that nearly every one of us was working in communication or the environment and all of us at senior levels. If only we had been doing those jobs 20 years ago.

Christine Tacon CBE

Christine Tacon (www.christinetacon.com) is Chair of UK Farming plc, Non-Executive Director of farming supply businesses and member of Defra Strategic Regulatory Scrutiny Panel. She was formerly Managing Director of the Co-operative Farms, part of the Co-operative Group.

Farming and Rural Business Group, December 2012

Tax credits reform will leave farming families out of pocket

This article looks at changes to the tax credits rules and at the introduction of universal credit.

The tax credits system has been operating in its current form for almost 10 years. While the system has had its critics and has not always operated smoothly, the money paid to farming families on low incomes has in many cases been critical to paying household bills.

The purpose of this article is twofold:

- To highlight changes made to the tax credits rules which increase the likelihood of families having to repay money to HMRC.
- The tax credits system is to be absorbed into the new universal credit system which is introduced next year. The draft rules discriminate against self employed claimants and if implemented in their current form will result in many tax credits claimants not being eligible to claim universal credit.

Tax credits changes

The biggest criticism of the current system is the number of people who have to repay money to HMRC. The main reason for this is that initial payments each year are based on income figures from the previous tax year, and then finalised once actual figures are known. Clearly if profit figures have increased there may be money to repay while extra money can be received when income falls.

In the early years of tax credits there were a large number of overpayments which led to criticism of the government. In 2006 the rules were changed so that the first £25,000 of increased income was “disregarded” when calculating tax credits. This dramatically reduced the level of overpayments and meant that in many cases one year of low profits resulted in two years of increased tax credits. This was often the case where farming businesses purchased machinery and equipment qualifying for 100% capital allowances.

However in April 2011, this £25,000 income disregard was reduced to £10,000 and we are starting to see more overpayments as a result of this change. The position can only get worse from April 2013 when the income disregard reduces to £5,000. At the same time the amount of capital expenditure qualifying for 100% tax relief came down from £100,000 to £25,000 in April 2012. Thus even businesses which have static or falling profits might have to repay tax credits as a result of the reduction in capital allowances.

In conclusion, families claiming tax credits need to be fully aware of these changes. In order to reduce the likelihood of having to repay money to HMRC it will be necessary to advise them of actual or anticipated changes in income as early as possible.

Introduction of universal credit

Universal credit is an ambitious project to reform the whole welfare system. All the existing welfare benefits (eg, jobseekers allowance, income support, housing benefit, tax credits, etc.) will be scrapped and replaced with a single set of rules and a single payment.

The new system will be introduced in October 2013 for new claimants with existing claimants of tax credits and other benefits transferring to the new system by 2017. As with all radical reforms of this nature there are winners and losers and unfortunately it looks as if the self employed and those running their own Companies will be among the big losers.

A key aim of the new system is that it should be based on actual income figures rather than the income of the previous year. To ensure that the Department of Works and Pensions (DWP) have this information, a new system known as Real Time Information (RTI) is being introduced. This requires all employers to submit details of wages paid to their employees every time a payment is made.

This in itself is a hugely complicated task but does not help the self employed as there is no practical way of calculating profit figures on a monthly basis. Despite this, the draft regulations propose that self employed claimants will have to do exactly that – make a monthly return of their business receipts and payments.

The typical farming business will make losses in some months and profits in other months, but bizarrely the draft rules do not allow losses to be offset against profits made in future months. Representation has been made to the government by various representative bodies and it is to be hoped that this unfairness is corrected.

In addition there are other proposals which will also adversely affect farmers and other people running their own businesses:

- Any money withdrawn from a limited company is to be treated as income for Universal Credit purposes.
- Claimants will have to prove that they are in gainful self employment and could be asked to attend an interview with the DWP.
- The government is also considering introducing a rule which will deem that a self employed person earns the national minimum wage, which has just increased to £6.19 per hour, for every hour worked.
- If a claimant has savings or other capital of £16,000 or more, they will not be eligible for universal credit. Capital for this purpose will include almost all investments, including those which are exempt from income tax, and directors' loans to limited companies.

As can be seen from these proposals, self employed claimants are going to be extremely hard hit by these proposals and many farming families who currently claim will find themselves out of pocket when they are unable to claim universal credit.

Keith Johnston, Armstrong Watson, Carlisle

Farming and Rural Business Group, October 2012

The trade of DIY livery

DIY liveries are normally one trade which forms part of a much larger trade of farming. Here we look the trade of DIY livery and shed light on potentially misleading points.

Pawson

The recent case of Mrs N V Pawson's Personal Representatives v HMRC (2012) UK FTT 51 has focused on the question of services and the difference between an investment business and the trading business for Business Property Relief (BPR) purposes. The case gives guidance on the fact that the trade of providing the service of "do it yourself" (DIY) qualifies as a trade and not as an investment activity. Perhaps it is the name 'do it yourself' that is somewhat misleading as to what is actually involved.

John Window

Another misleading point might be the VAT treatment of DIY liveries. Following the John Window Tribunal it was confirmed that the supply of livery where the main supply was the stabling was a single exempt supply and that the additional services provided were ancillary to the provision of stabling. The main point of "John Window" was that the customers did not have the facility to look after the horse at home and therefore the stable must be the main element of the supply.

An ancillary service is defined as something that does not constitute for customers a main supply in itself but is a means for better enjoying the principal service supply. A supply of livery services which goes beyond the right to occupy a stable may include feeding, turning the animal out to graze, mucking out, worming and clipping, grooming and plaiting and taking on any responsibilities for the welfare of the animal including arranging for veterinary treatment which follows the liability of the supply of stabling; i.e. it is the supply of stabling which is the principal supply and can still be an exempt supply – the other services just follow the main supply.

For VAT purposes public notice 701/15 states the liability of the care of animals is standard rated where there is a “special purpose” yard. The supply of grazing is zero rated. The supply of stabling is considered a license to occupy land and is therefore exempt from VAT unless there is an option to tax in place. The VAT treatment is very complicated.
For BPR purposes there can be a trade but there can still be exempt DIY livery services. There are still a lot of services which would make the trade essentially a ‘hotel for horses’ and yet the principal supply is still the stable.

In McCall (P N McCall and B J Keenan Personal Representatives of Mrs E J Mclean v HMRC 2009 STC 990) the argument for a trading business was that what was being provided was effectively a ‘hotel for cattle’. The profession of providing livery services does fall under the category of trade and a business and it is not mainly that of holding property for letting and thus for investment as in the case of McCall where the activity being undertaken was that of an investment business or landlord.

Grazing agreement

The clear difference between a livery business and a grazing agreement is that in the former every horse is owned by a different person, whereas in a grazing agreement there is generally a knowledgeable, experienced farmer normally using the grazing for his herd of cattle and the customer is just one person.

In any livery trade there are a multitude of owners who require a large amount of management. Looking to the points raised in Pawson, a livery business has to be, as it concerns looking after livestock, a serious undertaking earnestly pursued. There is a lot of competition for such customers and serious marketing has to be undertaken to win new customers. There is continuity of operation, the provision of “overview” is all day, every day, all year, and there is substance to the operation. In order for there to be a profit, a livery trade has to be run on sound business principles making supplies to a large number of consumers and it is a supply that is made by those seeking to make a profit.

A serious business

It has been said that where there is “livestock there will eventually be deadstock”; that is true of any livery yard and this involves a serious business earnestly pursued. If a DIY yard is offering the most basic level of supply, eg, license to occupy a stable or field, it is actually providing much more services by definition.

The majority of customers have full-time employment and they can only look after their horses early mornings, late evenings and at weekends and horses have an ability to “self harm”. Horses are a herd animal, they normally have a leader of the herd and the horses belonging to new customers arriving and old customers leaving can change that structure and hierarchy of the herd and cause a lot of potential damage if not carefully observed and checked upon regularly.

The risks

It is fair to say that:

1) the grass is always greener on the other side of whatever field horses are turned out in and escaping to that field can be very attractive and needs management;

2) horses spook and can become quite terrified from the likes of thunder, hot air balloons, sundry flying objects etc, and damage limitation takes management.

The overall task of being responsible for a collection of DIY livery clients is carrying on a trade. The DIY customers have a reputation for not paying bills and fighting amongst themselves and there is a large element of risk characteristic with the carrying out of trade. Guidance will be found in the legal agreement between the DIY yard proprietor and the customers.

Intelligent businessman

An "intelligent businessman" (a quote from Pawson) would never see the undertaking as an investment business; it is a trading business. It is quite likely that an intelligent businessman might try and persuade that trader to choose other businesses, but at times when farming has been difficult, the trade of providing livery for horses has created an alternative trade to that of farming, and created reliable income streams to farmers. DIY liveries are normally one trade which forms part of a much larger trade of farming. When the activity is carried out in isolation of other activities the badges of trade are normally present in the operation.

Julie Butler, FCA, Butler & Co.

Farming and Rural Business Group, September 2012

Julie Butler FCA is the author of Tax Planning for Farm and Land Diversification, Equine Tax Planning, and Stanley: Taxation of Farmers and Landowners.

Diversified businesses could take advantage of accounts software

Whether your clients want to diversify or simply keep better control over the performance of existing business enterprises, accounts software can help take the headache out of analysing data.

Many farming businesses are looking to diversify to help generate additional income. This can be due to any number of factors but predominantly diversification can simply happen when an opportunity opens up in the market place. Your clients may come to you asking for advice on diversification, so it's worth bearing in mind that they could get more from their enterprises by utilising the analytical functionality available with accounts software packages.

Budgeting and planning ahead

In order to evaluate business performance, a budget is essential. This will assist in the review of what has been spent and what is going to be spent in the future. Budgets are also useful for planning ahead and spotting financial problems which may be on the horizon for example due to seasonal spending such as buying in replacement lambs or additional fertilizers. In the case of starting a new enterprise, budgets can be useful to help allocate funding and guide decision making throughout the year.

With Farmplan accounts software, a budget can be created and used in discussions with the bank manager about funding, repayments and other financial agreements.

Assessing profitability

One of the main indicators to look out for in terms of gauging enterprise performance is profitability. With Farmplan's Business Manager Accounts software, farmers and rural business owners will benefit from being able to monitor the levels of profit generated by not only the whole business but individual enterprises within it too. In the longer term this will help them to decide whether changes need to be made to reduce or increase capacity or to make greater investments to help maximise return on investment.

Monitoring costs/overheads

Accounts software is ideal for keeping important financial records to do with the business in an easy to access format which is also easy to understand. For many farmers and rural business owners the ability to have information to hand when it's needed is a real benefit. Users can keep records of all outgoings, creditors and transactions, they will be able to monitor spend and use this information to make more informed management decisions.

Even before a farmer decides they want to diversify their business there is still a need to keep true records of all sales and the cost of sales to ensure they can accurately calculate the profit made from those products. Accounts software is the perfect tool to enable them to do this, allowing records to be kept of all sales, debtors and the cost of those sales associated with specific enterprises. Users of Farmplan's Business Manager Accounts software can easily produce reports for you, their accountant; this can help save time and provides useful data in a suitable format to assist in the completion of the yearly tax return.

Farmplan also offer an Accountants Pack which allows accountants to access clients data in a read-only or full bureau format. Find out more on 01594 545000 or at sales@farmplan.co.uk.

Jenny George, Marketing Executive, Farmplan

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T +44 (0)1908 248 250 **E** sigs@icaew.com