

Farming



GS **GLOVER**
STANBURY
CHARTERED ACCOUNTANTS



Some Industry specific areas of advice from our experience

VAT: Recovery of input tax for repairs or improvements to the farmhouse should be maximised based on justifiable business use proportions.

With the phasing out of tax allowances for the construction of agricultural buildings it is all the more important to ensure capital allowance claims are made where possible to integral fixtures/features as well as plant/equipment therein.

Is ownership of the business assets correctly set up as to minimise the various taxes and maximise tax reliefs whilst protecting the underlying assets?

What are your future plans? Exit strategy or next generation involved? Plan in place to achieve this?

Profits can be cyclical as well as variable so a protective claim for Working/Child Tax Credits is sensible.

Can tax efficient wages be legitimately paid and justified to family members?

Wills: are they tax efficient?

Have plans been put in place which mitigate or remove exposure to Inheritance Tax?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Are owners and staff arrangements of vehicles maximising tax reliefs etc.?

Industry Background

Agriculture in the UK has seen the following changes in the last 30 years:

- Little change in the area of land in agricultural holdings. There are now 17,514,000 hectares compared with 17,462,000 in the mid 1980s
- A fall in the total crop area from 5,239,000 hectares to 4,695,000 hectares
- A fall in the number of dairy cows, from 3,138,000 to 1,857,000
- An increase in the number of beef cows, from 1,308,000 to 1,626,000 (although the size of the herd has decreased in recent years)
- A decrease in the total number of sheep and lambs from 37,016,000 to 32,038,000. However, throughout much of the 1990s and during 2000, sheep numbers were as high as 45 million - the drop from 2001 is due to the slaughter of animals during the foot and mouth disease crisis
- A decrease in the number of pigs, from 7,937,000 to 4,724,000
- An increase in the number of table fowl from 63,807,000 to 102,759,000
- A reduction in the number of laying fowls from 38,096,000 to 26,757,000

As a result of intensive farming methods, the use of agrochemicals, the introduction of new crop varieties and livestock improvements, yields of most agricultural products have increased significantly during the last twenty years.

The fortunes of the agricultural sector have varied according to the range of activities carried out. Many businesses will have felt the effect of the following:

- The introduction of milk quotas in 1984
- The recession and high interest rates during the late 1980s/early 1990s and the recession of 2009/10
- Increasing volumes of imports during the 1990s
- Pressure to adopt less intensive farming methods
- The banning of the transport of live animals by the cross-Channel
- The deregulation of the Milk Marketing Boards and subsequent break up of Milk Marque
- The increasing dominance of the multiple supermarket chains
- The fluctuation in the euro to pound exchange rate



Some Industry specific areas of advice from our experience (cont'd)

When should family members become business partners?

Is a change of accounting date a good idea?

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

Are farm workers really 'self-employed' or should they be treated as employees?

- Foot and Mouth Disease outbreak in 2001 which hit sheep and beef holdings particularly badly
- The launch of modulation. Modulation is where a proportion of the direct subsidy payments is skimmed off and used to fund rural development
- The launch of the Single Payment Scheme, which replaced most of the direct farming subsidies.
- The EU decision to restrict the use of pesticides which may significantly reduce the yields of some crops.

A non-farming agricultural connected business sector exists to supply the farming community with a very wide range of products and services. As a result, the prosperity of and developments within farms themselves impact hugely on semi-rural locations such as North/Mid Devon and Cornwall.



Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

Depending on the constraints of available space, funds required and the physical characteristics of the land, diversification can be a way of supplementing the income from general farming activities. Some of the possible areas of diversification are:

- Tourist accommodation; such as self-catering holiday lets, bed & breakfast, caravan and camp sites
- Farm shops; these may vary from stalls offering only products grown on the farm to efficiently run outlets selling speciality goods
- Tea rooms
- Pony trekking
- Quad bike tracks, paint ball and other outdoor activities
- Seasonal sales of livestock for example turkeys at Christmas -
- Renting of land for rallies, shows or festivals -
- Stocking of 'unusual' animals such as llamas, ostriches, wild boar and so on
- Converting barns into habitable properties and either selling or letting them
- Coarse fishing. For example, trout pools
- Converting barns for office or light industrial use. Planning regulations for this type of venture are relatively relaxed
- Installing solar panels and/or wind turbines and selling the electricity generated

It should be borne in mind that if the business diversifies into activities which are not "farming", these new activities may constitute a separate new trade for tax purposes and with different tax planning strategies.

Key Performance Indicators

Performance in working farms is often expressed in terms of the farm business income. This is calculated by subtracting inputs, that is, fixed and variable costs from total farm output. Total farm output is the sum of crop and livestock enterprise output, general subsidies (including Single Farm Payment) and miscellaneous revenue.

Performance in the farm supply business sector may be expressed in terms of the gross profit rate achieved but will depend on the nature of the supplies or services provided to farm enterprises. Ask us how your gross profit percentage compares with the norm for your type of business.

Ask about our own award winning “tax tools” software including “business analyst” based on key driver information.



Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC’s stated aim is to spread the investigation net to cover all sectors, including farming. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.



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