Ellacotts

AGRICULTURAL NEWSLETTER
Summer 2020 edition

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Introduction

For Ellacotts and our clients, as for the rest of the nation, COVID-19 has of course been the defining event of Spring 2020, on into Summer 2020 and, we fear, perhaps for some time to come.

Self-isolation perhaps at first glance has had less of an impact on many busy farmers than on others. However, talking to our clients and contacts reinforces the impact of changed social arrangements on the mental well-being of many in the countryside. The loss of social contact at traditional summer shows, farm sales, farmers' discussion clubs, and livestock markets has been significant. The Ellacotts team are keeping up contact and client service by telephone and video but we do very much look forward to seeing you soon.

Many clients have business diversifications within the family. This may be modest income from perhaps bed and breakfast, liveries, or sale of fodder for racehorses. For many rural businesses, the diversification now dwarfs the original farming activity - perhaps letting farm cottages, a thriving wedding venue, or a riding stable.

The government has offered many support routes for businesses and individuals affected by COVID-19 and we have been busy supporting affected clients to ensure timely advice and assistance. Please keep checking our website for up-to-date information.

The weather of 2019/2020 course has been a significant challenge also. The wet autumn of 2019 delayed or prevented drilling and ran into a dry spring which allowed many arable farmers to catch up, but with a much changed rotation. Prospects for harvest 2020 are at best middling, with late drilled crops and a shortened growing season. To what extent prices compensate remains to be seen. Livestock farmers fear going into the coming winter with limited fodder and bedding and high prices for any needing to be bought in.

We are also helping our clients with business planning as they contemplate the end of the Basic Payment Scheme which starts to reduce in 2021, leaving a gap in farm income before other support schemes come into operation, including Environmental Land Management Schemes and income based on Natural Capital. We are working with our farming clients, alongside their bankers, land agents, and agronomists to look to the future and maximise income. Farmers find themselves bombarded with new technology, and deciding how best to use this profitably is another pressing issue.

Please get in touch if you would like advice on the subjects covered in this newsletter, or any other matters. We would be delighted to hear from you.

Visit our COVID19 hub on our website for everything you need to know about the new government announcements and schemes to support you.

www.ellacotts.co.uk/covid19

Divorce – another unfortunate consequence of COVID-19?

Across society, 2020 has placed a strain on many relationships. We have collectively been spending too much time at home, too little time with others, often with additional financial pressures and the stress of home-schooling children. Many of course have sadly been more directly and seriously affected by the pandemic.

The incidence of marital strain and sadly the rate of divorce are likely to increase. Open and honest conversations, and mediation, can save many strained relationships, but not all. Sadly, we may be called upon to help a number of our clients navigate the business and tax implications of a relationship split, working closely with other advisers including bankers and lawyers. Holistic advice is always needed, to ensure the best outcome. Often we find that our long-term and detailed knowledge of business and personal finances puts us in a key position to advise our clients through difficult times, working alongside the legal teams for each party.

In a farming family the very close links between lifestyle and business, and tensions between income and capital, add to the complexity and strain.

Good, early, advice can also prevent informal interim arrangements being made, which may have adverse long-term implications. Taking advice early, and ideally well before even the outcome for the relationship is known, is key. Rounded advice is needed to balance assets, cashflow, fairness and tax. The task of buying a new home for a spouse who is moving needs careful consideration to minimise Stamp Duty Land Tax and Capital Gains Tax. If assets need to be released from a trust to finance a divorce, there can be Capital Gains Tax and Inheritance Tax costs. Assets within a Discretionary Trust can be considered as part of a divorce settlement if one of the parties has a reasonable expectation of enjoying a benefit from the trust.

Whilst the tax system includes many concessions for married couples and civil partnerships, these generally end at the end of the tax year when the couple ceased living together. For a relationship sadly nearing its end, the Capital Gains Tax outcome is greatly improved if the relationship can continue past 5 April and into a new tax year, compared to a separation in late March. Easier said than done of course, but a break up early in a tax year maximises the time available to sort matters out tax efficiently.

The parties may have agreed the value of an asset, but this may not be acceptable for tax purposes, which normally look at open market value. It is also important to note that the period when a former home can be sold completely free of Capital Gains Tax now ends nine months after leaving it (this used to be three years, then halved to eighteen months, and has now halved again). If any Capital Gains Tax is payable on the sale of residential property, this is due thirty days after the disposal. Don't forget residential property is taxed at 18% or 28% depending on your income levels.

With a tendency for so many couples to cohabit prior to marriage, the length of the cohabitation can also impact on a potential divorce settlement. "Prenup" agreements are gaining ground as an indication of the parties' intentions.

Putting assets into joint names during a marriage is often sensible tax planning to share income and mitigate Income Tax, and Inheritance Tax, and when a mortgage is being sought. But in a divorce, matters can then be more difficult to unpick. We would always encourage our clients see the bigger picture, and the potential long-term position, when contemplating changes to asset ownership. Early repayment of debt associated with property can trigger early repayment charges.

The new arrangement will hopefully achieve the best long term tax position for all involved, for all key taxes.

In conclusion the best outcome will likely come from taking early advice from a combination of your valuer, solicitor, tax adviser and also potentially your bank manager. Tax advice is key to achieving the best outcome in challenging times. If this brief summary strikes home for you, or your family, the team at Ellacotts will be here to talk you through the decisions you face.

Top tax tips for farming families

With so many possible tips for tax efficiency, it is difficult to choose which we consider are the most significant! We have listed five here, and will include five in our next newsletter.

1. Business restructuring
The structure of your business can have a considerable impact on your tax bill. Incorporating part or all of your business into a limited company can have a significant tax impact as the rates of Corporation Tax and Income Tax vary between 19% and 60%.

2. Cash flow / borrowings
It helps to get your books in to us early. Tax payments on account can be reduced if there is a reduction in taxable profits, allowing for better cash flow management.

If you have existing borrowings external to a company, consider refinancing to ensure borrowings are in the place where cash is generated, otherwise you may be repaying capital out of taxed profits.

3. Machinery purchases
Annual Investment Allowance (AIA) is a key tax planning tool. It is important that you maximise the relief available by planning the timing of your spending. The current AIA is £1,000,000 (until 31 December 2020). A machinery replacement schedule is an effective tool for planning tax efficient capital expenditure. Be careful of timings when purchasing seasonal kit on hire purchase.

4. Structures and Buildings Allowance (SBA)
Tax relief is available on capital expenditure on structures or buildings used within your trade at a flat rate of 3% per year. Relief will be limited to the costs of physically constructing the structure or building, including costs of demolition or land alterations. Ensure these costs are clearly recorded to maximise the claim available. Where possible split out plant and integral features as 100% tax relief can be claimed on these e.g. grain store equipment.

5. Succession planning
There are Inheritance Tax (IHT) reliefs available for business and agricultural property. Carefully structuring the ownership of your assets can maximise these reliefs. Changing how wealth is held, for example when land is sold, can have a significant IHT impact. Careful planning is essential. Gifts may be appropriate before assets are changed (e.g. before planning permission sought).

Consider early on how you wish to provide for beneficiaries in your lifetime, or in your Will. Early planning and investment into non-farming interests allows gifts of assets to non-farming children without affecting the farm.

A partnership agreement is vital, and a shareholder agreement for a corporate business. A correctly worded partnership agreement should maximise the IHT reliefs available. Agreements should be reviewed regularly to ensure that they still meet the needs of the business and the family. The partnership agreement and Wills should be reviewed together, as a partnership agreement will override a Will if they are not aligned. Life assurance should be considered to ensure borrowings are covered on death, and any IHT can be paid without straining the family.

We also recommend clients consider "key person" cover to protect the business from the financial impact of losing a key employee/owner/manager whose death or illness would have a significant impact on business finances.

Benchmarking – 2019 harvest

We are currently preparing 2019 harvest gross margin accounts for our arable clients. An indication of how the 2019 harvest compares with the 2018 harvest, drawn from our clients' year end accounts so far, is summarised below.

	Barley (per acre)		**Wheat** (per acre)		**Oilseed** (per acre)	
Harvest	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Yield						
Average	3.12t	2.26t	3.83t	3.21t	1.23t	1.25t
Ellacotts "Best in class"	4.06t	3.57t	4.76t	4.11t	1.53t	1.66t
Gross Output						
Average	£379	£360	£566	£538	£424	£427
Ellacotts "Best in class"	£495	£544	£767	£739	£501	£612

Taking a typical predominantly arable client's figures:

	2019(£/acre)	**2018**(£/acre)
Gross output	£478	£461
Variable costs	£194	£211
Gross margin	£284	£250
Fixed costs		
Labour and contract	£32	£48
Machinery and power	£135	£137
Property	£36	£44
Administration	£38	£38
Total fixed costs	£241	£267
Management (loss)/profit before rent and finance	£43	(£17)
Rent	£35	£36
Finance	£17	£21
	£52	£57
Other income incl. Basic Payment	£193	£237
Profit before drawings, tax etc.	**£184**	**£163**

Key trends:

- All farms show significantly improved yields for barley and wheat. Oilseed rape yields show a slight decrease. However, our top 20% have again seen increases in yields across barley, wheat and oilseed rape. The main difference with this year's harvest is the reduction in prices. Barley is down by 23% to an average of £122 and wheat prices have dropped by 11% to £148. Oilseed rape has seen little change. With the yield increases, barley and wheat gross output per acre have increased by approximately 5% to £379 and £566 respectively.
- Price variations throughout the marketing year continue to be significant with feed barley ranging from £108 to £129, milling wheat £135 to £188 and oilseed rape from £302 to £340 (before oil premiums). A clear marketing policy is necessary to achieve maximum prices.
- Savings are being achieved across variable costs, mainly a reduction in spray costs again. This is likely to continue for the 2020 harvest due to significantly more spring cropping. Fertiliser costs are also expected to be lower for the 2020 harvest.
- Average labour, power and machinery costs have decreased by 10% to £167 per acre. We are seeing a reduction in the labour costs, probably down to retiring staff not being replaced.
- For 2019, we have seen a significant increase in machinery replacement by our top 20% farmers resulting in higher depreciation costs, £76 per acre from £42 per acre in 2018. However, this is slightly offset by the reduction in contract work and hire costs.
- The increase in property repairs costs seen in 2018 has reversed by £6 per acre back to the levels seen in 2017.
- Administration costs have remained at the levels seen in 2018.
- Rental costs continue to fall slightly, as have finance costs due to the reduction in the base rate for lending.
- Other income has fallen by £44 per acre which is surprising. We haven't seen a reduction in other income for many years. This is mainly due to a drop in forage sales of £6 per acre, a £21 per acre reduction in rental income and £13 per acre less subsidies. We suspect when all the 2019 harvest results are finalised and we have all our data to hand this decrease will be less marked.
- We are yet to see what impact the poor weather conditions for winter planting in late 2019 will have on the 2020 harvest year. Couple this with the COVID-19 pandemic impact on some of our farmers' other sources of income and 2020/21 looks likely to be a very challenging year.

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Top Tax Tips

Ann Bibby – Tax Partner
Joanne Wright – Agriculture & Property Partner
Chris Slatter – Independent Financial Adviser

Keeping you up to date with webinars and podcasts

Although we cannot hold actual events at the moment, we are keen to still provide you with helpful and topical information to assist your farming business. We have been running a series of free webinars and podcasts on topics including the government's coronavirus support packages, top tax tips and Research and Development tax relief.

You can find a schedule of our upcoming webinars and the recordings of previous webinars and podcasts on our website:
www.ellacotts.co.uk/webinars

Meet some of our team

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