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LandFamilyBusiness

WINTER 2018

WELCOME

Welcome to our winter newsletter and as always, we seem to be facing a different and challenging mix of factors. The support for agriculture and land management has been made a little clearer in the Agriculture Bill, allowing us to start planning strategies and succession plans for our businesses. Harvest was acceptable after a wet start and dry summer which may result in some sizeable tax bills, although these are often dictated by the machinery replacement in the period.

It has been a very busy and interesting year. We have been carrying out some work on share farming with one of the farming organisations, resulting in some innovative ideas for joint ventures for the future. As always, we have included our benchmarking results in this newsletter with some commentary. These will be analysed and presented at farmer meetings over the winter.

We shall be launching our own wealth management service this winter, Accession Rural Wealth Management, which will integrate with our tax planning advice. Part of this service will be lifetime planning which has already proven very successful with several clients over the past few months. Finally, we include an update on our development land tax planning service – we have been very busy helping landowning families across the UK who have been fortunate in selling land for development.

SHARE FARMING – NEW THOUGHTS

This is a brief summary of our report on the options for the future of the arable industry using share farming models.

The general perception is that share farming only applies to young entrants into the livestock sector who are rewarded by a share in the profits. However, share farming as a concept can be applied to several arable business structures and some existing innovative share farming structures already exist. The main one, developed by ourselves, is where a share farming arrangement is run alongside a machinery syndicate. We have many of these running very successfully.

There are some tax traps, such as the impact of a share farming agreement with a contractor, resulting in a decrease in arable turnover and profit or margin, which may fail the Balfour tests and jeopardise Business Property Relief on let properties. We have proposed a solution to this in our report. Other tax thoughts are the application of the Hanson Case in Inheritance Tax planning in a share farming arrangement between two medium sized farmers.

A common problem is the variation in land type between members of a share farming joint venture. This results in different yield potentials. This is covered in our report and the use of productive capacity rental values is proposed to achieve a weighted land area percentage split.

As we head towards a major restructure in our industry, many farming businesses would benefit from collaborating with neighbours – this is from a financial, social and technical performance basis. Contract farming arrangements do not achieve the desired goals in turbulent economic times – a lot better to share in the profits and losses through a share farming agreement.

To discuss, please contact Gary Markham on 07970 794495 or email gary.markham@landfamilybusiness.co.uk.

RURAL BUSINESS SURVEY 2017 HARVEST

FARM SIZE (ACRES)	TOP 25%		AVERAGE		BOTTOM 25%	
Woodland		-		-		-
Livestock		-		73		-
Arable		990		771		747
Contracting		-		418		350
Other		86		81		35
Total		**1,076**		**1,343**		**1,132**
	£/acre	£/acre	£/acre	£/acre	£/acre	£/acre
Arable Gross Output		470		417		377
Variable Costs						
Seed	22		24		22	
Fert	60		66		54	
Spray	75		77		78	
Other	16		11		12	
		173		177		164
Arable Gross Margin		297		239		212
Livestock Gross Margin		-		270		-
Contract Farming Income		-		157		182
Farm Gross Margin		**285**		**223**		**208**
Fixed Costs						
Paid Labour	37		26		25	
Machinery						
Depreciation	66		64		55	
Spares & Repairs	23		23		32	
Contracting & Hire	30		38		38	
Fuel	29		22		22	
Other	9		9		6	
Total Labour and Machinery		**194**		**181**		**178**
Property	43		40		42	
Administration	44		36		42	
		87		76		84
Profit before Rent and Finance		**47**		**(12)**		**(43)**
Ad Hoc Contracting Income		24		16		-
Other Farming Income		20		22		33
Basic Payment Scheme		97		97		89
Environmental Payments		36		18		12
Rental Income		49		39		16
Other Non-Farming Income		3		18		(1)
Rural Business Profit		**232**		**158**		**80**
Rent and Finance						
Rent	64		54		51	
Finance	27		20		18	
Net Farm Income		**142**		**96**		**38**

Please note, the figures do not total.

SURVEY ANALYSIS

The 2017 harvest results show a considerable improvement on the previous year, mainly as a result of increased arable margins; an increase of around £20 per acre on average but £60 per acre in the top 25% group. The average Net Farm Income has increased by £47 per acre to £96. Again, some interesting analysis:

- The profit from arable is still a loss of £12 per acre (£66 per acre loss in the 2016 harvest) indicating that arable farming alone is still not profitable.
- This is mainly due to the high cost of acquiring machinery – being depreciation, contract and hire at around £100 per acre.
- Depreciation is a little over £60 per acre and at a weighted average depreciation rate of 18% this represents capital value in machinery of £330 per acre.
- Many farming businesses are completely reliant on non-arable income to provide the profit levels required by the owners.
- Rental income is becoming dominant in many businesses.
- The average net farm income before basic payments is breakeven.

The top 25% group has no contract farming land whereas the bottom has around 50% which indicates, as in previous years, the negative margin on contract farmed land reduces the overall profitability of the business. The average business loses £24 per acre on the contract farmed element of their business.

As we head towards the restructure of support for farming businesses we need to do the following to achieve viability:

- Reduce the value of machinery capital per acre.
- Achieve economies of scale with good management practice.
- Scrutinise and monitor labour and machinery costs.
- Have access to and utilise the very top level of agronomy advice.
- Collaborate with neighbours and challenge each other.

The way to achieve all of these is to form a machinery syndicate with neighbouring farmers operating a minimal tillage or no-tillage system and share farm the cropping.

THE BUDGET – AN AGRICULTURAL VIEW

Having digested much of the last budget pre-Brexit, here is our brief take on what agricultural businesses might be interested in.

INCOME TAX:

- Personal Allowance up to £12,500 from 6 April 2019.
- Basic rate tax band up to £50,000 from 6 April 2019.

CAPITAL GAINS TAX:

- Entrepreneurs' Relief – period of ownership requirement doubled to 2 years (making tax planning harder, and the need for advice more important).
- Payment on account for Capital Gains Tax on sale of residential properties introduced.

BUSINESS:

- Annual Investment Allowance – 'temporarily increased' from £200,000 to £1,000,000 from 1 January 2019. Those with 31 March or 30 April 2019 year ends will want to assess the timing of any forthcoming machinery purchases, as delaying until the new year could see a benefit from additional tax relief.
- Structures and Buildings Allowance – 2% straight line essentially Agricultural Buildings Allowance reintroduced, but the life of the asset has doubled from 25 years to 50 years. Remember to split out integral features and fittings.
- Assets qualifying for the special rate pool will receive relief at a lower rate of 6% (previously 8%).

INVESTMENT INCOME:

- Tax free dividend allowance £2,000.
- Tax free interest allowance £1,000.
- Tax reduced on mortgage interest, increasing to 50% for higher rate tax payers with residential lettings.
- What we should also highlight, is that Agricultural Property Relief on the farmhouse remains intact, for now – just do not tell the next Chancellor!

To discuss how this could impact your business, or for general tax advice, please contact Samantha Corner on 01480 445490 email sam.corner@landfamilybusiness.co.uk or Will Sherring on 01480 445490 email will.sherring@landfamilybusiness.co.uk.

DEVELOPMENT LAND TAX PLANNING

The National Planning Policy Framework was published in March 2012, revised in July 2018 and sets out the government's planning policies for England and how these are expected to be applied. In addition to this, the November 2017 Budget announced the target of an additional 300,000 houses per annum and in September the route for the Oxford to Cambridge Expressway was announced which will be one of the greatest opportunities for economic growth in Europe.

These opportunities offer potential for landowners in certain areas to obtain planning permission and there will be an increasing number of potential sites being put forward for development. To enable the availability of Entrepreneurs' Relief, it is essential that tax planning structures are in place 3 years, or at least 12 months before any sale, depending upon the structure and ownership of the farming business.

Many situations involve areas of land in different ownership; within families or with neighbouring landowners. This will inevitably mean some sort of collaboration arrangement such as a land pooling trust based on the Jenkins v Brown Case, cross options or covenants between the landowners. Each will have their own tax and VAT implications. Dealing with each site requires a specialist team of professionals to advise on family relationships and succession, understanding farming structures, capital taxation and sometimes joint ventures such as contract farming and share farming.

In particular:

- Personal lifetime planning for the landowners and their families – individual assessments.
- Interpretation of annual accounts – partnerships and companies.
- Related documents such as Partnership Agreements and wills.
- Farm structure agreements such as contract farming, share farming or FBTs and an understanding of the farming business structure including any interfamily tenancies etc.
- A thorough knowledge of capital taxes and reliefs, the main consideration is usually Entrepreneurs' Relief. Inheritance Tax planning and succession will be equally important.

These opportunities will often result in a major change in the dynamics of the farming family and if the relationships and communications are not healthy and sometimes dysfunctional, the upheaval and receipt of a large amount of capital may result in a worsening situation. Investing time in the actual family is equally as important as the tax planning.

To discuss, please contact Gary Markham on 07970 794495 or email gary.markham@landfamilybusiness.co.uk.

LIFETIME PLANNING

We are pleased to introduce a new lifetime planning service for our clients. This can model the future financial needs of individuals for their retirement, inheritance tax liabilities and importantly, how much money may be needed from the farming business.

You would expect us to talk numbers and that is, of course, a very important part of what we do. However, we understand that personal and family goals are at the heart of what motivates planning for the future and so they form our initial focus.

Lifetime planning can help look at:

- Goals – identify individual and family key life events and stages to map a personal timeline that will help achieve results.
- Cashflow and retirement – forecast how to provide for retirement and what it will mean to the farming business in the future.
- Succession – facilitate clear and open communication.
- Estate and tax planning – to protect and provide for the family.
- Leaving a successful viable business for the next generation.

Many farming families treat the business as their pension and a SIPP or SSAS as a tax efficient fund for future investment in assets such as buildings or land. Add to this the incentive to hold farming assets within a partnership until death, results in a family that needs to plan for the future carefully.

Lifetime planning provides a robust but also gentle approach to many of life's difficult questions. By tackling unspoken concerns for the future and planning for your goals, you can remove uncertainty and take control.

To discuss our lifetime planning service, please contact Carol Walton on 01480 445490 or email carol.walton@landfamilybusiness.co.uk.

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Tax Planning | Family Agreements | Family AGM | Succession | Accounts | Wealth | Generations
Diversification | Property | Mediation