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Farming Matters

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Helping you to understand its importance

RENNIE WELCH
accountants : audit . tax . investment . IT

Welcome

Welcome to our twelfth edition of Farming Matters.

We have now had a year of disruption and I do hope that you are all keeping well in these challenging times. The clocks have sprung forward, and I think we see the year ahead in a more positive light. We have certainly had our share of wintery weather and plenty of rain but spring drilling is moving apace, the winter crops are looking well and most people would agree that they have potential, but who knows what Mother Nature has in store for us in the coming months. Brexit has, finally, happened and we now look ahead to the changes that this will bring to our industry.

We had the 2020 budget in the early part of March and it was relatively benign but there will likely be tax increases coming down the line. Mairi Drummond has summarised some of the key elements of this budget and tried to look in her crystal ball to consider what may happen in the future. If you are considering reinvestment in plant and machinery, then you will be pleased to see that the £1m temporary increase in annual investment allowance will remain in place until the end of this calendar year which may shape the timing of the investment to secure the best tax advantage.

At this time of year farm budgets are being considered and cash flow can be stretched as the crops are in the ground, the cows are calving and the ewes lambing, but there can be limited income until the crops and young stock can be sold later in the year.

Working capital and cash flow is therefore an important consideration and Gordon Armstrong has written an article outlining the importance of this element of the business.

One area of your business that you may not think about very often is Research and Development (R&D) but it never ceases to amaze me what can be construed as R&D and Lynn Miller has outlined some of these elements in her article.

Finally, we are delighted to introduce our 'Guest' writer, Lois Renton. Lois is the Property Manager at FBR Seed. She is looking at three recent changes that impact the private rented sector.

I do hope that you find these articles helpful however if there are topics that you would like us to cover then please let us know as we want to make the bulletin dynamic and interactive.

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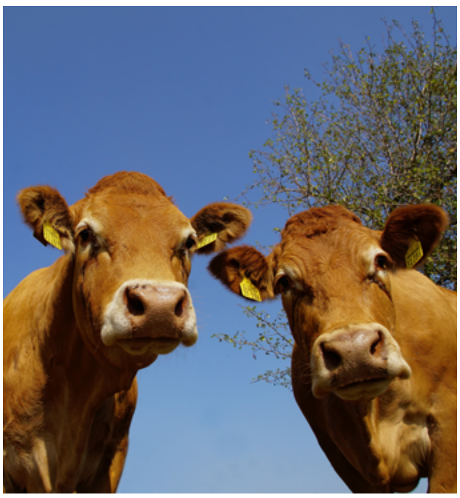
"Shape the timing of investment to secure the best tax advantage"

Despite being eligible, many companies, are still not claiming the Research and Development (R&D) tax reliefs available.



R&D tax incentives – could you be eligible?

Whilst Research and Development (R&D) spend by UK companies is increasing, many companies, despite being eligible, are still not claiming the tax reliefs available.

The benefits of claiming can be significant, with increased deductions for qualifying expenditure and payable tax credits offering a cash injection to the company, freeing up funds that would otherwise be tied up.

In the Agricultural sector, due to the often practical nature of the work carried out and the structure of the businesses concerned, the potential for R&D tax relief is not always easily identified and the opportunity for relief may, as a result, be lost.

WHAT IS R&D?

Where a company is carrying out work to create new products, processes or services or modifying existing ones there is a good chance that this work would qualify as R&D.

The work carried out should be innovative and look to resolve a scientific or technological problem however, whilst this conjures up images of scientists working in laboratories, the scheme is far wider ranging than this.

In the Agricultural sector, this could be work carried out in areas such as the development/improvement of products and processes in areas such as husbandry, livestock management, feeding and nutrition systems, crop management, crop production etc. Examples of this include:

- Experimenting with new techniques to enable crops to grow that would not traditionally be suited to the British climate.
- Testing unconventional growing mediums.
- Creating disease-resistant crops.
- Developing or modifying agricultural machinery and equipment.
- Trialling new growing techniques to minimise the use of pesticides.
- Experimenting with new renewable energy technology.

WHAT R&D TAX INCENTIVES ARE AVAILABLE?

For small or medium sized businesses (SMEs), R&D tax relief may take two forms:

- Enhanced revenue deduction – this allows the company to deduct 230% of the qualifying revenue expenditure when calculating their taxable profits, providing tax relief of 43.7p for every £1 of qualifying costs.
- R&D tax credits – alternatively, where the business incurs a trading loss in the relevant accounting period, they may surrender the loss for a 14.5% repayable tax credit, i.e. a cash payment of 33.35p for every £1 of qualifying costs.

Following announcements in the recent Budget, with effect from 1st April 2021, the total amount of tax credit payable to SMEs will be capped at £20,000 plus 3 x the total PAYE and NIC liability for each period.

Qualifying expenditure refers to costs that relate directly to the R&D activity such as staffing, software, consumables and subcontracted R&D costs.

Where capital expenditure related to the R&D activity is incurred, a 100% R&D Allowance is available.

WHAT ABOUT LARGE COMPANIES?

While this article focuses on the R&D incentives available to small or medium sized companies, R & D tax incentives are also available to large companies under the R&D Expenditure Credit Scheme (RDEC).

This scheme may also be available to small or medium companies who are unable to claim the SME R&D incentives due to having received funding from sources which prohibit their claim or being subcontracted to carry out R&D work on behalf of a large company.

While the tax credit is less favourable and is subject to corporation tax, it could still provide a significant benefit to the business at 10.53p per £1 of qualifying expenditure.

WHAT IF THE BUSINESS IS NOT BEING OPERATED AS A COMPANY?

Where unincorporated businesses, such as sole traders or partnerships, are likely to incur qualifying expenditure it may be worth incorporating all or part of the business if the amount of relief concerned is likely to be material. Incorporation does, of course, have wide ranging implications and full consideration would need to be given to these when deciding on the most beneficial course of action and the most suitable structure for the business.

HOW DO I CHECK ELIGIBILITY AND CLAIM THESE INCENTIVES?

Working with specialist colleagues, we can assist in considering projects in your business that may be eligible and help to formulate claims as part of the corporation tax process. To discuss the possibilities for your business further please contact lynn.miller@renniewelch.co.uk or speak to your usual Rennie Welch contact.

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Spring Budget 2021 – Thoughts and Implications for Farmers

After a wealth of speculation, the Chancellor's spring Budget held relatively few surprises or significant changes. Many will have heaved a huge sigh of relief when there was no announcement of changes to Inheritance Tax reliefs and no suggestion of a wealth tax!!!

Some of the announcements which may be of interest to farmers are noted below:

1. **CHANGE IN CORPORATION TAX RATE**

   For those farmers who operate via limited companies or who have limited companies as part of their business structure, the increase in the rate of Corporation Tax is likely to result in an increased tax bill.

   Currently, Corporation Tax is paid on business profits at 19% and this is to increase to 25% from 1 April 2023. However, the increase won't apply to businesses with profits under £50,000. Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective corporate tax rate.

2. **TEMPORARY EXTENSION OF CARRY BACK OF TRADING LOSSES FOR CORPORATION TAX**

   A welcome extension to loss relief rules will allow a company or unincorporated business making losses in 2020/21 and 2021/22 to carry back losses for up to three years. The loss will be offset against taxable profits (for companies) or net income (for individuals), on a last in first out basis.

3. **'SUPER DEDUCTION' OF 130% FOR COMPANIES INVESTING IN NEW PLANT AND MACHINERY**

   This will be available for two years from 1 April 2021 and is a tax incentive for companies only to invest in new plant and machinery (i.e. brand new, not just new to the business – so this excludes second hand equipment). This will generate a reduction of tax of 24.7% for every £1 spent.

4. **TEMPORARY INCREASE IN ANNUAL INVESTMENT ALLOWANCE**

   The Annual Investment Allowance (AIA) limit of £1m will continue to apply until 31 Dec 2021. This allowance allows businesses to deduct the full cost of certain qualifying business equipment from taxable profits.

It may have come as a surprise to many that there was very little about Capital Gains Tax (CGT) changes. There were concerns that the rates would increase or that annual exemptions and reliefs may be reduced in scope or even abolished altogether. There was no mention of this. However, I suspect the Chancellor may wait for the second report from the Office of Tax Simplification (OTS) before considering this further...

The OTS published its first report on CGT, in November 2020 which was on the *'policy design and principles underpinning the tax'*. This report included recommendations to the government to consider the following:

- More closely aligning rates of CGT with Income Tax or addressing boundary issues between the two taxes.
- Reducing the CGT Annual Exempt Amount.
- Removing the capital gains uplift on death and instead providing that the person inheriting the asset is treated as acquiring the assets at the historic base cost of the person who has died, with perhaps a rebasing of all assets to a certain date and an extension to Gift Relief.
- Amending Business Asset Disposal Relief (previously called Entrepreneurs relief) to be more focused on retirement and abolishing Investors Relief.

The second report which is expected early this year will explore key technical and administrative issues.

When we are undertaking lifetime planning for farmers and looking to pass the farm down to the next generation, CGT reliefs play a major part in this as without them planning would be impossible in most cases due to the tax costs involved. Therefore, if succession planning is on the horizon in your own business it may be worth taking action sooner rather than later to take advantage of the current favourable position.

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Ringing the changes in the Private Rented Sector

There have been many changes in the private rented sector over the last few years. Chartered Surveying firm, FBR Seed, manage multiple properties across the country. Their Property Manager, Lois Renton, has detailed the three most recent changes to the sector that landlords need to be aware of.

The most recent change comes from the Coronavirus (Scotland) Act. This affects landlords specifically as it extends the eviction period and there is now clear guidance on what you must do regarding rent arrears before applying to the First Tier Tribunal. The notice period for most grounds is now 6 months and all grounds are discretionary. Expectation is that the changes will end at the end of September 2021.

Another recent change in legislation which affected all landlords is the change in tenancy agreement, known as the Private Residential Tenancy agreement (PRT) from the 2016 act.

This replaced the Short Assured Tenancy (SAT) and the main differences for landlords was the removal of the 'end of tenancy' clause for possession, also known as 'No fault' clause. There are also different notice period and rent review timescales.

A big consideration for all landlords over the next few years will be the minimum rating of the Energy Performance Certificate required to let a property.

- From April 2022, all properties for new tenancies must be an EPC 'D' rating
- From April 2025 all properties must be an EPC 'D' rating.

In addition to changes in EPC requirement, we also encourage landlords to research the upcoming changes to the Tolerable and Repairing Standards. These are a list of basic habitable requirements of the property which were changed in February 2021 and will change again in March 2024. Along with the basic compliance requirements, it is crucial that landlords put the correct measures in place as they are not recommendations, they are legal requirements.

FBR Seed Ltd can provide a document health check for landlords to ensure their tenancies are legal and compliant. Their team can also carry out a property inspection to suggest improvements, helping you comply with future EPC ratings.

For further information regarding any of the points above or any other property matters, please do not hesitate to contact the FBR Seed property team by emailing property@fbrseed.com or visit their website **www.fbrseed.com**.

Understanding Your Business' Working Capital

The agricultural industry can be particularly volatile and with the economic uncertainty caused by Brexit being compounded by the effects of Covid-19, it has never been more important to consider and assess the liquidity of your farm business.

Working capital is a financial metric representing operating liquidity of a business and its ability to generate cash in order to pay short-term financial obligations. It can be calculated in two ways:

Net working capital is calculated by subtracting current liabilities (accounts payable, short-term debt repayments etc.) from current assets (accounts receivable, stock, cash and cash equivalents etc.), and is normally easily identified on the balance sheet as 'net current assets'.

The current ratio is calculated by dividing current assets by current liabilities. A business that is considered liquid will have a current ratio of 1.2 to 2.0, with current ratios of less than 1.0 indicating a potential short-term inability to meet debts as they fall due.

Below is an extract from an example balance sheet and how working capital metrics are calculated:

Current assets		**Current liabilities**	
Stock	25,000	Trade creditors	4,500
Bank current account	1,500	Accrued expenses	6,500
Bank savings account	25,000	Loan repayments (<12 months)	10,500
Trade debtors	3,500	HP repayments (<12 months)	9,500
	55,000		31,000
Net working capital		**Current Ratio**	
Current assets - current liabilities		**Current assets/current liabilities**	
£55,000-£31,000 = £24,000		**£55,000/£31,000 = 1.77**	

Timing is important when considering working capital levels. Farming businesses, along with many others, will often experience fluctuating levels of working capital and liquidity throughout the course of their financial year. The balance sheet on your financial statements will provide an accurate indicator of working capital at the year-end date, but if you fear there may be impending liquidity issues then gauging an estimate of your current level of working capital may be worthwhile. This can be achieved by using your most recent balance sheet and adjusting the figures for the current position of your farm. Check your bank balance(s), stock levels, outstanding invoices, and debt repayments due within the next 12 months. Then, using the metrics outlined above you can estimate of your farm's net working capital and current ratio.

It is important to regularly assess and in turn maintain, good levels of working capital as this allows you to plan ahead. Understanding your business' working capital and how it fluctuates throughout the year, will help decisions to be made regarding the timing of asset purchases, major repairs, expansion plans, etc, while at the same time highlighting any requirement for short-term funding.

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Border Union Bicentenary Bursary Fund

Have you completely re-evaluated your life in “Lockdown”?
Would you like to start a new career or business?
The Border Union Bursary Fund may be able to help you.

The Border Union Bicentenary Bursary Fund supports people in the Scottish Borders and North Northumberland who have identified a learning opportunity, a course or study trip which could enhance their career or business. Successful applicants will ultimately contribute to the benefit of the rural economy of the area and meet the main objective of the Bursary which is ‘Encouraging Improvement’.

HOW CAN A BORDER UNION BICENTENARY BURSARY FUND YOUR EDUCATION?

The Border Union Bicentenary Bursary Fund offers financial support to people with drive and ambition who seek to advance their careers (or start a new career) in agriculture, forestry, horticulture, country sports, the food sector, conservation, rural crafts, equestrianism, rural leisure, fish farming, environment, renewable sources of energy, and all aspects of the rural economy of the Borders and North Northumberland.

Bursaries from the Fund will be awarded in respect of learning opportunities such as courses, study or participation in relevant conferences and will normally be awarded to applicants who are active in work, whether they are in paid employment or self-employment. Applicants should live or have lived in the area covered by the Society. In practice this means the Borders and North Northumberland.

Successful candidates will be asked to provide feedback and demonstrate the benefits gained from their chosen course or study. Particular emphasis will be placed on ensuring that the support given to successful applicants will ultimately contribute to the benefit of the rural economy of the area. This reflects the main objective laid down by the founders of the Society in 1813, that of ‘encouraging improvement’.

Details of the terms and criteria for eligibility and deadlines for applicants are available online at: **www.borderunion.co.uk** or from the Society’s Office at Springwood Park, Kelso TD5 8LS or alternatively email: info@borderunion.co.uk

What would you like to see covered?

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If there are topics that you would like to see covered in future issues please let us know and we will endeavour to include these going forward.

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