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Farming Matters

Information and advice to help you grow your business | **renniewelch.co.uk**

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RENNIE WELCH

accountants : audit . tax . investment . IT

Welcome

Welcome to our seventeenth edition of Farming Matters.

Dark nights and far too much rain certainly does not lift the spirits but in a month we start to head back to spring! After the spectacular 2022 harvest we have seen a 'catchy' harvest this year and a real challenge establishing some of the winter crops for next year. The anecdotal evidence would suggest a bit of a mixed bag this year on yields. There remains, still, much uncertainty in the industry as various reforms are considered.At such challenging times for farming businesses, I hope that you will find the articles contained in Farming Matters as both practical and helpful.

Most businesses evolve and develop over time and we have a fascinating article by Sam Scott from Cloud Farming Limited which looks to stimulate some thought around the potential alterations that farming businesses may want to consider, in light of some of the changes that are coming from Government.

For those of you looking to expand or develop your business with land or building transactions, the article by Lynn Miller about the benefits and uses of rollover relief to help mitigate the capital taxes burden will be of great interest.

Earlier this month we saw the Borders well represented at the Scottish Agriculture Awards and I would like to congratulate the entire team at Redpath Tyres Limited on being recognised as the Supplier of the Year. This is a wonderful accolade for one of the Borders' most successful companies.

Finally, I am delighted to announce that we have promoted Ross Tinlin and Lynn Miller to the role of Associate in the firm. They bring a wealth of experience to our accountancy and tax teams and many of you will already have met and worked with them.

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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Reaping the benefits and rolling over!

Whilst the growth rate in the value of development land looks to be slowing down, the potential to sell parcels of agricultural land, at a premium rate, for use in development, is still very much on the cards for many farmers and landowners, but what about the tax?

A problem faced by many is that the land in question is likely to have been acquired at agricultural value and held by the family for a considerable length of time, leading to what could be a very low “base cost” for capital gains tax purposes, and a significant gain when sold at development value.

With potential capital gains tax of up to 20% of the gain, the tax liability arising on the disposal could be considerable!

To provide a very simple example, take a parcel of land that was inherited by the current landowners at a probate value of £500,000. If this is then sold for £2,500,000, the capital gains tax payable at a 20% rate of tax, assuming no tax reliefs are available, would be somewhere in the region of £400,000!

In reality, the calculation is likely to be much more complicated, with the potential for the land concerned to have been acquired, improved, and passed down through families in various tranches over the years, resulting in a series of base costs to consider. Some thought would also need to be given to any specific tax reliefs available to reduce the gain or liability arising. The example does, however, serve to highlight the point that there may well be a substantial tax bill on the disposal of land for development purposes.

So what can be done? Is there a tax efficient way to deal with this?

Where there is an appetite to acquire replacement business property, make improvements to remaining business property or even acquire land for use as commercial woodland, rollover relief may be an option.

Rollover relief may provide significant advantages in respect of capital gains tax liabilities and cash flow.

WHAT IS ROLLOVER RELIEF?

Rollover relief is a very useful tax planning mechanism, which allows the gain arising on the disposal of a qualifying business asset to be deferred when the proceeds from the disposal are reinvested into another qualifying business asset, thus deferring the payment of capital gains tax on the disposal of the original asset.

The relief works by deducting the gain on the disposal of the original asset from the acquisition cost of the replacement asset, resulting in a reduced “base cost” for the replacement asset for capital gains tax purposes.

To qualify, the asset disposed of must be used by the owner for the purposes of a trade carried on by them as sole trader, a partnership in which they are a partner, or a company in which they hold at least 5% of the voting rights.

The replacement asset must be acquired during the 4-year period commencing 12 months prior to, and ending 36 months after, the disposal of the original asset, and must be brought into use immediately for the purposes of the trade.

Where all of the sale proceeds are reinvested into a qualifying asset, full rollover relief is available, resulting in the whole gain being deferred and reducing the base cost of the replacement asset accordingly.

Where only part of the proceeds are reinvested, the amount of cash retained is immediately chargeable to capital gains tax, with the balance of the proceeds available for rollover relief.

Under current legislation, as death is not a chargeable event for capital gains tax purposes, where the replacement property is still held at death, the deferred gain will not be subject to capital gains tax at all, and is effectively erased, with the base cost of the property passing to the beneficiary automatically uplifted to current market value.

INTERACTION WITH BUSINESS ASSET DISPOSAL RELIEF

Business asset disposal relief may be available to reduce the rate of capital gains tax applied to the gain on a land disposal to 10%, if certain circumstances are met, and subject to a lifetime limit of £1,000,000 per individual.

Where business asset disposal relief is available, careful consideration should be given as to whether it would be more beneficial to settle the capital gains tax immediately, at the reduced 10% tax rate, or whether to defer the gain via rollover relief with the risk that the 10% rate of tax may no longer be available on ultimate disposal but also the possibility that the gain may be "erased" if the replacement asset is still held on death.

Where business asset disposal relief is not available, using rollover relief to defer the gain into an asset that is likely to qualify for business asset disposal relief on a future disposal may facilitate a reduction in the ultimate tax rate applied from 20% to 10%. As always, there is the risk that capital gains legislation and rates may change in the meantime.

INTERACTION WITH INHERITANCE TAX

Inheritance tax is a tax on the value of an individual's estate on death, chargeable at a rate of 40% on the value of the estate in excess of the nil rate band that is available to the individual.

Where land and property is used for agricultural or business purposes, relief from inheritance tax may be available in the form of agricultural property relief and/or business property relief, to reduce or mitigate the inheritance tax liability that would otherwise arise on that land and property on death.

The availability of these reliefs depends on the land and property having been used for agricultural or business purposes for a minimum period leading up to death, i.e. 2 or 7 years for agricultural property relief, depending on whether the owner occupies the land themselves or whether it is occupied by a third party for agricultural purposes, and 2 years for business property relief.

Disposing of land and property that would have qualified for these reliefs, and replacing this with new assets, could result in a significant increase in inheritance tax on death.

To assist with this, provisions are in place, such that where the sales proceeds are reinvested in full in replacement agricultural property or replacement business property, as appropriate, within 3 years of the disposal of the original property, then subject to various conditions being met, the occupation period of the original property is aggregated with the occupation period of the replacement property when determining eligibility.

FARMHOUSE AND OTHER RESIDENTIAL PROPERTY

The maximum rate of capital gains tax applicable to residential property is higher than for other assets, at 28% of the gain. The eligibility of the farmhouse or other residential property for rollover relief would need to be carefully considered in line with how, and to what extent, the property is occupied for the purposes of the trade, and can be a fairly contentious area.

In terms of the farmhouse, or properties occupied by the partners of a business as their main residence, private residence relief may be available to mitigate or reduce the capital gains tax arising on disposal.

SUMMARY

Rollover relief may provide significant advantages in respect of capital gains tax liabilities and cash flow when agricultural or business land and property is sold and the proceeds are reinvested into further business assets within the relevant time frame. To secure the relief, various conditions must be met and there are a number of factors to consider in determining the overall benefit of claiming this relief. As such, detailed advice, taking into account individual circumstances, should always be obtained ahead of entering into any transaction, and we would be happy to provide this upon hearing from you.

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Farming Focus

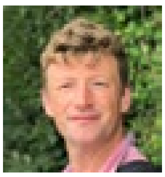
Heraclitus, the Greek philosopher said, "*change is the only constant in life*." Never a truer word has been spoken about agriculture. We are an industry laid bare to so many external factors out of our control it can sometimes feel overwhelming thinking of the future. Adversity is the key to becoming more resilient and farmers are a resilient bunch, so good, bring on change.

Harvest 2023 is complete. Concerns leading into harvest about crops, both in terms of yield and quality were realised early on. Spring barley particularly fell afoul of the weather conditions and with price differential between malting barley and feed barley in the region of £80/t, the financial impact has been severe. Weather conditions have been predominately mild and wet across the region, sowing of winter oilseed rape started in mid-August and has continued into September although establishment has been variable following a period of hot and dry weather at the beginning of September. The tail end of the season has been blighted by heavy rainfall creating very wet conditions for drilling in most areas. Many farmers are reporting 50% of their planned area of wheat drilled to date. Wheat markets have been trading sideways for several months now, with the occasional rally offering a good marketing opportunity. The Scottish premium for feed wheat has weakened slightly to around £9/t over May 24 LIFFE futures. The war in Ukraine has played a muted part in the market recently with the large Brazilian crop tempering potential upside. However, official figures show that Ukrainian exports this season includes 5.2 million tons of wheat, 4.9 million tons of corn and almost 750,000 tons of barley. In the previous season Ukraine exported 5.9 million tons of wheat, 8.3 million tons of corn and 1.3 million tons of barley. Listening to traders and farmers' unions the reports are that Ukrainian Black Sea ports and Russian attacks on the country's Danube River ports are the main reasons for lower exports. Historically, Ukraine has traditionally shipped most of its exports through its deep-water Black Sea ports. Ukraine's Government expects a harvest of 79 million tons of grain and oilseeds in 2023, with its 2023/24 exportable surplus totalling about 50 million tons.

However, we should not dwell on the past, rather look forward to the future and focus on the things that we can influence. These are the things that we can control in our own businesses – when to buy inputs and when to sell our produce. There is a great saying "plan your trade and trade your plan." Sounds simple but this requires discipline and intrinsic knowledge of your business. Cost of production, cost of inputs, depreciation, valuation, wages, contingency the list is endless, but the list is important to get to grips with.

We recently hosted a group of young farmers from *The Scottish Association of Young Farmers Clubs (SAYFC)* at The Drum Farm, Edinburgh to talk about regenerative farming and how this can be implemented into current farming systems. The phrase regenerative farming seems to divide opinion; however, I sometimes feel the phrase is misconstrued. From our point of view regenerative farming is an approach that goes beyond sustaining resources to actively improving them. It includes practices like cover cropping, reduced tillage, and rotational grazing that enhance soil vitality and farm ecosystems. Something that many farms across the UK are already doing. The contrast is that conventional farming, where short-term yields have often come at the expense of long-term soil health and environmental sustainability has begun to undermine the financial viability of farms. The UK Agricultural Bill Reform represents a transformative shift in farm policy post-Brexit, focusing on rewarding environmentally friendly farming practices. The shift from the EU's Common Agricultural Policy (CAP) to a system that pays farmers for environmental services like flood mitigation and habitat creation, which could promote regenerative practices with the latent benefits such as increased organic matter in soil leading to better water retention, higher biodiversity, and improved resilience to climate extremes. This leads into sustainability and moving towards a more holistic approach that includes economic viability, environmental health, and social responsibility. The role of carbon farming and circular economies might be the keystones of future sustainability. As an industry we have long been proponents of technological advancements such as precision farming, soil health monitoring and data analytics all of which are poised to play a significant role in sustainable agriculture. There is also the small matter of the influence of consumers on sustainability through their purchasing power and the potential for policy to shape sustainable practices, including organic and local food movements, all of which are vital discussion points.

In my opinion, the importance of viewing regenerative agriculture as part of a larger ecological and societal framework and ensuring that farming contributes positively to the environment and community is vital. It is not all about soil health, selling your ploughs and buying the latest direct drill, but more a whole farm business review using the considerable number of tools we have at our disposal. A collective approach where all stakeholders, farmers, consumers, businesses, and policymakers work together to support the transition towards a more fruitful future is surely beneficial for everyone. If that happens to be called regenerative farming – why not.



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Cloud Farming Ltd has been serving farms in South & Central Scotland since 2017. Since incorporation they have assisted clients by providing in depth farming strategies with a focus on regenerative farming solutions and proper soil management. They have also leveraged business and professional relationships to provide cost effective farming solutions.

Scottish Agriculture Awards 2023

The evening of Thursday 26th October saw the Inaugural Scottish Agriculture Awards taking place in Glasgow, and I was privileged to be invited along. With over 400 guests attending, this was a new event, borne out of a partnership between AgriScot, The Royal Highland & Agricultural Society of Scotland (RHASS) and the Scottish Farmer.

Host for the evening was none other than Cammy Wilson, best known for his social media work as The Sheep Game and a Landward presenter, who kept us entertained and ensured the evening ran smoothly.

It was great to see so many people from the Scottish agricultural world in one place, celebrating all the good things that are happening in the industry. There was a great atmosphere throughout the evening, with everyone focussing on the positives, which is something that we don't do enough of. Hearing about all the finalists was not only interesting but encouraging. Despite future uncertainties over agricultural support, input prices, climate change and so on, farmers and those businesses that support them are doing their bit to diversify, deliver benefit to the environment, involve the community in their business, and find new and innovative ways of working to ensure agriculture has a strong future.

There were a total of 15 awards up for grabs, with every category receiving a high calibre of entries which had been narrowed down to 3 finalists for each award. It was great to see a number of Borders' businesses represented amongst the finalists, with many of them winning their categories, including Scotch Beef Farm of the Year, Sheep Farm of the Year, Sustainable Farm of the Year, Best Agroforestry Award and Supplier of the Year.

Supplier of the Year was won by Kelso's very own Redpath Tyres. Peter Redpath founded the family business in 1974, at that time operating from one depot in Kelso. At the outset, Peter's vision was to provide a unique service to the farming community of the Scottish Borders, and his motto was 'any tyre, anywhere, anytime'. Now in its third generation, this continues to be the company's motto, only now they are one of the largest independent tyre distributors in the UK, covering most areas of Scotland with 11 depots and over 80 staff employed. It was fantastic to see a local business which we know provides a great service, being recognised nationally in this way.

On behalf of Rennie Welch, I would like to offer our congratulations to Redpath Tyres, along with all the other deserved local winners of the first ever Scottish Agriculture Awards.

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Rennie Welch senior promotions

We are pleased to announce that two of our colleagues, Lynn Miller and Ross Tinlin, have been promoted to the senior role of Associate.

The pair are the first to complete our associate programme set up in 2021 to further develop talent within the firm.

Based in our Berwick office, Lynn has worked in general practice in the local area since 2002 building her knowledge and experience as a taxation specialist supporting a broad range of clients including families, partnerships and corporate structures. She joined the firm in 2014 after securing her Chartered Accountant and Chartered Tax Adviser qualifications.

Ross grew up on a farm near Kelso and joined the team in our Kelso Office immediately after graduating from Kelso high school in 2002. Over the next two decades he has developed a wealth of experience and knowledge working with a wide range of clients, many of which are in the agricultural sector. He now specialises in company and charity accounts work and management accounting for a diverse range of businesses.

Our Managing Partner Gordon Chisholm said: "I'm delighted with the immense progress that both Lynn and Ross have made since joining the firm and I warmly congratulate them on their move to associate level. They have both been fully committed and have delivered great client service since joining Rennie Welch.

Their success follows our investment into an associate training programme designed to ensure we can best develop our in-house talent and enable colleagues to progress towards partner level. Lynn and Ross are now one step closer to that achievement. I look forward to working with them as they continue their onward and upward journey within our firm."

These promotions will strengthen our firm and will ensure that we continue to provide a robust service to our clients in the agricultural sector.

What would you like to see covered?

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. Please contact Isla Young on 01573 224 391 **Isla.Young@renniewelch.co.uk**

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