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Farming Matters

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

Inside this issue...

Succession Planning
Highlighting the points to consider when passing your farm to the next generation

Border Union Bursaries
Could you qualify for a bursary to help fund your education?

Benchmarking
Looking beyond the obvious key performance indicators

Welcome

Welcome to our eighth edition of Farming Matters.

The nights are starting to creep in and for some the harvest was early and in the barn but for others it is becoming uneasily like last year with very catchy weather leading to a very frustrating harvest period. That said, the crop quality is, in the main, good and prices have broadly strengthened but it is unlikely to be a bumper harvest with the likelihood that yields will be back a touch. At such challenging times for farming businesses I hope that you will find the articles contained in farming matters as both practical and helpful.

For those of you contemplating the thorny issue of succession there is an article relating to lifetime transfers and some of the issues that follow that decision. Scotland now has higher rates of tax than the rest of the UK and the implications of this on pension contributions are considered in another piece. We have introduced a new 'Commonly Asked Questions' section to the newsletter, which it is hoped will become a regular feature going forward. This time we have a look at what to do when you take on a new employee with no P45 and we also cover the differences between the accounts profit and the taxable profit, which in agriculture can be significant. This contribution from Caroline Johnston will, hopefully, explain and reconcile the two different 'profits'.

Finally, in another new feature to the newsletter, we are delighted to introduce our first 'Guest' writer, Stephen Young. Stephen, a project manager with SAOS (The Scottish Agricultural Organisation Society) is involved in benchmarking and monitor farm groups across Scotland, as well as specialising in collaboration and co-operation in rural businesses.

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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Scotland now has higher rates of tax than the rest of the UK.

Farming Succession

> *Should we transfer the farm during our lifetime or should we leave it to pass via our Wills?*

One of the most challenging aspects of running a successful farming business is ensuring continuity over the generations. As part of a succession plan it is important to look at the ownership of the farm and a common question we are often asked by our farming clients who are looking to secure the business for future generations is 'should we transfer the farm during our lifetime or should we leave it to pass via our Wills?'

The answer to this question is far from straightforward and will depend on a number of factors not merely the tax position. Succession planning can be a very difficult process for families to go through and it can be particularly hard to get the balance right between siblings, making provision for those who will not continue to farm whilst protecting the position of those who will. Due to the nature of farming the outcomes can have a significant impact on the lives of those involved and we have found that the earlier the issues are addressed and the more open the discussions are, the easier the process is.

Due to the high value of farming assets tax is vital as getting it wrong could be extremely costly and the tax position will be a major influence in any decision.

However it is important not to 'let the tax tail wag the dog' and the non tax aspects are also very significant. We have found that one of the major non tax factors is certainty and the knowledge that a gift made during lifetime would ensure the asset is going in the desired direction is often attractive for both the older and the younger generation. It is imperative to take legal advice surrounding this and to make sure that the effects of unplanned and unexpected future events such as marital breakdown and untimely deaths are fully considered. The possibility of 'legal rights' claims should also be considered as, under Scots law, a surviving spouse, civil partner and children are entitled to certain legal rights when a person dies with or without a will.

In respect of the tax position a major consideration will be Inheritance Tax (IHT) and often people assume that if they hold farming assets they will be fully protected from IHT by reliefs. Whilst Agricultural Property Relief and Business Property Relief are favourable, it is important to review matters to confirm the position. It is possible that full relief will not be available in a number of circumstances for example if there are agricultural leases in place, if development value exists, if there are assets not in use in the farming business and residential property can often prove problematic. A review of the way a business is structured can often identify IHT savings and we would recommend that all farmers review their current position as a starting point when considering succession.

An advantage of leaving assets via Will is that this can result in significant Capital Gains Tax (CGT) savings on a future sale. For CGT purposes inherited assets are treated as if they were received by the recipient at their value on death whereas assets passed during lifetime, under a gift relief claim, are normally treated as if they are received by the recipient at the historical CGT 'base cost' of the transferor. However often farmers do not expect to sell their farms or if they were to sell they would reinvest in further land and claim 'rollover' relief to reduce CGT.

When looking at a transfer during lifetime it is important to consider whether any tax would be payable on the transfer and the IHT, CGT and LBTT/SDLT rules should all be borne in mind. With appropriate planning this can often be possible. Many farmers consider using trusts to help the tax position and also to retain an element of control over the assets.

We are finding there are growing concerns that the current favourable IHT position may not last. This view point has been influenced by the fact that the Office of Tax Simplification are currently reviewing IHT and the fact that the Scottish government have called for IHT to be devolved. Given these concerns many are taking the decision to make the transfer when the going is good...

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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. It is particularly important that applicants put forward clear and strong arguments that will persuade the Awards Panel that the bursary support given will ultimately contribute to the benefit of the rural economy of this area.

It was set up to commemorate the Bicentenary of the Society in 2013. It is expected to reach £160,000 after generous support from landed estates, trusts, companies and individuals.

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. Applications are to be made on application forms issued by the Society and may be submitted in writing or electronically but are assessed every calendar quarter.

Successful candidates will be asked to discuss with the Awards Panel appropriate ways in which they can provide feedback and demonstrate the benefits gained from their chosen course or study. This may include making a report of the study/focus activities to which their bursary award has contributed and/or to make presentations to the Society, other societies in the area and/or other appropriate groups. Reports will be posted on the Society's website and displayed at the Border Union Show.

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'.

Application forms may be obtained from the Border Union Agricultural Society office or by email to **bursary@BUAS.org**.

Farm Benchmarking

How do you assess how well your business is performing?
You can look at your accounts and see if you made a profit, which is important, but that only tells the outcome of the work you have done. To understand why you did or didn't make a profit, and importantly how to improve profitability, it can be useful to look more in depth and compare yourself to others. There are lots of ways of doing it, QMS publish enterprise costings, specialist publications such as the Farm Management Handbook and John Nix Handbook will describe costs often with an indication of the "top third, middle, bottom third" breakdown, and for a more involved and in-depth analysis there are benchmarking groups.

No matter which method, it is important to not only look at the figures but to really ask questions of them. Whether you are the "best" or "worst", it is really about continually improving your own business and only competing with yourself.

Through experience of running benchmarking groups the reality is that profitability is driven by 3 things:

YIELD
(be it kg of meat/ha or tonnes/ha)

SALE PRICE
(meeting specification to maximise income)

FIXED COST MANAGEMENT

The first two can be helped relatively easily; nutritionists and agronomists will advise you, sale prices are regularly published, and advice and comparisons are available in your local pub* (*these comparisons may not be reliable!), but when was the last time you compared your fixed costs in the pub? It is often the least understood part of production costs as it is complex, but it needn't be. It is much more fun to haggle a few pounds off the price of fertiliser and diesel but the real savings can often be made by looking at machinery costs.

Overall the real benefit of benchmarking is looking at your own costs objectively and using the figures of others to guide you to areas where improvements are possible, but the question when looking at figures is not what, but why. There are many "experts" who will sell you services to tell you the answer, but the real expert on running your business is you, using that knowledge and understanding, with the help of some evidence of the performance of others, can help you improve and make changes to your business.

Stephen Young |
Project Manager, SAOS

Commonly asked questions...

ACCOUNTING PROFITS V TAXABLE PROFITS

Q: I have just received my 2018 Tax Return and when I was looking over it I noticed that the profit you have included is £35,770 but my accounts showed a profit of £33,452. Can you please explain why the figures are different?

A: We use the accounting profit as a starting point but this has to be adjusted for any non-business expenses such as the personal use element of the telephone, heating and lighting, part of the farmhouse council tax and private motoring.

Depreciation also has to be added back as people write off assets at various different rates. However capital allowances are then deducted at standard rates instead. In the year we are looking at, you replaced your quadbike and the whole cost was written off in the year for tax purposes, but in the accounts we only wrote off one year's depreciation at 25%.

When you bought the new quadbike, you traded-in your old one. In the accounts this bike would have had a value against which the proceeds from the trade-in were off-set, leaving a gain on disposal. However for tax purposes this quadbike was fully written down in the year of purchase therefore has no remaining value. This means there is no value against which to off-set the proceeds received from the sale, and they therefore need to be added to the profit as a balancing charge. This is what you may hear referred to as a 'timing difference' and is a result of the way in which the asset is written off for accounting purposes compared with that for tax purposes.

The computation is as follows:

Profit per Accounts		£33,452
Add back		
Depreciation and adjustments on sale	£5,277	
Farmhouse Council Tax	1,398	
Farmhouse Repairs	1,020	
Private Telephone	121	
Private Heat &Light	888	
Private Telephone	57	
Balancing Charge on ATV traded in	1,260	
		£10,021
		£43,473
Deduct		
Capital Allowances		£7,703
Taxable profit		£35,770

If you have any questions regarding the calculation of profits for tax purposes, please do not hesitate to get in touch.

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NEW EMPLOYEE? NO P45?

Q: I have just taken on a new employee, but they don't have a P45 from their previous employer, how do I know what tax code to apply when calculating their wages?

A: Ideally when a new employee is taken on, they will provide you with a P45 from their previous employer, and this will state their most recently used tax code. However sometimes a P45 isn't available, in which case you would have asked the employee to complete a form P46, which would allow you to identify one of three tax codes to be used until HMRC had processed the form and issued the correct tax code.

The process hasn't really changed, but the form to be completed is no longer called a P46 and has been renamed a 'Starter Checklist'. You, as the employer, would process the details on the Starter Checklist in exactly the same way as the old P46 and this would give you the tax code to use temporarily, until such time as HMRC issue an updated code.

The form can be found at **www.gov.uk/government/publications/paye-starter-checklist**.

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Pension Contributions and the Scottish Rate of Income Tax

As you may be aware, from 6th April 2018, taxpayers who are treated as Scottish taxpayers have different rates of income tax compared to the rest of the UK.

Due to the changes in the Scottish income tax rates, it is possible that you may be missing out some tax relief on the pension contributions that you are making.

If you make pension contributions that are not 'net pay' pension schemes (net pay pension schemes include local government, NHS, Civil Service pension schemes), then depending on your marginal rate of income tax, you may be able to claim additional relief on your pension contributions.

The basic rate relief of 20% is given by deduction at the time of paying the contributions i.e. a gross contribution of £1,000 would arise from a net payment of £800 and the pension provider would claim the remainder from HMRC.

In previous years, those Scottish taxpayers who were taxed at 40% or 45% would receive additional tax relief on their pension contributions either through self-assessment or through their tax codes.

From 6th April 2018, Scottish taxpayers who are taxed at either the new 41% or the 46% rate of income tax will still continue to receive the tax relief on their pension contributions, but those Scottish taxpayers who are now taxed at the 21% rate of income tax, should claim the additional 1% relief on their pension contributions by contacting HMRC if they do not already complete tax returns.

If you are under self-assessment, this relief will automatically be dealt with through your tax return, but those of you who are taxed through PAYE, will need to contact HMRC and ask them to make an adjustment to your 2018/19 tax code.

For Scottish taxpayers whose marginal rate of tax are at the starter rate of 19% or are taxed at 20%, will continue to receive pension relief at 20%.

Taxpayers who pay no tax at all can still receive pension relief at 20% on contributions up to £3,600 (i.e. £2,880 net).

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GDPR Update

As everyone will be aware The General Data Protection Regulation (GDPR) came into force with effect from 25th May 2018. This new EU data protection Act builds upon the current principles contained in the Data Protection Act (DPA), although it does contain a number of new elements.

The GDPR contains a number of data protection regulations which set out the primary responsibilities for organisations. These are similar to the DPA, but contain some additional details.

One of the fundamental changes enforced by the GDPR is a new principle of accountability, which requires businesses to actively show that they adhere with data protection principles. This can be achieved by demonstrating that efficient policies and procedures are in place.

As a result of the new regulations we have reviewed our current systems and implemented any necessary changes to ensure they are compliant with the GDPR. We are in the process of updating our Engagement letters and our updated Privacy Policy, Terms and Conditions can be found on our website.

In accordance with these new regulations, if you no longer wish to receive this publication please let us know by contacting the Kelso office by phone or email.

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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