Hawsons Chartered Accountants
Latest News

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Agriculture Insight

In this issue:

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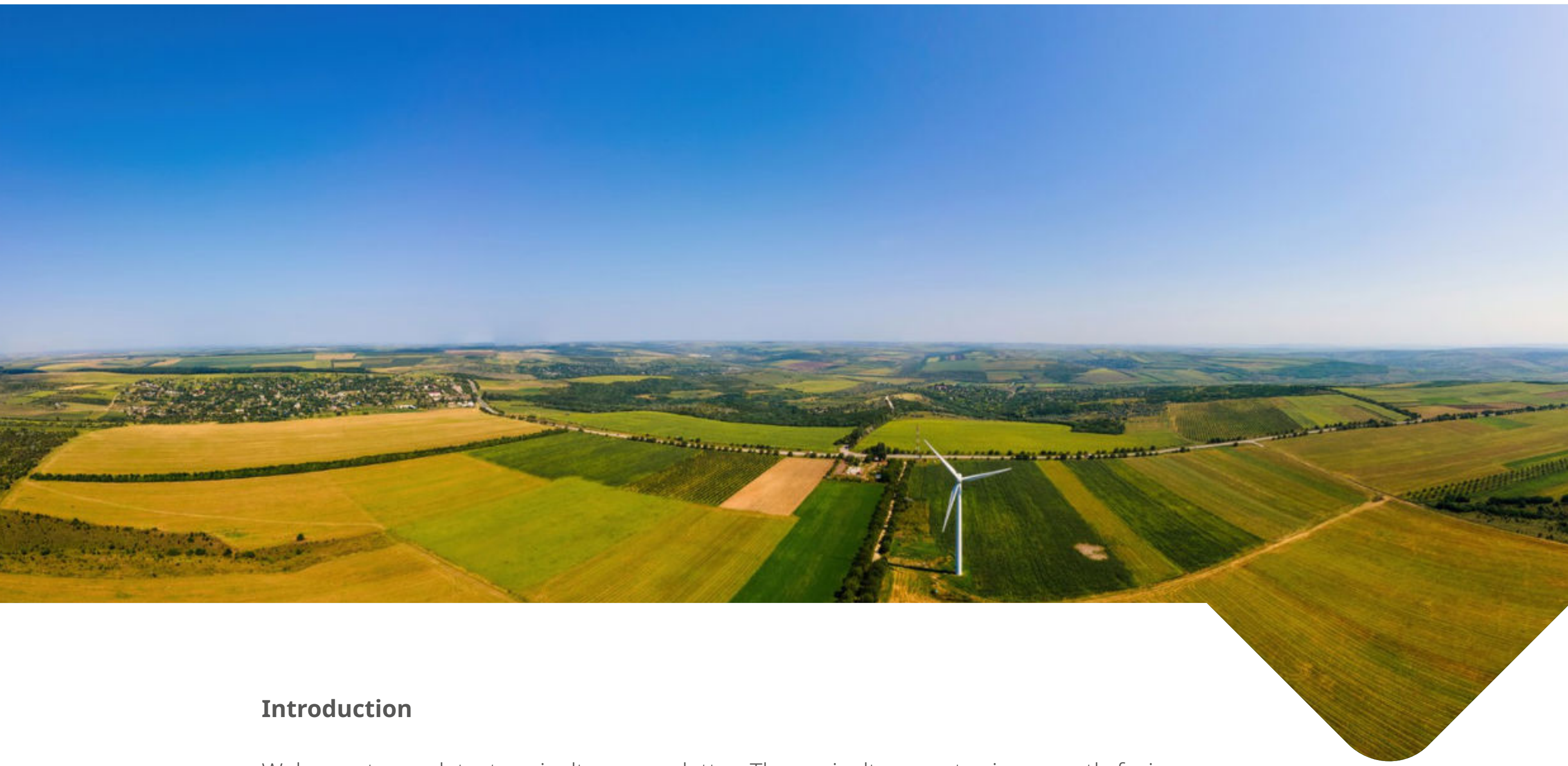
Dan Wood
Partner



Introduction

Welcome to our latest agriculture newsletter. The agriculture sector is currently facing many challenges going into 2023. Input costs and energy prices are on the rise which is having a adverse affect on farmers profit margins.

In this edition of the newsletter we discuss the following:

- Challenges for farmers in 2023
- How to gain the best tax relief for livery diversification?
- Policy uncertainty restricting investment in agriculture tech
- Agriculture and Horticulture Productivity Fund

We hope you enjoy the contents of this newsletter and as ever if you have any questions please do not hesitate to get in touch.

Dan Wood
Partner

Challenges for farmers in 2023

Introduction

Going into 2023, the outlook is much less optimistic for farmers. However, the annual Sentiment Survey, conducted in October/November demonstrated that most farmers were in reasonable financial shape.

Arable farmers

Arable farmers were in particularly good spirits. This is because many arable farmers had bought their inputs before the huge inflation caused by the war in Ukraine. Therefore, they were able to enjoy a year of buoyant prices and good yields without input costs catching up. However, it is expected that these input costs will increase significantly for 2023.

Livestock & dairy farmers

Livestock and dairy faced a much tougher year in 2022. Inflation increased the price of feed and energy which continued to eat into farmers profit margins throughout the year.

Overall, only 38% of farmers in the survey described themselves as optimistic going into the next six months. When asked about their biggest challenge for 2023 the most popular answer by far was 'rising input costs', 37% of farmers said this was their top concern.

Price expectations

The price expectations among farmers is that input costs will increase slightly in 2023. The hope is that the 34% ag-inflation seen in 2022 could be starting to ease. The price of red diesel is also coming down from its peak price with current prices being around 90p a litre. This is still 20p higher than this time last year.

For livestock farmers, the opening of the Black Sea corridor has eased prices in the wheat market during the autumn months. This will have reassured livestock farmers that the rise in feed prices will continue to ease going into 2023.

In terms of output values, most believe that they will stay around the same. Arable farmers are more confident about this than livestock producers.

Continued overleaf

Challenges for farmers in 2023 (continued)

Variations

As with most business sectors, feelings of optimism and pessimism are likely to vary between demographics, business situations and sub-sectors.

For example, the most optimistic farmers were those that:

- Grow oilseed rape
- Have invested in renewable energy
- Grow sugar beet

But the farmers that were most pessimistic about the future were:

- Poultry farmers
- Potato growers
- Farmers with increased debt
- Farmers in the 55-64 year old age bracket

Values of oilseed rape increased to over £800 per tonne in June and many farmers will have locked into contracts ahead of 2023 harvest. They have more certainty over their future and have locked in at a good price but yields do remain a concern.

Sugar beet growers will be more optimistic because a price agreement has been made between the NFU and British Sugar.

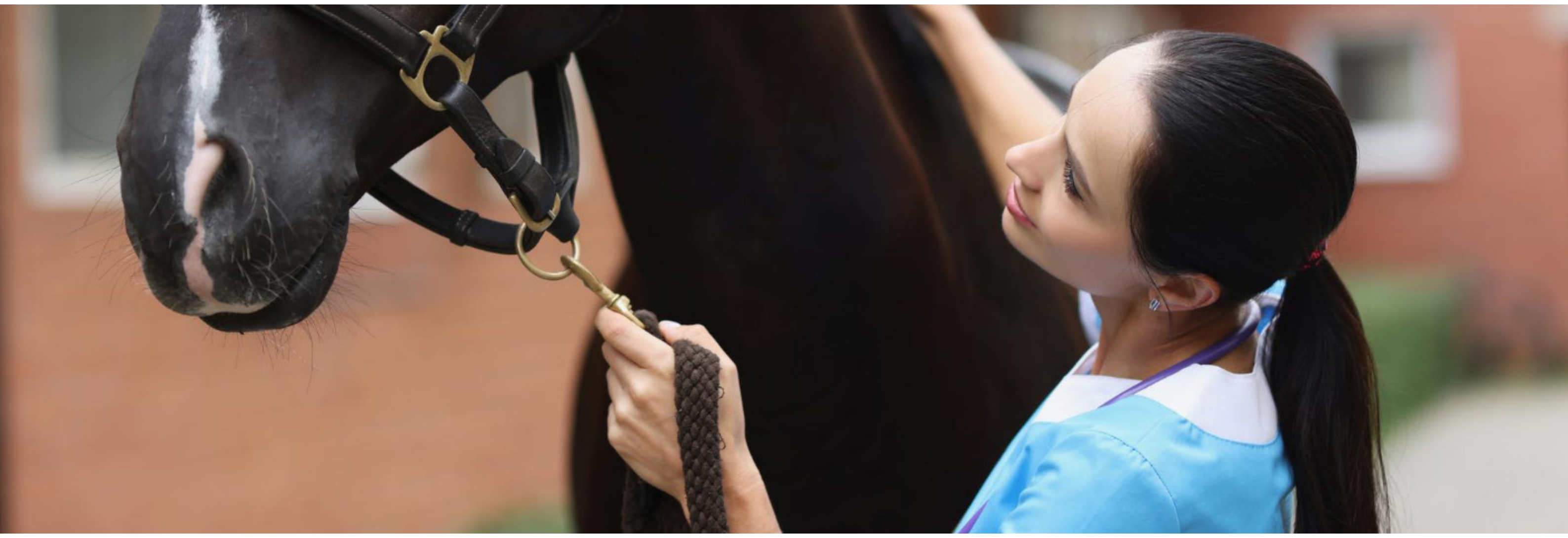
Those farmers that invested in renewable energy sources are less likely to be impacted by price increases in the energy market, compared to those that are fully reliant on purchasing energy. Some farmers may also have surplus green energy to sell back to the national grid.

Farmers that have taken out loans may also feel the pinch as the Bank of England continue to increase interest rates in a bid to calm inflation.

For potato growers and horticulturalists increases in fertiliser costs will continue to eat into profit margins in 2023.

Conclusion

To conclude, it appears that inflation is going to be the top challenge for farmers to overcome in 2023. Arable farmers and farmers with renewable energy supplies appear to be in the best position to tackle these challenges as some will already be locked into contracts for this year's harvest but will still have a keen eye on rising input costs. Livestock and dairy farmers will find this period more challenging due to rising input costs and lack of certainty over these costs which will cause unpredictability.



How to gain the best tax relief on livery diversification?

Livery businesses are particularly difficult to structure from a tax perspective and it is advised that owners should spend time reviewing agreements with their clients on a regular basis to ensure that they are being as tax efficient as possible. This is in order to qualify for VAT exemptions and inheritance tax relief.

VAT exemption

One reason why it is important to do this is because livery services can be exempt from VAT if structured correctly which means there will be no chargeable VAT to customers.

How does this work?

For the whole supply to be VAT-exempt, livery owners will need to offer their clients:

- A 'grant of an exclusive right' or a 'licence to the specific stable'
- Ancillary care elements

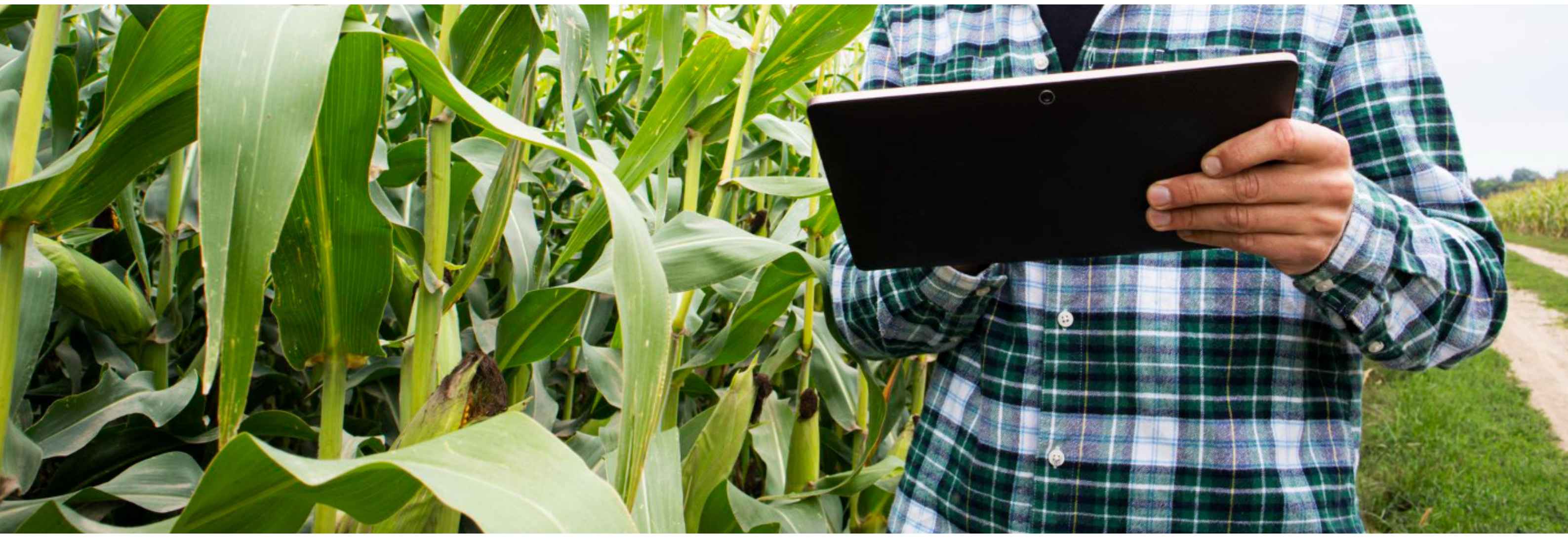
In addition to this livery owners will need to ensure that an option to tax election has not been made over the stables. Where the exclusive right or license is granted first and foremost. The VAT position will not be affected by the level of care provided. It is important to note that this only applies to specialist yards including stud farms, racehorse stables and schooling stables.

Inheritance tax

If your asset qualifies for business property relief, 100% inheritance tax relief will be available.

How do livery owners qualify for business property relief?

If livery owners only offer grazing agreements and horse owners take full responsibility for their horses then your business will not qualify for business property relief because this is viewed as a passive activity. However, if your business offers additional services such as health checks and feeding etc, then it is more likely that your business will qualify for the relief. If you would like to find out more about business property relief please visit: https://www.gov.uk/business-relief-inheritance-tax



Policy uncertainty restricting investment in agriculture tech

Introduction

Research has found that implementing new farming technology will help reduce the productivity gap between the UK and countries with much higher productivity in agriculture such as Australia and the USA. Future funding is critical if UK livestock farmers want to implement new technologies to improve growth and productivity.

Why are farmers holding off on investing?

Recent research has found that farmers are willing to invest in new technology as they recognise the benefits the technology can make to productivity, animal welfare and reducing emissions.

However, the Social Market Foundation (SMF) recently interviewed UK farmers and the majority were deferring investing money to implement technology into their operations because of uncertainty regarding post-Brexit funding streams. In these interviews, many farmers expressed that the policy regarding post-Brexit funding streams are too complex and confusing to navigate, which makes it challenging to plan ahead and make investments.

The Think-tank found that future government policy on funding is the 'single biggest issue in agricultural policy' and is the most important factor in the future of technological adoption.

What will improve farmers' confidence to invest?

Policy uncertainty remains a major barrier preventing widespread investment in technology across the agriculture sector. Further recommendations include raising more awareness about cutting-edge farming methods and providing farmers with access to key data from slaughterhouses and retailers. Implementing these measures will give farmers more confidence to invest.

Agriculture and Horticulture Productivity Fund

The department for Environment Food & Rural Affairs (Defra) has recently announced £12.5 million in grant funding to businesses in the agriculture and horticulture sectors to help improve automation and robotics to boost productivity.

Defra, in partnership with UK Research and Innovation, will award projects with match-funding of £500,000 to £1.5 million.

Who can apply for this funding?

This funding aims to bring together agri-food businesses and researchers to help address strategic challenges across the sector via developing transformative solutions.

Applications for this grant can be submitted from the 9th January 2023. The deadline for this application is the 15th March 2023.

How can I apply?

If you would like to apply please visit government website here for more information.

Hawsons agriculture partner, Dan Wood commented: With rising input costs, a key focus for the future is on increasing productivity. This fund has been established with the aim of developing automation and robotic technologies on farms. The fund is open to businesses of any size and farmers also have the option to participate as part of a wider consortium.

VAT option to tax: changes to the notification process

HMRC will no longer issue option to tax notification receipt letters from 1 February 2023.

Supplies of land and buildings are normally exempt from VAT, but it is possible to opt to tax the land/ property which may allow some recovery on expenses if VAT is charged on the supply.

Notification of an option to tax is (OTT) usually sent to HMRC via an email, to optiontotaxnationalunit@hmrc.gov.uk

From 1 February 2022, the only receipt provided by HMRC for an OTT will be the automated email response provided when a notification is sent to the above email address.

Businesses should keep this automated response as part of their VAT records. The date on the response will confirm the date that HMRC has been notified. The responsibility for ensuring the OTT notification is correct and valid remains with the opter.

Confirming existing OTT notifications

HMRC have confirmed that it will no longer process requests confirming the existence of an OTT, except if:

- The OTT date is over six years ago
- The request is made by a Land and Property Act receiver or insolvency practitioner, to administer the property in question

If these conditions are met HMRC must be provided with:

- Name of the opter of the property
- VAT registration number
- Full address of the property and effective date of OTT
- Date VAT was first charged on the property
- Date the property was acquired

HMRC delay Making Tax Digital by two years

What is being delayed?

HMRC has announced that plans to implement digital tax reporting for unincorporated businesses and self-employed individuals and landlords in April 2024 will be delayed until April 2026.

Why has MTD been delayed?

HMRC have said that businesses and self-employed individuals are going through difficult economic circumstances at this moment in time. The transition to MTD is a significant change for individuals and businesses. Therefore, HMRC believe it will be beneficial to everyone to delay the implementation of digital tax reporting for small businesses and self-employed individuals and landlords. This will now be introduced in April 2026 instead of April 2024.

Who is affected by this announcement?

Self-employed individuals and landlords with annual business or property income above £10,000 will be affected by this announcement. These individuals will no longer need to follow MTD Income Tax rules from April 2024. This delay means that these individuals will now have at least an additional two years to prepare for the switchover.

Self-employed individuals and landlords with income over £50,000 will be mandated to join from 2026. Those with income over £30,000 will be mandated from April 2027.

The government will review the needs of smaller businesses, particularly those under the £30,000 threshold, before announcing any further requirements.

What about Partnerships?

The government will not extend MTD for ITSA to general partnerships in 2025 as previously planned. This will now follow at a later date.

This is excellent news and we are pleased that HMRC has listened to feedback from the public and professional bodies.

For more information, you can read the full government statement here: https://questions-statements.parliament.uk/written-statements/detail/2022-12-19/hcws465

Get in touch

Our agriculture experts

At Hawsons our dedicated team of specialist agriculture accountants understands that farming isn't just a business; it's a way of life.

The rural and agriculture sector is a specialist sector, with unique practices and conventions. We act for a significant number of arable farms and assist farming families in many matters specific to agriculture and farming. This includes tax, will planning and succession planning.

We have been able to assist our farming clients to add value to their businesses. We have advised on the financial and tax consequences of property development, green technologies and capital allowance planning. In particular, we can assist in the area of capital taxes planning. This is a significant issue for farmers following the increase in land values and the availability of development opportunities.

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