

National Basic Payment Support Scheme 2016

On 13 September 2016, the Rural Economy Secretary Fergus Ewing announced the nationally funded 2016 National Basic Payment Support Scheme. Under the new loan scheme, farmers and crofters will be able to apply for an interest-free loan of 80% of their 2016 CAP Basic Payment and Greening entitlement, up to a maximum of €150,000.

The loans will be paid in the currency (Sterling or Euros) which the farmer or crofter opted for on their single application form. For those that have opted for Sterling, the final figure will depend on the official CAP exchange rate, which the European Commission will confirm at the end of September.

Additional information and details surrounding this scheme can be found at -

<https://www.ruralpayments.org/publicsite/futures/news-events/national-basic-payment-support-scheme-letters/>

- with a full Q and A at the following link –

<https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/national-loan-schemes/loans-for-2016-17-payments/>

Accounting treatment and tax implications

1. Receipt of loan from Scottish Government

Assuming a farmer or crofter makes a successful application for the interest-free loan, the amount received should be included on the business balance sheet as a loan liability in the accounting period of receipt. The loan is likely to be a short term facility, so should be included as a liability due for repayment within one year. There is no tax impact in receiving this loan as it is not accounted for through the profit and loss account of the business.

2. Recognition of 2016 CAP Basic Payment and Greening entitlement

As the loan from the Scottish Government is not an advance payment, a separate accounting entry needs to be included within the business accounting period, recognising the 2016 CAP Basic Payment and Greening entitlement as a period end debtor, making a best estimate as to the amount. This would need to take into account the business year end and also ensure an element of consistency in the accounting treatment for this income source. One would most likely use the loan advance figure and gross this up to reflect that only 80% has been made. The amount included as a period end debtor would be taxable income within the accounting period, as this will be accounted for through the profit and loss account of the business.

3. Repayment of loan from Scottish Government and receipt of the 2016 CAP Basic Payment and Greening entitlement

The scheme has been designed so that the 2016 Basic Payment and Greening entitlement total should be more than the sum paid by the National Basic Payment Support Scheme. As such it is expected that the Scottish Government will deduct the National Basic Payment Support Scheme payment from the 2016 CAP Basic Payment and Greening entitlement (once the application has been processed and formerly approved), with the balance being paid into the applicant's bank account. When this occurs, an accounting book entry should be included to clear the Scottish Government loan liability against the period end debtor for the 2016 Basic Payment and Greening entitlement. The balancing receipt (i.e. 20%) should also be accounted for against the 2016 Basic Payment and Greening entitlement period end debtor.

There is no tax impact on the business when clearing out the loan liability against the debtor, as this is accounted for through the balance sheet. Where the balancing receipt does not match the remaining debtor, then any difference would have to be accounted for through the profit and loss account of the subsequent accounting period. This will have a tax impact. The extent of any difference will be determined by how the estimated debtor is calculated under point 2 above. The accuracy of the estimate is likely to be influenced by how quickly the business accounts are prepared and receipt of any subsequent Scottish Government correspondence regarding the total CAP Basic Payment and Greening entitlement and balancing receipt.

It should be noted that the accounting reference date for each business will have an impact on the above accounting entries and amounts involved. Each member should speak with their advisor to assess the potential amounts involved and the resulting impact it will have on their taxable business profits within their current accounting period.

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