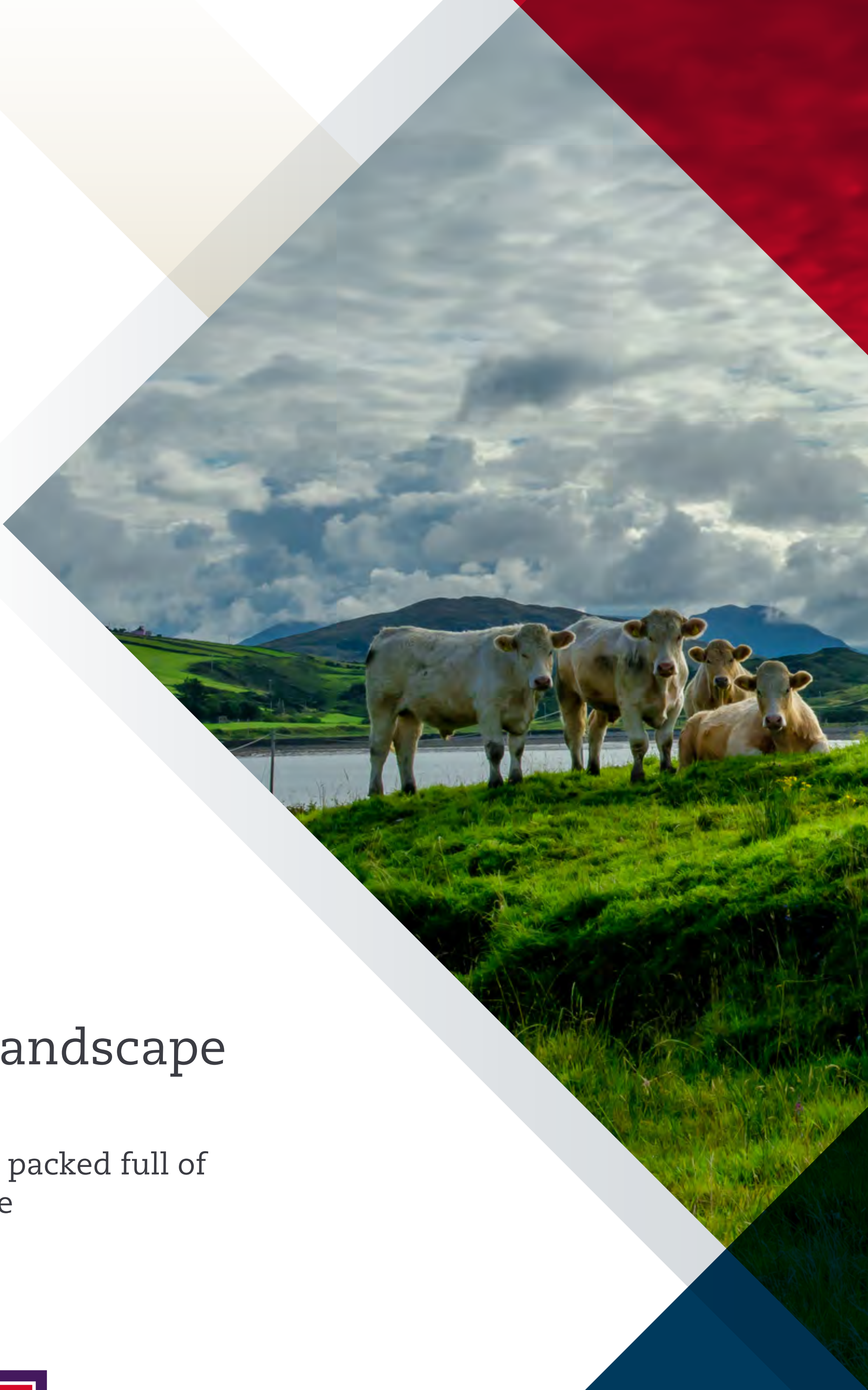


Agricultural Landscape

Our annual newsletter packed full of information and advice

2017

JOHNSTON CARMICHAEL

Where sharp minds meet

jcca.co.uk

Welcome to Agricultural Landscape 2017

Foreword by Robin Dandie, Partner and Head of Agriculture

As Scotland's largest independent firm of Chartered Accountants and Business Advisers, we've been cultivating relationships with the agricultural community for over 80 years. By working closely with our farming clients we understand the issues that matter to them most, and, as a large number of our team come from farming backgrounds themselves, our specialists have real industry insight and experience. Our team is continually growing, and with 11 offices across Scotland, we are well placed to advise the agricultural sector up and down the country.

In this newsletter, we share our thoughts and advice on topical issues currently impacting on the sector, including guidance on the Government's plans to Make Tax Digital, and how the up and coming changes will affect farming businesses. We also offer advice on how to improve farm performance, sharing a case study that demonstrates how a farm became more successful through participation in the QMS monitor farm programme.

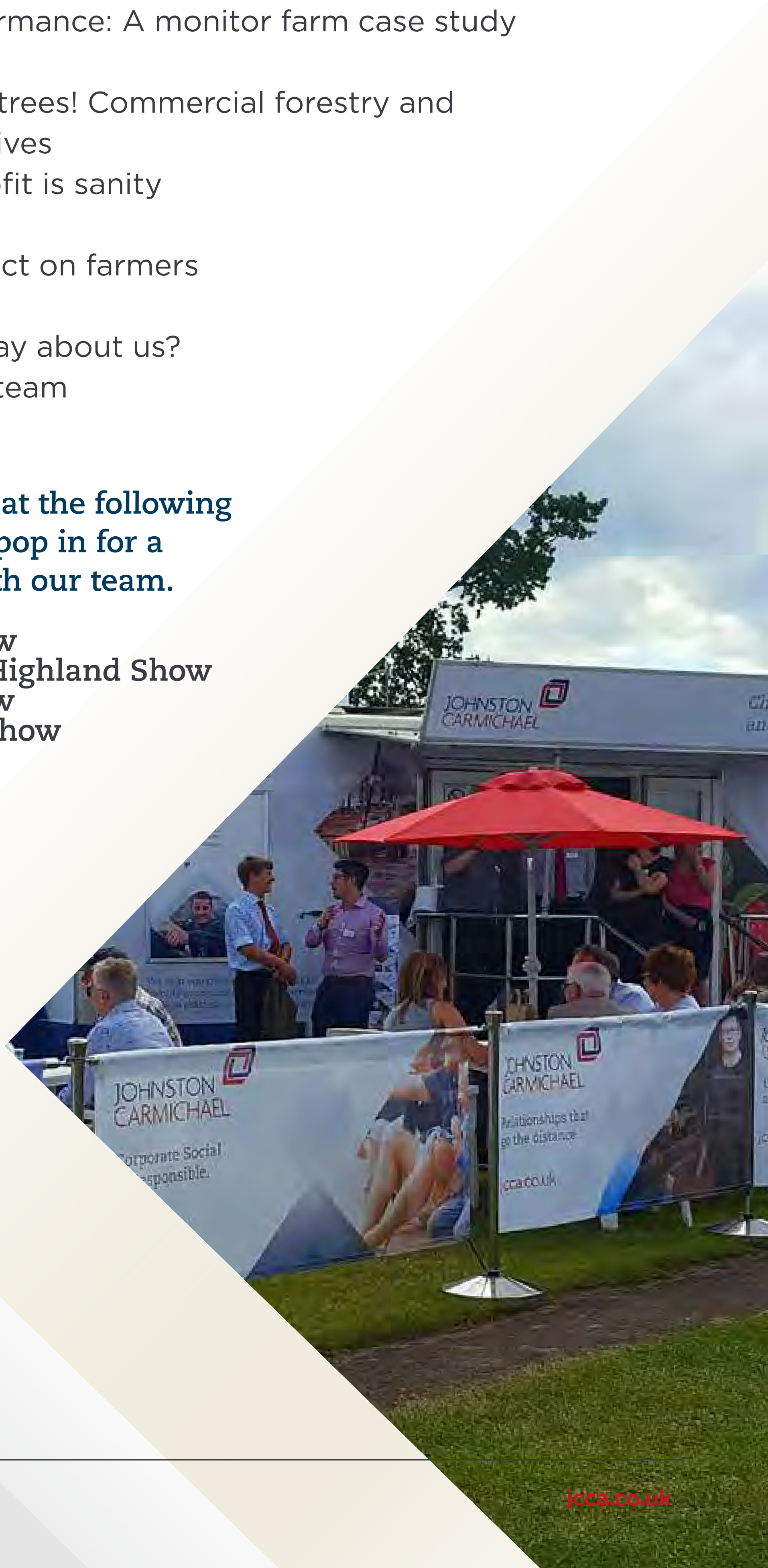
If you would like to know more about any of the issues raised in our articles, please contact me or your usual Johnston Carmichael adviser, details of which can be found at the end of this newsletter.

Follow our Agricultural team @JC_Agri

Contents

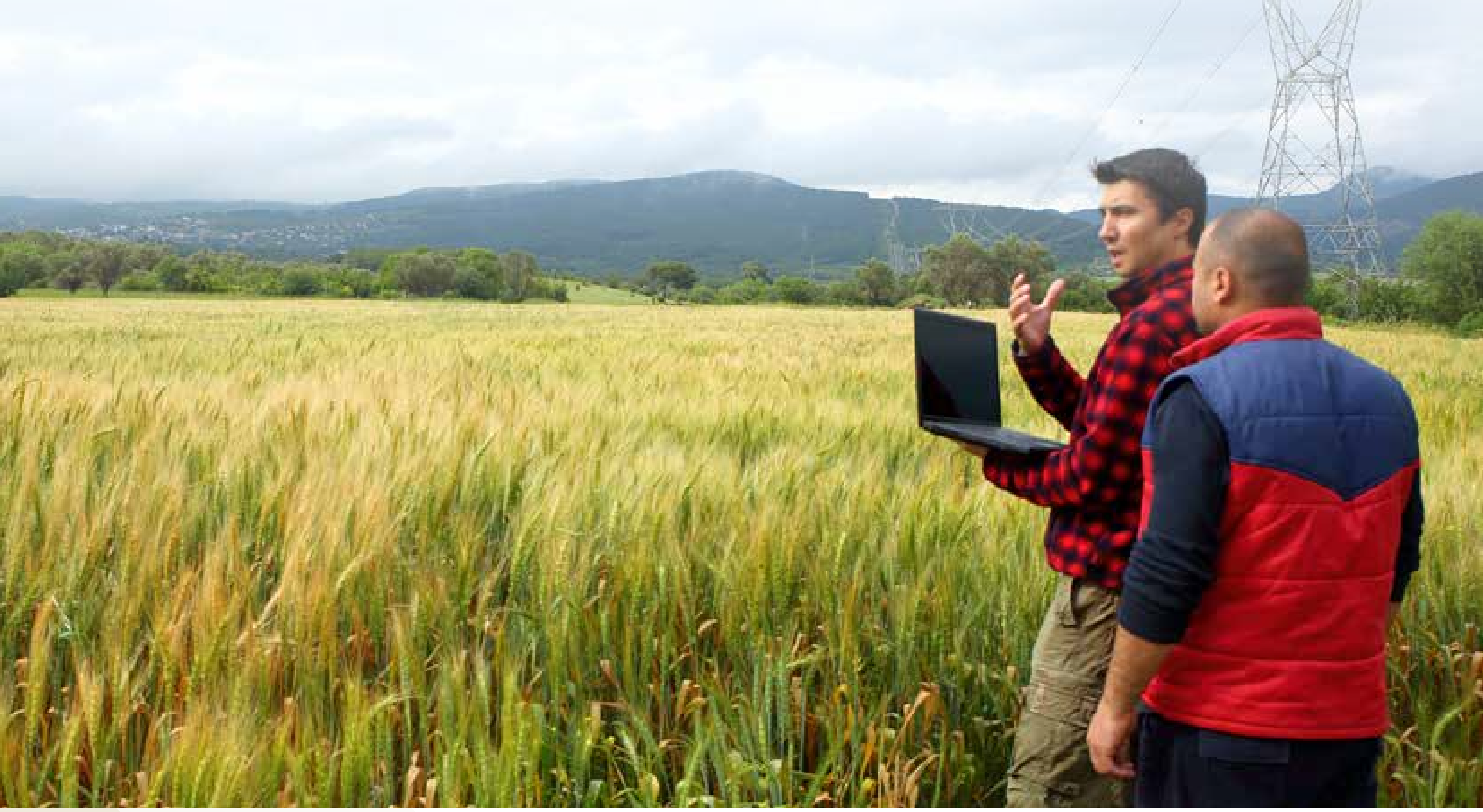
Our exhibition unit will be at the following shows this year, so please pop in for a refreshment and a chat with our team.

10 June	**Angus Show**
22-25 June	**The Royal Highland Show**
30-31 July	**Turriff Show**
2-3 August	**Black Isle Show**



Making Tax Digital for business

Neil Steven, Business Advisory Partner



Making Tax Digital is a key part of the UK Government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs - meaning the end of the annual tax return for millions.

Agricultural businesses will be required to fundamentally change how they submit information to HMRC under this new tax system.

Background

'Making Tax Digital' (MTD) involves introducing digital tax accounts for all taxpayers which will be pre-populated with information HMRC already receives from third parties. This may make life easier for some, but for the self-employed or those with property income, MTD could prove more challenging as HMRC are pushing forward with a 'real time' quarterly reporting for business. In reality, this will mean many businesses moving to digital record keeping which will interact with HMRC's software.

HMRC has said submitting information more frequently will give businesses greater certainty over tax bills, however concerns over rural broadband, additional costs and the increased administrative burden are of concern to many agricultural businesses.

With the dissolution of Parliament for the snap General Election, the 2017 Finance Bill was rushed through with many of the original legislative changes being dropped. This included all the provisions for MTD. Whilst this was initially good news, it seems likely that this is simply no more than delaying the introduction of similar legislation later in the year – much of the legislation is drafted and it is therefore prudent to assume the MTD proposals will apply from April 2018.

What are the proposed changes?

From April 2018, unincorporated businesses with a turnover of over £85,000 will be required to submit quarterly reports to HMRC detailing income, expenses, profit or loss. From April 2019, quarterly reporting will begin for unincorporated businesses whose turnover is between £10,000 and £85,000.

Quarterly reporting will be brought in for all companies from April 2020, along with those partnerships with a turnover of greater than £10million.

HMRC is working on making their software compatible with accountants and third party accounting software. Free software will be made available for the simplest of businesses, although it is yet to be confirmed who will be eligible for this.

Businesses will be able to continue to use spreadsheets or manual records for record keeping, and invoices and receipts will not need to be recorded digitally, however manual recording will become more onerous when accounts information needs to be reported to HMRC on a quarterly basis.

There will be a 12-month period of transition to allow businesses to become familiar with the changes before any late submission penalties will be applied.

What does MTD mean for agricultural businesses?

With the majority of agricultural businesses operating as sole traders or partnerships, they will be among the first to make the transition into HMRC's new digital era.

For some businesses it may be an easy transition and a simple continuation of what they do now, however for many, it will involve a complete overhaul of their current processes and a move away from a lifetime of manual record keeping. Concerns have also been raised over the readiness of rural infrastructure to support MTD and the additional administrative costs and burdens which quarterly reporting may create for agricultural businesses, especially during the busy spring and harvest seasons. Furthermore, it is questionable whether the ability to predict your tax liability is realistic for an agricultural business due to the cyclical nature of farming profits.

What should you be doing?

Ultimately these changes are coming and it's important to be proactive and prepare for the future. Stay on top of things by reviewing your current administrative and reporting processes. It may be useful to adopt an existing digital software solution which will allow you to familiarise yourself with digital record keeping.

We also recommend ensuring you maintain regular, accurate and up to date records of all business transactions, and if you need advice, do not hesitate to contact us here at Johnston Carmichael.

Improving farm performance:

A Monitor Farm case study

Stephen Dickie, Business Advisory Partner

"If you always do what you've always done, you'll always get what you've always got".

This quote sums up Charles Gordon's new way of thinking following his experience of being a Quality Meat Scotland (QMS) Monitor Farm.

Charles and his parents, George and Fiona, are tenants of Lost, a hill farm in Strathdon, Aberdeenshire. They decided to apply to become a QMS Monitor Farm in 2011 to benchmark their business, share ideas and to obtain advice.

Over the following three years, regular meetings were held which were attended by fellow farmers and representatives from many agricultural suppliers, including feed firms, seed merchants, local vets and Johnston Carmichael.

The performance of their business was reviewed against other upland farms using data collated by SAC Consulting. Their ewes were blood tested to check for any underlying health issues and to review levels of trace elements. The Gordon family were pleased to learn that no changes were required in this area.

Following the careful consideration of the advice received at the meetings, Charles and his parents decided to increase their ewe numbers and spring calving herd, while reducing the autumn calving herd. This better suits their business, climate and market conditions.

Cropping

GPS mapping was used on the farm for the first time during the monitor farm programme. When combined with soil sampling, the business saved 25 tons of lime which would have been applied had the GPS mapping not been used.

Catch crops were grown on the farm for the first time, including kale for out-wintering cattle, and stubble neeps and rape for ewes. Mixtures of the three crops were also trialled. "Some years were good, some years were bad" explains Charles, the weather being the biggest factor.

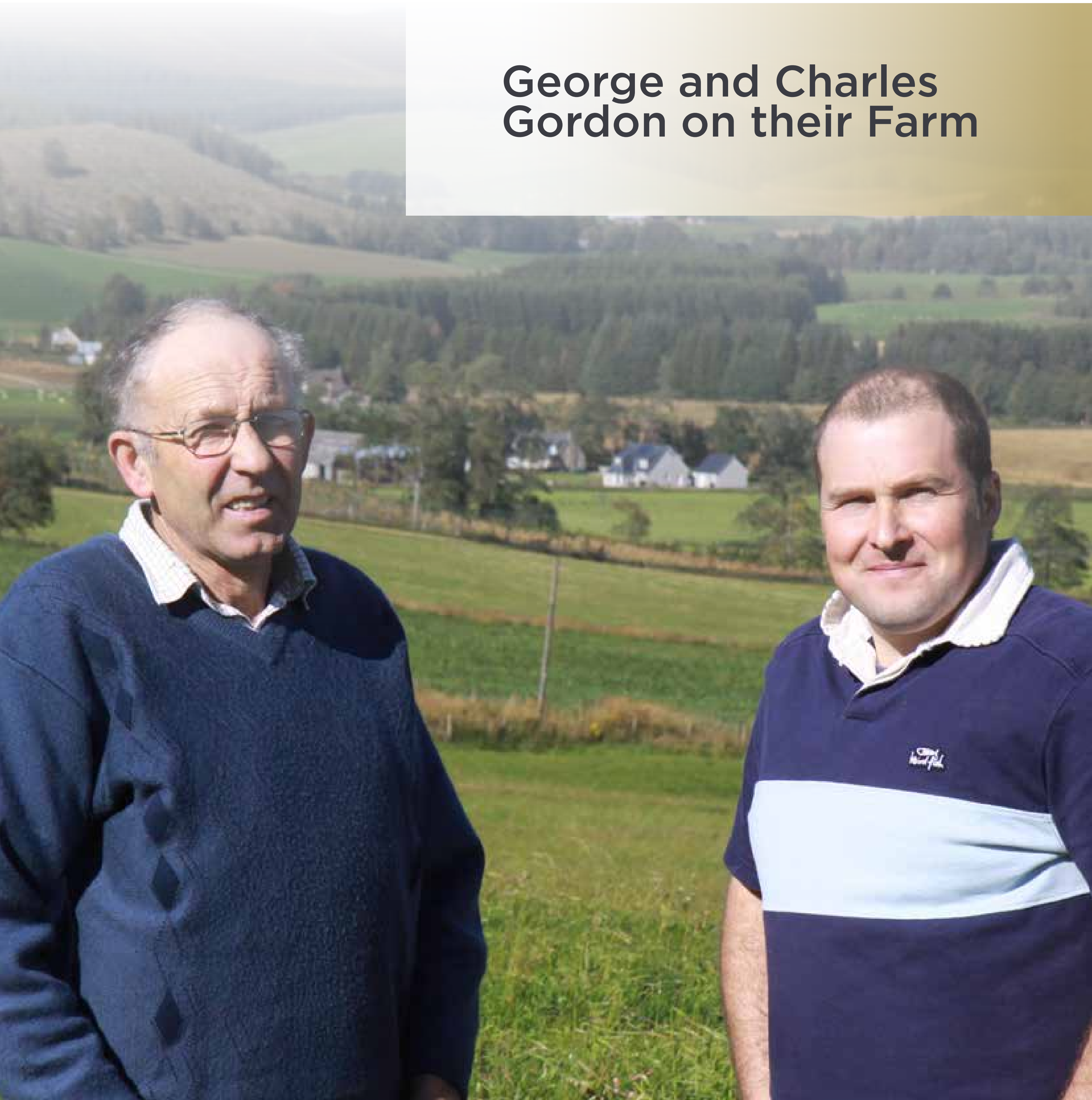
The family grows barley to provide feed for the cattle. As part of the monitor farm experience, they compared the impact on barley yields when different quantities of seed were sown. They also trialled different types of fertiliser which resulted in higher yields being achieved for no extra cost.

Johnston Carmichael

Jennifer Cormack and I from Johnston Carmichael's Huntly office led two meetings over the three year programme. The first was a role play of a client meeting to discuss the client's annual accounts and tax position. Topics covered at that meeting included stock valuations, farmers' averaging and the impact of subsidy reform on farm businesses. This proved very popular and received excellent feedback from all attendees.

The second presentation discussed succession planning, covering both tenants and owner occupied farmers. This included real life examples to demonstrate how a farming business can be successfully passed to the next generation while taking into consideration the wider family, dealing with tax implications and also the various types of leases common in the agricultural industry. Following advice from Johnston Carmichael, a business restructure later took place so that the family is in a better position for the future. Future planning is a key component of the service provided by Johnston Carmichael. The events of the past cannot be changed, but a business can be prepared for its future.

The Gordon family thoroughly enjoyed being a Monitor Farm. Although the experience ended in 2015, they have continued to benchmark their business and make small changes each year in an effort to improve their performance. They fully recommend that other farmers get involved in the Monitor Farms programme.



George and Charles Gordon on their Farm

Tax Tips & Snippets

To save for a large tax bill, open a separate bank account and set up a monthly standing order with the aim of having sufficient funds laid aside before the tax is due to be paid.

Up to **£200,000** can be spent on machinery and certain vehicles to obtain 100% tax relief in each financial year. This is known as the Annual Investment Allowance.

Farmers can elect to average their profits over a five year term from 2016/17, instead of the current two years, if this is beneficial to them.

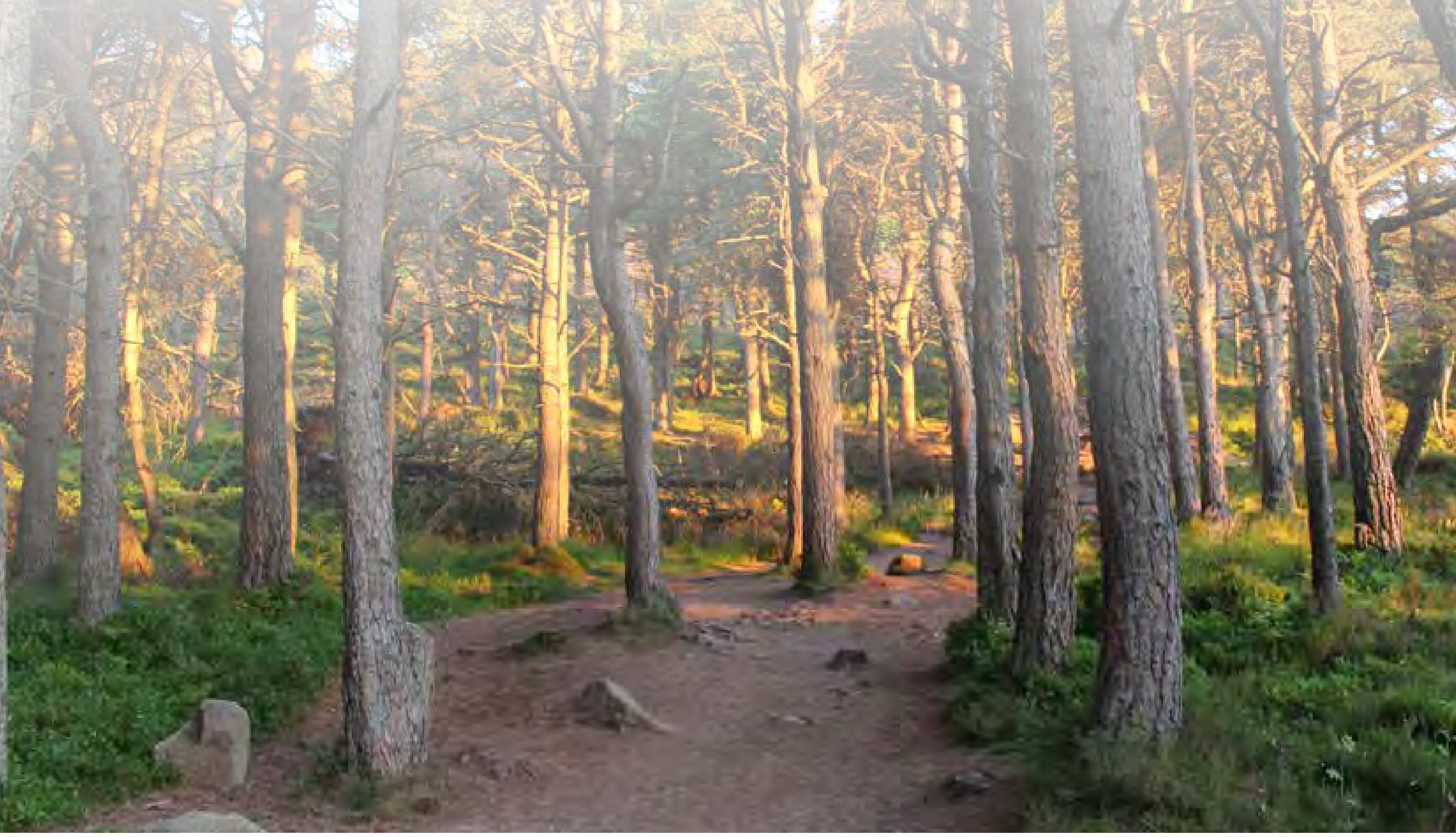
Machinery bought on hire purchase must be in use at your financial year end to obtain capital allowances in that year. Assets bought using a bank loan, overdraft or cash are unaffected by these rules.

We work with NFUS and provide a tax and business helpline to their members, providing twenty minutes advice per customer, per year at no cost.

Freephone advice line: 0800 023 2368

Money does grow on trees! Commercial forestry and woodlands tax incentives

John Todd, Tax Partner



Many farms have areas of rough ground or existing woodlands which may not currently be managed on a commercial basis. Where this is not merely ancillary to the farming operations, valuable tax relief may be missed if the woodlands are not managed on a commercial basis.

There are attractive grants available for the creation of new woodlands, especially for those in the target areas. These new woodlands could be small areas that would act as shelter belts bringing further benefits to the farm in the future. There are also generous tax incentives for commercial woodlands, including:

- Tax free timber sales
- No capital gains tax on the sale of growing trees, although the land is chargeable
- 100% business property relief for inheritance tax can be available on commercial woodlands

Other tax points to note in relation to woodlands:

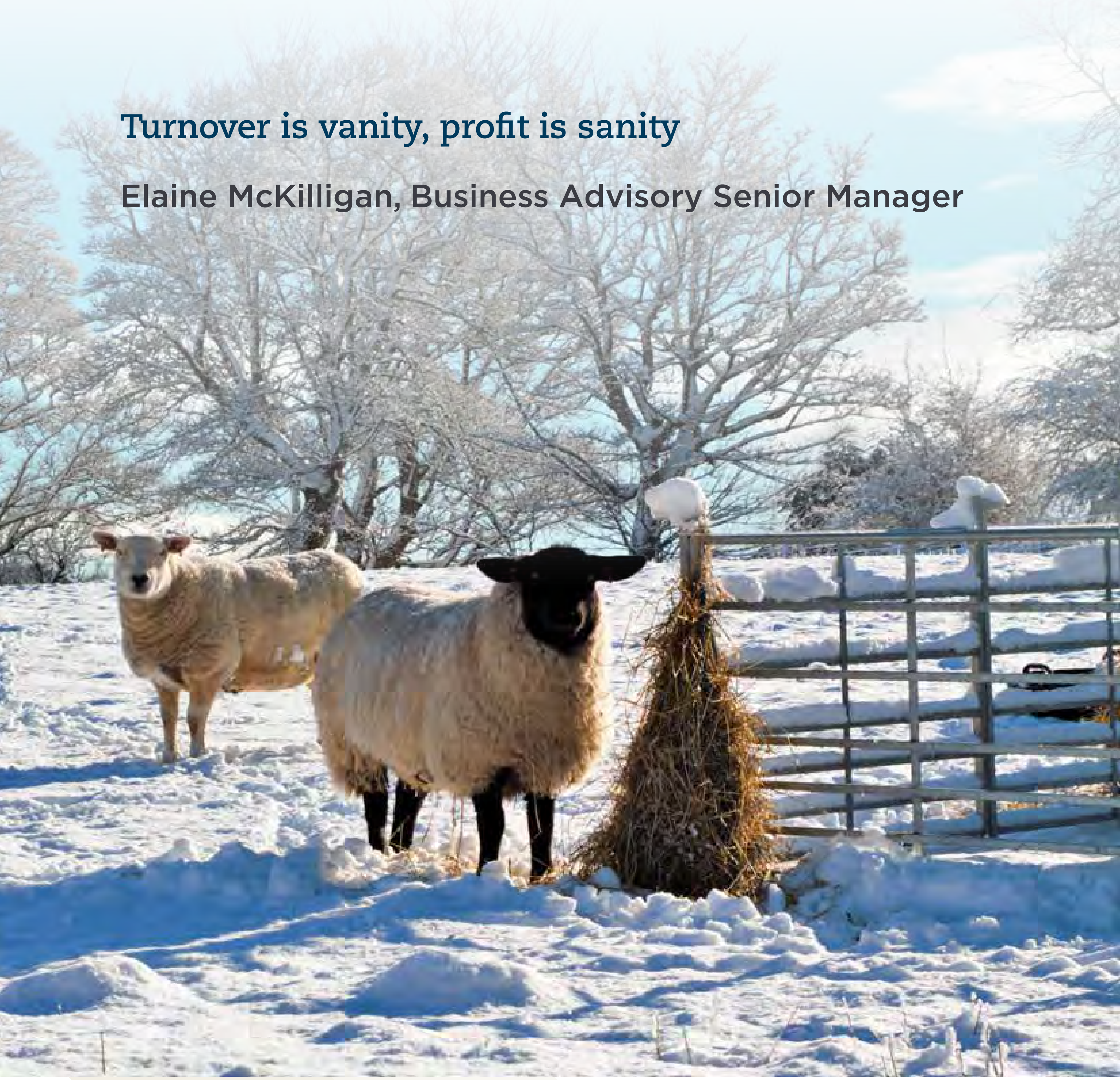
- VAT is chargeable on timber sales (different rates apply depending on what the timber will be used for, so speak to a member of our VAT team first!)
- Land & Buildings Transaction Tax is payable on the purchase of commercial woodlands
- Some woodland grants are taxable

As usual, please speak to us for advice tailored to your situation.

Further information on the grants available can be obtained from the Scottish Government website.

Turnover is vanity, profit is sanity

Elaine McKilligan, Business Advisory Senior Manager



It's an old saying, but it holds true today as there can often be too much focus on gaining the top price for your product, whether that be calves, lambs or grain etc. The focus of your business should be on achieving the highest possible profit margin for your product, i.e. the percentage of profit compared to turnover.

Maybe you breed and finish your own calves or lambs? Have you thought about selling them at a younger age for someone else to finish them? A lower price would be achieved, but in some cases a higher profit margin is made as costs will be lower. It may also simplify your business and will speed up cashflow.

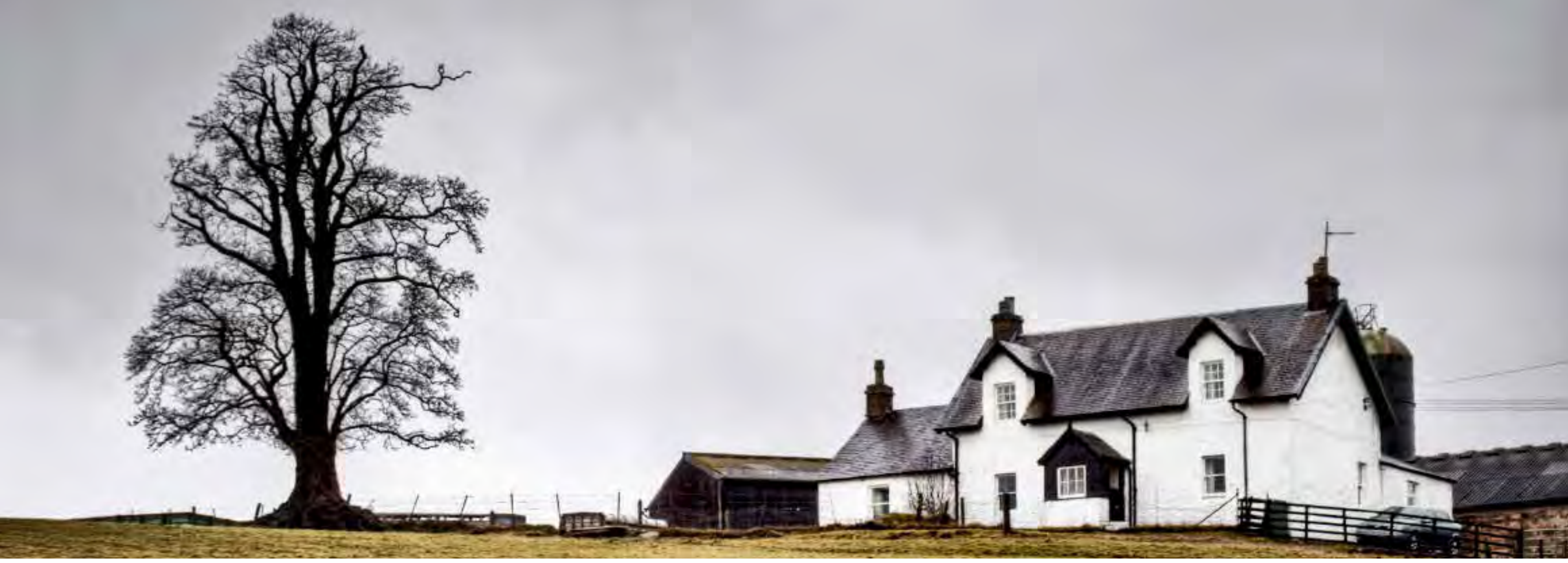
It could allow you to increase your cow or ewe numbers, which in turn would increase the calves or lambs born and then further increase profits. Alternatively, it could reduce the amount of seasonal grazing required by your business.

It is important to constantly review your business, especially in these increasingly uncertain times.

Every farm is different. Whatever you do, don't fall into the trap of doing something simply because that's what you have always done.

Business Protection

Frank Fraser, Financial Planner, Johnston Carmichael Wealth



If you are a farm owner with business lending debts you may want to consider investing in Business Protection to ensure your business is covered should the worse happen.

What is Business Loan Protection?
Business Loan Protection is a cover which helps business to pay for any outstanding borrowings such as a director's loan or a commercial mortgage should the business owner die or be diagnosed with a critical illness during the length of the policy.

How does it work?

It can be taken out by the business owner, or other key individuals in the business, as a life assurance policy or a life assurance with critical illness cover. The policy helps businesses pay any outstanding borrowings in the event of the death of the policy holder. Depending on the policy taken it can also pay out at the time a critical illness is diagnosed. When a valid business loan protection claim is made a sum is paid out which can help repay the business loan.

Why consider Business Loan Protection?

Being unable to pay outstanding debts can be a major problem for a business upon the death of the owner. Do you have the money to pay off any of your director's loan account in the event of their death? If not, business loan protection could help to ensure your business is protected.

Case Study

A farming partnership has just taken out a business loan of £1,000,000 over a 30 year term. This is a substantial financial commitment, but affordable as long as the partners are all fully involved on a day to day basis with the farm. But what would happen if one of the partners died? How would the remaining partners manage? Would the deceased partner's spouse/family now become partners and would this be a good thing? Would the deceased partner's share need to be paid out to the family and how would this money be raised? Exactly the same issues could arise if the partner became seriously ill.

The statistics

A recent Legal & General survey found that:

- 40% of businesses would cease trading in under a year if a key person or owner died or became critically ill
- 89% of businesses that have protection cover took it out after taking or seeking advice to protect their business

Would you like to discuss this?

Johnston Carmichael Wealth Ltd can provide advice in this area. If you would like to have an initial discussion please contact:

Frank Fraser
Financial Planner
frank.fraser@jcwealth.co.uk

FRS 102 and the impact on farmers

Donna Harper, Business Advisory Partner

The accounting framework has been overhauled in recent times, with the new Financial Reporting Standard (known as FRS 102) now in play for smaller businesses with accounting periods commencing on or after 1 January 2016. Alongside FRS 102, is FRS 105, which aims to offer simpler accounting for the smallest UK businesses. This framework is optional for an entity which does not exceed two of the three below thresholds in two consecutive accounting periods:

Turnover	Not more than £632,000
Balance sheet total (Gross Assets)	Not more than £316,000
Number of employees	Not more than 10

The likely impact of FRS 102 for agricultural businesses is moderate, although the following areas should be considered.

Property, plant & equipment

There are only minor changes here as farm buildings, land, plant and equipment used in and around the farm land will generally be treated as they were before, under either a cost or revaluation model. A transitional option exists however, which allows a business to use an asset valuation as its deemed cost. This means a business could value a property just once and then treat that value as if it were cost.

Biological assets and agricultural produce

This represents the biggest potential difference, as biological assets (living plants and animals) and agricultural produce are to be accounted for at fair value rather than at cost. The reported fair value will usually be market value less any realisation costs, although where the financial year end falls in the middle of a growing or rearing season, the fair value at year end could be the present value of the estimated future revenue. This treatment is optional for each category of biological asset and is irrevocable.

Government grants

Government grants, which includes the Basic Payment Scheme (BPS), cannot be recognised until there is a reasonable assurance that the farmer has complied with the conditions for the grant and that the grant will be received. Grants can be measured under the performance or accruals methods.

FRS 105

FRS 105 is more likely to apply to farming businesses. As such the changes are not likely to have a significant impact given the less stringent requirements. An entity is not allowed to revalue any assets, including investment properties, investments, property, plant and equipment. Biological assets and agricultural produce must be accounted for using a cost model and grants must be recognised on an accruals basis.

Partnerships

Peter Innes, Business Advisory Partner

Partnerships are the most common business structure used in farming. Whilst not mandatory, it is good practice to set out in writing the terms agreed by all parties in the farming business. Furthermore, a correctly drafted partnership agreement could avoid expensive and acrimonious disputes that may arise between partners and set out in detail what is to happen on certain future events such as retirement or death of a partner.

It is crucial that farming businesses think about succession and retirement planning well in advance of the events. However, Johnston Carmichael's 2016 agricultural survey found that 55% of farming businesses do not have a succession plan in place and 72% have not made adequate provision for their retirement.

Advice from professional advisers such as accountants, tax advisers, lawyers and financial planners should be sought to ensure that individual and family objectives and wishes will be met whatever the event and in a tax efficient manner.

Partnership Agreements

Based on experience, most disputes arise because of issues over control or direction of the business, the introduction of a new partner, profit share, time spent on the business or the consequences of death, divorce or retirement of a partner.

Matters including how trading profits and losses will be shared, or who is required to contribute to the capital of the partnership must be considered when drafting the agreement. It is also advisable to consider how capital gains and losses should be shared in respect of partnership assets.

Where there is no partnership agreement in place, farming partnerships may have to rely on the provisions of the 1890 Partnership Act. For example, this could result in profits and losses being shared equally between all the partners or the partnership coming to an end should a partner die. Sharing profits equally may not be suitable for every farming partnership. Particularly, as an equal split may not adequately reflect each individual's contribution to the farming business. This applies especially where there are different generations and members of the family involved and could increase the family's overall income tax and National Insurance liabilities.

Furthermore, a partnership agreement should make clear whether land or buildings used in the partnership are assets of the partnership. This has tax and commercial implications. A partnership agreement can detail how any profits and losses in respect of partnership assets are to be shared. For tax purposes, the availability of Entrepreneur's Relief, a which can offer a lower rate of capital gains tax may also be affected depending on the ownership status of chargeable assets used in the trade. Similarly, the rate of any available of Inheritance Tax reliefs such as Business Property Relief, can be affected by the terms of the partnership agreement.

The balance sheet and the allocation of profits in the partnership accounts should accurately reflect the terms and conditions of the partnership agreement.

Again, whilst not mandatory, it is advisable to review the terms of the partnership agreement on a regular basis. This could be done every two to three years to ensure that it is still appropriate. Wills must be also reviewed and updated in light of any changes to the partnership agreement.

Given the ever changing socio-economic and political landscape, it is becoming increasingly important to ensure there is a partnership agreement in place and that there is an up to date Will and Power of Attorney in place to deal with life's events.

What do our clients say about us?

"Johnston Carmichael stood out from their competitors because of their understanding of farming. Being a representative organisation, you've got to have empathy with clients. Johnston Carmichael not only provide a first class service, they also understand our members and that's hugely important to us."

Scott Walker
NFU Scotland

"Johnston Carmichael Wealth have been our advisers for many years and over that period, their assistance with our employee benefits schemes, the directors' pension schemes and individual advice has been invaluable. They are extremely professional and keep us informed with any ideas and changes as they arise."

Ross Baxter
Finance Director at the Harbro Group

Meet the Agriculture team

Robin Dandie
Partner and Head of Agriculture
Forfar
01307 465565
Robin.Dandie@jcca.co.uk

Alex Docherty
Partner
Edinburgh
0131 220 2203
Alex.Docherty@jcca.co.uk

Neil Steven
Partner
Edinburgh
0131 220 2203
Neil.Steven@jcca.co.uk

Donna Harper
Partner
Elgin
01343 547492
Donna.Harper@jcca.co.uk

Karen Wilson
Manager
Forfar
01307 465565
Karen.Wilson@jcca.co.uk

Roddy Anderson
Partner
Forfar
01307 465565
Roddy.Anderson@jcca.co.uk

Sheena Ross
Director
Fraserburgh
01346 518165
Sheena.Ross@jcca.co.uk

Mike Pitman
Partner
Fraserburgh
01346 518165
Mike.Pitman@jcca.co.uk

Elaine McKilligan
Senior Manager
Huntly
01466 794148
Elaine.McKilligan@jcca.co.uk

Jennifer Cormack
Partner
Huntly
01466 794148
Jennifer.Cormack@jcca.co.uk

Stephen Dickie
Partner
Huntly
01466 794148
Stephen.Dickie@jcca.co.uk

John Todd
Partner
Inverness
01463 796200
John.Todd@jcca.co.uk

Graham Leith
Partner
Inverurie
01467 621475
Graham.Leith@jcca.co.uk

Maureen Duncan
Director
Inverurie
01467 621475
Maureen.Duncan@jcca.co.uk

Peter Innes
Partner
Stirling
01786 459900
Peter.Innes@jcca.co.uk

Where sharp minds meet

Aberdeen
01224 212222

Edinburgh
0131 220 2203

Elgin
01343 547492

Forfar
01307 465565

Fraserburgh
01346 518165

Glasgow
0141 222 5800

Huntly
01466 794148

Inverness
01463 796200

Inverurie
01467 621475

Perth
01738 634001

Stirling
01786 459900

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