



Welcome to Focus On... Agriculture and Rural Affairs, our special bulletin that looks at interesting topical issues and developments in the sector.

In this edition, you'll find a feature on falling farming rents and details of changes to Inheritance Tax rules that simplify the process of leaving family homes to relatives. We also consider how continuing milk price cuts will affect dairy farmers, and look at the effect that the delay to Rural Payment Agency funding release is having on many farmers in all sectors across the UK. We close the bulletin with a Spotlight on Senior Tax Manager Colm McCoy.

If you would like to discuss any aspect of our specialist accountancy and business advisory services for farmers and rural businesses, please contact Richard Grayson, Managing Partner at Nicholsons, at richard.grayson@nicholsonsca.co.uk or phone 01522 815100. Alternatively, please contact John Raynor, Associate, at john.raynor@nicholsonsca.co.uk or phone 01522 815100.

Many farmers still missing out on basic payments – new system and old records to blame?

Many farmers are still not receiving their full Basic Payment entitlements from the Rural Payments Agency (RPA).

The Country Land and Business Association (CLA) reports that many of its members who were entitled to



receive payments for 2015 claim they are still waiting to receive the full Basic Payment.

The implementation of the 2016 application system has led to many claimants finding that data is missing or is incorrect on their pre-populated forms.

Farmers and landowners with common land, cross-border claims or those who had inspections (including "remote sensing") should have been notified by the RPA in November of delays to their 2015 claim. These claims represent a significant proportion of the outstanding 2015 claims.

According to the RPA, a significant number of claimants received letters in March stating that their claim would be paid by the end of the month. Some claims were paid, but many payments have still not been processed.

The RPA will now be contacting claimants awaiting settlement to explain the reasons and advise on the next steps to take.

Reasons for underpayment include:

- Greening faults, including incorrect declarations, "mistakes" on the ground or as a result of over-declaration;
- A significant number of land parcels being lost from a business claim – which occurs when the RPA cannot locate the relevant land parcels identified in the claim, and results in apparent claim inflation;
- Incorrect coding of land use in mapping (permanent pasture, arable or ineligible land) resulting in a conflict between claimed and map evidence;
- Designation of land as ineligible owing to tree cover or similar.

Managing Partner, Richard Grayson, who specialises in farming and land issues, said: "The RPA is catching up with many outstanding payments, but anyone who has not received them must ensure they make a claim. Any issues, particularly data not included on the 2016 forms, must be addressed to ensure there is no repeat of the 2015 delays during the rest of this year."

ARA sector could see windfall from Inheritance Tax changes

Inheritance Tax (IHT) changes could bring better fortune to farmers and their families in the future.

New rules, due to take effect in April 2017, will result in new nil-rate IHT band levels.

The new rules, which apply to farmhouses that are left to lineal descendants, could create more opportunities for new entrants into the agriculture

sector via Farm Business Tenancies (FBTs).

April 2017 will see the introduction of an Inheritance Tax Main Residence Nil Rate Band (MRNRB), which will allow residential property that has been occupied as a home to be passed to direct descendants, free of IHT.

The changes will bring more properties within the nil-rate IHT band and offer married couples with lineal

descendants a more direct and less complex way to pass on their property, as they must currently prove their dwelling house is a farmhouse.

Nicholsons considers the IHT reforms will make it easier for farmers to keep their properties, while leasing the land to those wanting to earn their living through a FBT and will watch developments in Lincolnshire and beyond during the next tax year with interest.

Milk prices slump to seven-year low

The most recent farm-gate price figures show that many dairy farmers can expect further lowering of milk prices, as the sector experiences the lowest average payments in seven years – and braces itself for more.

The UK's largest milk buyers, such as Arla, First Milk and Dairy Crest, have recently announced further milk price cuts which will come into force over the next couple of weeks. The average milk price for March stood at its lowest since 2009, with some farmers across the country receiving milk prices well below 16 pence per litre.

The Nation Farmers Union (NFU) is calling on all supply chain workers to recognise the seriousness of the situation and seek solutions.

NFU Dairy Board Chairman Michael Oakes said even

the most efficient dairy farmers cannot survive with milk prices at the projected levels.

"There's no question that this is the most difficult time many dairy farmers have ever seen, with milk prices far below breakeven levels," he said.

"In the Copa milk meeting we saw the same concern at this situation shared across Europe. UK dairy farmers are now reacting to market reality and daily milk volumes are now falling below the production levels evidenced this time last year.

"This is not the case elsewhere in Europe. Processors must clearly explain to farmers what they are doing to try to add value at this difficult time and farmers need to be honest with suppliers on their production plans for the months ahead.

"We need UK processors and co-operatives to consider new ways for managing risk to support both themselves and their supplying farmers – continuing to follow the market on its downward spiral is not the way forward.

"We thank those retailer businesses that have stuck by their market initiatives on liquid milk and cheese throughout this market downturn. Retailer initiatives can bring sustainability for dairy farmers.

"We would like to see all stakeholders within the supply chain take steps towards factoring sustainable principles into their own supply chains.

"This would give greater collaboration, deliver supply chain efficiencies and ensure the UK dairy sector remains competitive in a global market."

UK farmers welcome fall in rent charges

The Tenant Farmers Association (TFA) has released data showing that overall UK farm rents appear to be falling, as farm-gate prices continue to sink in several sectors.

The TFA's latest figures show that rents agreed at review across all farm types were on average around 16 per cent lower (£89/acre) in the year to 30 April 2016 for Farm Business Tenancies (FBTs) and 10.5 per cent lower (at £63/acre) for Agricultural Holdings Act (AHA) tenancies, compared to rents at 30 April 2015.

The farmers experiencing the most significant decrease have been in the livestock sector on FBTs: their post-

review rents fell £93/acre to £43/acre on average; a decrease of 54 per cent on the previous year.

Meanwhile, AHA tenant dairy farmers whose rents were reviewed saw a 21 per cent drop in rates to £65/acre compared with those whose rents were reviewed in the previous year, when rates averaged £82/acre. This trend will be welcomed by those who have recently had their rents reviewed.

However, rents have fallen much less when comparing those reviewed in the last year to the rent figures that followed reviews three years ago. Across

all sector types, AHA rents had fallen just 3 per cent, while there had been no change at all to FBT rents during this period.

Katy Fox, Adviser at the TFA, said: "Landlords have strongly resisted rent reductions and the cost of going to arbitration has also dampened tenants' appetites for initiating challenges to rent review outcomes.

"However, when tenants argue their cases, reductions can be achieved and there is no reason that, if current market conditions prevail, rent reductions should not become more frequent and deeper".

Lonely cowherd loses out in family trust pay out appeal decision

A farmer who worked on her parents' farm for 25 years and contested the terms of their trust to achieve recognition of her efforts will receive compensation of £500,000 – less than half of her initial £1.3million award.

Eirian Davies, 47, from Carmarthenshire, tended the dairy herd on her parents' 182-acre farm in Carmarthenshire and claimed she put up with 25 years of hard work in return for meagre wages because her parents had allegedly promised her the lion's share of the family business.

The trust they set up left proceeds of their estate to all three children equally and Eirian sued her parents for compensation after matters reached boiling point when they tried unsuccessfully to evict her from the farmhouse.

The court ruled at the original 2015 hearing that Eirian was entitled to a £1.3million share of the farm. However, her parents appealed the ruling and senior judges found the original sum too generous and set Eirian's compensation entitlement at £500,000.

Eirian had told the appeal court that, as a teenager, she had missed out on going to Young Farmers' Club dances with her two sisters because she had to "stay home with a muck fork" – but this failed to sway its final decision.

The costs of the protracted legal wrangle are expected to stretch well into six-figures, which will further deplete a fortune that the family worked over generations to build.

Employee focus – Colm McCoy, Senior Tax Manager



Colm has spent more than 30 years in taxation, having joined this specialist branch of accounting in 1984.

He passed his Chartered Tax exams in 1989, and worked for a variety of firms before bringing his quarter-century's experience and accumulated qualifications to Nicholsons in August 2014.

There are few issues in the world of tax Colm has not seen, or dealt with. He now heads Nicholsons' dedicated tax department, advising SME and owner-managed business leaders on commercial and personal tax matters.

Colm also works closely with individuals and organisations requiring assistance on agriculture and rural matters. His clients include farmers and a range of rural businesses from all parts of Lincolnshire.

Outside the office, Colm is a dedicated and accomplished athlete, who has represented Great Britain in CrossFit, triathlon, ultra-distance running and duathlon events. He also won a British Master's rowing record, but has now transferred his sporting interests to gymnastics.

Colm is a slightly less energetic physicist and a keen fan of two very different music genres: German opera and heavy metal.

t: 01522 815100

f: 01522 815101

newland house
the point
weaver road
lincoln ln6 3qn

info@nicholsonsc.co.uk
www.accountantsforfarmers.co.uk