

# nicholsons

chartered accountants & business advisers

# FARMING NEWSLETTER

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## WELCOME

Joanne Brown, Director  
Nicholsons Chartered Accountants



Management trainers will tell you that there is a hierarchy of communication methods you can use to get your point across, or to pass information to other people. In order of effectiveness, these are usually face-to-face contact/meetings, telephone (or Zoom!), and then e-mail. The past two years have caused great difficulty with this first, and preferred, method of communication as a result of the pandemic, and forced us to cancel our joint bi-annual Farming Conference with Perkins George Mawer.

We have therefore resorted to a newsletter to inform you of changes that are afoot in the agricultural sector in particular, and the wider business sector in general. There is a great deal of change

happening, which the various contributors have addressed in their articles. I hope that you will find the articles in this newsletter to be informative, and useful to your business circumstances.

Nick Sharp outlines the changes being made as a consequence of the withdrawal of the Basic Payment Scheme, and the need to adapt farming methods. Catherine Harris points out the need to keep your business strategy under review, and provides a link to her firm's Farming Health Check, which I would encourage you to use. Steve Robinson and Kate Brown from our firm cover some important tax points for you to consider.

Before signing off, I would just like to make you aware that, with ever-increasing use of technology, HMRC will be requesting more details of your businesses in the future. Making Tax Digital for VAT will apply to all VAT-registered business from 1st April 2022, not just those with turnover above the VAT-registration threshold. Then a more significant change will come in 2024 when HMRC will start to require quarterly submissions of all digital business records for some business, followed by an annual submission of your accounts. This will apply to all businesses by 2026. Your accounting software should be capable of dealing with this for you, but if not, we can help if you wish to upgrade your software.

I hope that, as we start to return to more normal circumstances, you will be able to join us for our next Farming Conference which is scheduled to take place at [Market Rasen Racecourse on 2nd March 2023 – Save the Date!](#)

[www.nicholsonsca.co.uk](http://www.nicholsonsca.co.uk)

[hello@nicholsonsca.co.uk](mailto:hello@nicholsonsca.co.uk)

# HERE WE GO AGAIN...

Nicholas Sharp BSc. (Hons) MRICS,  
FAAV  
Director, Perkins George Mawer & Co.



Nothing in life is constant. We are in a persistent state of change. Farming is no different. The basic premise of farmers as food producers is being challenged by the demise of the Basic Payment Scheme and its successor, Environmental Schemes.

BPS is being progressively phased out and money is being transferred into productivity improvement and environmental change initiatives.

The amended Countryside Stewardship Schemes and various interim incentives are a proposed 'bridge' with the new schemes rolled out in full, from the year 2024;

**Sustainable Farming Incentive (SFI)** - environmental measures carried out alongside farming activity.

**Local Nature Recovery (LNR)** - 'Bespoke' measures alongside farming eg. flood management, habitat creation, woodland planting etc...

**Landscape Recovery (LR)** - large scale habitat creation, 500 to 5000 acres, with likely collaboration amongst landowners.

- BPS will be de-linked (no requirement to farm land to receive payment) from 2024 and will be phased out entirely by 2028.

- 30% of DEFRA money will go to SFI. Open to all and suggested 55% take up.
- LNR and LR will focus 60% of money on specific locations, blocks of land, likely affecting a small percentage of farmland.
- Opportunities will exist for outside money to flow into the space not taken up by the above Eg. Biodiversity gain deals.

However, to put this into perspective, out of about 23 million acres of UK farmland it is anticipated that less than 5% will be affected by the above.

To that end and faced with a 'changing wind' perhaps now is a good time to review your business and ensure it is fit for purpose going forward: -

- Use of environmental schemes to replace some of lost BPS income.
- Utilise landed assets and improve/use skills to generate a diversified income, less dependent on farming fortunes.
- Participate in the journey to net zero, measure outputs.
- Employ technology and benefit from the potential associated efficiencies that arise from innovation.
- Improve and understand soil health.
- Provide educational opportunities to staff.
- Reduce dependency on fossil fuels, artificial inputs and utilise natural resources.
- Consider a more collaborative approach to reduce overhead costs.
- Review succession plans and provide support to the next generation.

In summary, adapt to the change and use the limited time to transition into the new world but don't lose sight of the underlying business enterprise.

# SAFEGUARDING YOU AND YOUR FARM'S FUTURE

Catherine Harris,  
Partner in the Agriculture team at Wilkin Chapman



Farming is an industry familiar to dealing with deadlines; the seed must be drilled, BPS forms submitted, crops harvested.... the list goes on. Then of course there's the other pressures; increasing compliance, labour shortages, lack of parts to repair machinery, to name but a few. It's little wonder that it can be difficult to find time to think strategically. The decisions that are important, like planning to bring the next generation into the farming business, or making a Will, somehow never get addressed as it can seem too difficult to know where to start.

At Wilkin Chapman, we recognise that writing and implementing a succession plan for you, your family and your business isn't easy, but it's always worthwhile. To help with this, we have designed a survey for you to self-appraise the current state of your business and personal life. Our Farming Health Check can be found here on our website [www.wilkinchapman.co.uk/sectors/agriculture-food](http://www.wilkinchapman.co.uk/sectors/agriculture-food). You can start to think about your goals and how to protect yourself and your family against the costs of doing nothing. This quick and easy health check is split into five main sections about:

- **Your Business** – family succession planning, a partnership agreement, debt.
- **Your Land** – do you really know which land you personally own and how it's farmed? So often, protection for your greatest capital asset; land, is put to one side whilst the day to day business of farming and meeting those deadlines is met.
- **Compliance** – licences, regulation and health and safety.
- **People** - a key consideration is understanding the employment status of your people – are they workers, employees or contractors? Getting it wrong can lead to all sorts of problems such as employment protection, additional benefits such as holiday entitlement or sick pay and tax implications. You must ensure all individuals have appropriate contracts to reflect their status and have clear policies and procedures in place for your business to govern standards.
- **Family** – which as the ownership and farming base is integral to all the above. Having an up to date Will and powers of attorney are essential investments for the whole family.

Completing your farming health check won't take long and is a good first step to review your situation. You will receive a full report and if you identify areas that need to be addressed, you can submit your questionnaire to us and we'd be happy to give you call to talk through the next steps. In addition, if you are a member of the NFU then you will qualify for a FREE one-hour conversation with one of our specialist solicitors, who will help you find the right solutions for you.

**“Writing and implementing a succession plan for you, your family and your business isn't easy, but it's always worthwhile.”**



# TO LEASE OR NOT TO LEASE?

Kate Brown, Director, Nicholsons Chartered Accountants



We all know that farms have to invest heavily in plant and machinery and we are frequently asked about how these purchases should be financed and the tax consequences of the different options.

Broadly, your options are to lease an asset or to use hire purchase. We look below at the difference between the two, assuming a tractor is purchased for £75,000 +VAT.

## Hire purchase

Most HP agreements require a lump sum up front payment, usually amounting to the input VAT on the asset. It is then possible to immediately claim this back from HMRC. In this case the VAT would be £15k.

As ownership of the asset passes,

the asset will be capitalised and treated as a fixed asset on your balance sheet, with a corresponding creditor created for the HP.

The asset will be depreciated over its useful life and the interest on the HP will be recognised in the profit and loss as incurred.

Capital allowances can be claimed on assets bought under HP. Limited companies qualify for 130% super-deduction on assets acquired before the 31 March 2023. Therefore tax relief would be available on £97.5k (75k at 130%)

Sole traders and partnerships may be eligible for 100% capital allowances. In this case £75k. So if you are buying multiple assets or expensive assets you may need to plan the timing to maximise allowances.

It should be noted that capital allowances on cars are much less generous.

## Lease

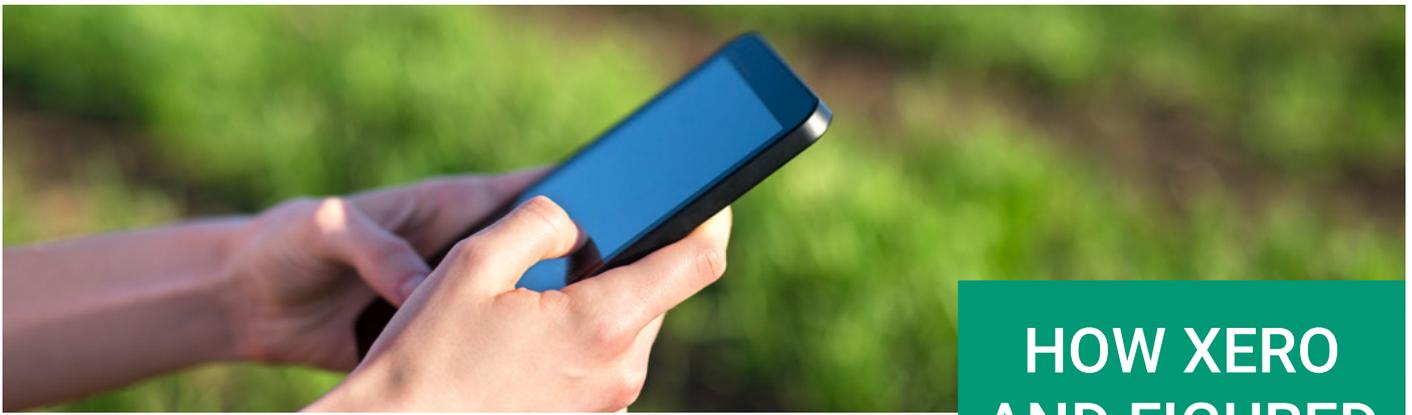
Under a lease arrangement, ownership of the asset does not pass. As such the lease costs are recognised in the profit and loss account as hire costs, as they are incurred. VAT will be payable (and reclaimable) on each payment.

There is no impact on the company's balance sheet and capital allowances are not relevant, as tax relief is obtained on the lease costs.

It is important to realise that the asset will not be yours at the end of the lease.



**“Farms have to invest heavily in plant and machinery and it’s important to consider how these purchases should be financed and the tax consequences of the different options.”**



# XERO FARMING

The farming industry is ever-changing, the impact of the pandemic, labour shortages and current economic challenges mean UK farmers and their resources are feeling the pressure. Advancements in technology have improved the way farmers operate, but have also added layers of complexity. Today, farmers have to be skilled at everything – both on the farm and in the office.

And they can't do it alone. It takes a team with the right tools to run a great farm. We want to equip farmers with the best technology, so they can take ownership of their business and achieve their goals.

That's why Xero and Figured have come together to offer a fully integrated farming solution for farm owners and operators, and their farming team. Xero for farming is a solution for the whole farming team – from the farmer, to their accountant and consultant.

Working together, the team can bring different perspectives to the table to make better business decisions. We've realised the power of bringing together real-time data to form a bigger picture of a business. It's how we use

that data to inform decisions that's going to continue to make a real difference to farming.

Having a team around you who all have visibility of the accounts means you can figure it out together. Having multiple minds looking at the same thing allows you to identify what's going well, what's not, and what needs to be done to head in the right direction.

## Be MTD ITSA compliant

Xero is committed to supporting our users with MTD for ITSA as HMRC rolls out its pilot programme from April 2022. You could consider joining the programme early as part of the pilot. This will make it a more simple transition when the April 2024 deadline arrives.

Xero is also committed to providing solutions for our users for the entire MTD programme, and we'll support MTD for Corporation Tax when it becomes mandated.

With Xero for farming, farmers can see the complete picture for all of your business operations. You can use scenario tools to plan ahead, budget and forecast efficiently, and save time on manual data entry. You can also have peace of mind knowing that compliance and regulatory requirements are met. Xero and Figured want you to create a more sustainable, profitable business that you can pass onto future generations.

# HOW XERO AND FIGURED CAN HELP YOU

## Plan ahead with confidence

With accurate, up-to-date data from Xero, farming teams can easily make adjustments when farming conditions change.

## Team effort

You, your farming team and your accountant can all input data into the same place. So, there's less time spent on data entry and collating multiple spreadsheets.

## Simple, easy-to-use software

Working online means you don't have to download information and email it to your accountant. It's an easier and more efficient way to work, with a user-friendly and intuitive experience.

## Save time, get lending and get paid faster

Reduce admin, create invoices and pay bills on time. Plus, allow your financial services access to evidence forecasting in order to secure lending.

# TO DIVERSIFY OR NOT

Steve Robinson, Director, Nicholsons Chartered Accountants



With the transition period upon leaving the EU now complete, attention for the agricultural industry is now on the progressive reductions in the Basic Payment Scheme. For some farmers this is likely to have a significant impact upon their overall profit over the next 4 years.

A lot is being discussed about how diversification of the farm can bridge the gap that the reduction in the BPS will bring, through adding additional money-making activities, such as solar farms, ice cream parlours or even various storage options. As well as bringing in additional revenue streams, diversification can help the farmer to spread their economic risk. Another reason for diversification may be simply to do with bringing the next generation into the family business. It is however important to consider the consequences of diversification prior to pressing ahead.

Many farmers benefit from Agricultural Property Relief (APR), which can reduce or eliminate inheritance tax on farming land and buildings which are occupied for agricultural purposes. Diversification of these assets may result therefore in APR being lost and as such some significant liabilities can arise. It may be that to facilitate succession planning some land or property is gifted to the next generation and in such scenarios careful consideration needs to be made with regards to potential Capital Gains Tax Liabilities.

Whilst diversification can bring much needed additional revenue streams to the business, planning for consequences is something that should be considered as a must and planning should start at the earliest chance to enable as many opportunities as possible. It is also key to remember that each farm is unique and as such it is important to understand the individual farm and identify what makes them different, so that advice can be tailored to the individual business.

If you want to discuss potential diversification and any pitfalls there may be please contact one of our agricultural team members who will be happy to assist.

**“It is key to remember that each farm is unique and as such it is important to understand the individual farm and identify what makes them different.”**

