UHY Hacker Young
Chartered Accountants

Rural and Agriculture Sector Outlook

2017/18

Predictions for the year ahead from our specialist rural and agriculture team.

Helping you prosper

CONTENTS

Editor's view of the year ahead	4
Uncertainty: The only certain thing about Brexit!	6
The need for partnership agreements in farming partnerships	8
What next for windfarms, batwind?	10
Making Tax Digital is on the way - are you prepared?	12
Alternative to growing Oilseed Rape	14
How can the five year averaging rules benefit you?	17
If an opportunity doesn't knock, build a door	18
Topical tips for the year ahead	20

EDITOR'S VIEW OF THE YEAR AHEAD

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Time flies when you are having fun, or so the saying goes, and the last year has flown by. Since the UK voted to leave the European Union, although much does not yet appear to have changed, change will surely be on the way as we progress through 2017.

2017 will be seen as the year of many challenges facing the industry and, in addition to the upheaval Brexit will cause, I believe the issues that I have listed below are likely to have a prominent impact upon the sector.

Inflationary pressures are increasing and this is likely to continue well into 2017. This will increase the probability of interest rate rises as the Bank of England tries to counter the inflationary pressures in the UK economy.

Fluctuations in the value of sterling will affect commodity prices. A weakening of sterling will have a positive effect; as seen by the increase in agriculture commodity prices following the Brexit vote and the 17% increase in basic payment value, as determined by sterling's exchange rate with the Euro on 30 September 2016. However, as many of the inputs, such as fuel, sprays, fertiliser and the cost of machinery, are to a large extent all imported, it will only be a matter of time before suppliers are forced to pass on their increased costs in the form of higher charges. So there are both pros and cons to a devalued pound.

Recruiting and retaining quality staff will become increasingly difficult following recent confirmation that the UK will leave the Single Market. This will mean an end to the freedom of movement of people and, with many rural businesses dependent upon foreign workers, this will have a significant impact upon the sector. With the increasing administration requirements for overseas workers in the UK following Brexit, combined with the loss of value in sterling, the UK may become far less attractive for foreign workers. Maintaining access to this work force is essential, if not production costs could increase.

Commodity prices face downward pressure as successful global harvests (there have been four years of consecutive grain surpluses) around the world keep stock levels high; and there is little suggestion that world production and stocks will reduce within the near future.

An additional challenge on the horizon is the continued digitalisation of information for HMRC. The Government is pushing forward with 'Making Tax Digital' and Margot Madin, from our Nottingham office, provides an update on HMRC's progress with an article on page 12.

There would appear to be a window of opportunity, at least until 2020, to review your business, its goals, objectives and asset base and consider whether the income generating capacity is being maximised in its present use, or whether a greater or more sustained return can be achieved from a different use. It is now more important than ever for rural businesses to start examining their numbers, benchmarking their business and preparing budgets to justify any change. You want to ensure that you do not end up working harder for the same or less profit.

Many of the challenges facing the industry are outside our control and we have little influence on the decisions being made; but with challenges come opportunities! Now is the time to review those plans, seek advice from family members and business advisers, and ensure that the business is on a strong footing to make the most of the opportunities that lie ahead over the coming year and beyond.

We have covered a range of topics in this year's Rural Outlook; all with the aim of helping you plan for 2017. Our 'Topical tips for the year ahead' article on page 20 contains a montage of points we recommend you consider. Hopefully, at least one should strike a chord with you and provide an action point for the coming year to help you make the most of the opportunities available to you.

We hope that you find the selection of articles in our 2017/18 Rural Outlook both helpful and informative and we take this opportunity to wish you all the best for the coming 12 months. If we can be of any assistance, please do not hesitate to contact us. We very much look forward to hearing from you.

Many of the challenges facing the industry are outside our control and we have little influence on the decisions being made; but with challenges come opportunities!

UNCERTAINTY: THE ONLY CERTAIN THING ABOUT BREXIT!

Amanda Millett
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With farming income being volatile and weather dependant, it is wise to look for other ventures that spread the demands on cashflow, or can at least provide income at the times of the year when the cash demands to pay farming input costs are high or income is low.

Since the UK voted to leave the European Union (EU) there has been widespread uncertainty as to what the outcomes and repercussions of this decision may be. And, whilst it may take up to two years for the UK to formally leave the EU, businesses should start to plan now for the uncertainty and change that Brexit will bring. You may or may not have voted for Brexit but, now the deed is done, use it to your advantage.

Some of the effects so far have been positive for the rural and agricultural economy. The devaluation of sterling has increased commodity prices and increased the subsidy income. A welcome respite for many farmers. Additionally, interest rates have dropped; meaning those who are considering business expansion can secure fixed rate borrowing at much lower rates. However, there are still many concerns; one of which, and perhaps the most significant, is the question of what will happen to the UK's Agricultural Policy regime going forward.

Farmers received £2.1 billion in direct subsidies and £600 million in rural development payments through the CAP regime last year alone, making up 55% of farmers' incomes. And, despite confirmation that the current policy will remain in place until 2020, businesses should begin planning for life after CAP now. Ask yourself, with a fall in the amount of subsidies received, how will I replace this income? Will I still be profitable?

DIVERSIFY

Stabilising or slightly lower land prices and rents could mean significant opportunities for some farm businesses to expand and diversify. By supplementing your farming income from other sources you spread your risks. With farming income being volatile and weather dependent, it is wise to look for other ventures that spread the demands on cashflow, or can at least provide income at the times of the year when the cash demands to pay farming input costs are high or income is low.

Many diversification projects also offer the opportunity to become more involved with the general public. There is no question that the promotion of British farming will become ever more important post-Brexit. Irrespective of which side of the fence you sit with regard to whether or not British farming should be subsidised, a well-informed general public will hopefully be more supportive of the sector. Campaigns such as 'Back British Farming' and 'Open Farm Sunday' have already helped to raise the profile of British farming to the UK public. Why not make the most of the continued trend to buy British and buy local when thinking of your next venture?

WATCH YOUR COSTS

With little control over the price your farming outputs achieve, it is all the more important you have tight control over your costs. Teaming together with your advisers can help identify cost saving areas. If you do not already, prepare a cashflow - you may be surprised to see how the actual output differs from what you have budgeted for. Remember, it only takes one large repair bill to scupper your carefully prepared spending plans. Many have invested heavily in plant and machinery over recent years, taking advantage of the increasing Annual Investment Allowance, therefore large purchases may not be on your agenda. Spending little and often on maintaining equipment and property will help avoid large unexpected costs and will save you more in the long run.

RECONSIDER YOUR RECRUITMENT STRATEGY

The fact that the EU's four 'common freedoms' are capital, labour, goods and services, it is unlikely that the UK will get the free movement of one but not the others. With many rural businesses dependent upon foreign workers, and with an end to the freedom of movement of people predicted for the UK, you should begin to consider how your business will cope in terms of recruitment over the coming years.

TRADE

It is worth noting that 80% of the UK's Gross Domestic Product (GDP) is provided by the service sector, manufacturing is just over 10% and UK agriculture contributes less than 1% to the Gross Value Added (and uses just over 1% of the work force). How relevant do you think agriculture will be when negotiating future trade agreements?

If agreement cannot be reached to allow the UK "preferential" access to the EU, and vice versa, trade could be under the World Trade Organisation (WTO) rules, meaning the implementation of trade tariffs. Our exports would incur the EU's Common External Tariff, while the imports from the EU to the UK would be charged with whatever tariffs the UK decides to implement.

At present our market is protected by EU tariff barriers. Depending upon the stance taken in future trade negotiations, this protection may be watered down and this could put increased downward pressure on prices and, ultimately, the future profitability of UK farming. On the other hand, there could be some sort of bridging agreement to allow for in-depth negotiations to take place. After all, let us not forget that two years is not that long and the UK has not negotiated trade deals in recent years. Many suspect we do not even have the skills and expertise to do so!

SO, WHAT NOW?

We can probably all agree change is on the horizon, but the question is: are you going to make the most of it? The departure of the UK from the EU was triggered on 29 March and, although the process is planned to take two years, this time will provide rural businesses with the opportunity to adjust. This may not be easy, as there will undoubtedly be continued uncertainty as to what the future will look like, but reviewing your own business, how it operates and its strategic plans for the future will ensure your business is as robust and flexible as possible to put you in a position to deal with the potential risks and opportunities that will come your way.

If you would like to discuss how you can plan for Brexit in relation to your own specific circumstances, please speak to your usual UHY adviser or find details of your local office agriculture specialist at the back of the Outlook.

You may also like to visit the dedicated Brexit page on our website for regular updates.

THE NEED FOR PARTNERSHIP AGREEMENTS IN FARMING PARTNERSHIPS

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Why do farms need a partnership agreement?

Richard: Without an agreement any partnership is bound by the Partnership Act 1890 and there are very few businesses that rely on Victorian laws to govern them!

Mark: Yes, and think how many farmers are still using Victorian farming practices today!

So if partnerships do not have an agreement, what protection does this Act offer?

Mark: Not much. It is a default position. All profits and capital are divided equally. If a partner dies or goes bankrupt the partnership automatically ceases. Indeed, the Act does not even require a partner to turn up for work!

Richard: The Act contains no express clauses. Nothing about dispute resolution, incapacity or retirement.

What does a modern agreement typically include, and what circumstances can it be designed to cope with?

Richard: Typically, a partnership agreement will have clear clauses on the allocation of capital, supported by schedules of partnership property. This is particularly relevant to the agricultural sector in which a parent may own the bulk of the land and the junior partners of the next generation supply labour and earn their right to a stake in the assets over time. Indeed, assets may not pass until the parent's death for very good tax planning reasons.

Mark: And these days, capital allocation is very important. Most parents are concerned about letting their children have access to large value capital assets too early in life; they dread the impact of divorce or unpredictable circumstances on the established farm business. And finally, on death, an easy identification of assets helps optimise Agricultural and Business Property Reliefs.

Presumably profit allocation is also important?

Richard: Certainly. Above all it allows flexibility, so that the family can distribute profits as efficiently as possible, keeping income tax to a minimum and maximising Working Tax Credits and student grants, if relevant.

Nick: I also find that a flexible profit allocation clause is a strong defence against any challenge by HMRC, should a dispute arise over which partner should be taxed.

Mark: It is also possible to introduce a prior share of profits clause if it is necessary to recognise that one partner has contributed more capital than another and wants the profit allocation to reflect this. Similarly, if one partner is required to work more than another, then this effort can be recognised in the partnership agreement.

What about Inheritance Tax (IHT)? Is there anything that can be added specifically to a partnership agreement that helps to mitigate IHT?

Richard: Most farmers and estate owners are now aware of the Balfour case and how it is possible to reduce an IHT bill by carefully associating 'non-core' assets with a farming activity. We often include within a partnership agreement a schedule of assets which are considered to be part of the farm. This schedule would typically include any outlying cottages and other assets that are subsidiary to the main farming activity. This provides greater evidence in arguing a Balfour defence when calculating the IHT payable when a landowner dies.

On the same basis, we would also record that the main house is the centre of the farm's activities and refer to it as 'the Farmhouse', in an attempt to head off any arguments by HMRC that the house is too large for the farm and so does not fully qualify for APR.

Mark: I know farmers never retire, and there are often excellent IHT reasons as to why they should not, but a partnership agreement should be explicit in this area. It should state whether partners are expected to retire or whether they can carry on until the bitter end.

You mentioned earlier that partners have been known to fallout and that disagreements can be anticipated in the agreement?

Mark: Yes, another important aspect of partnership agreements are the formal arbitration provisions. These set out how disputes should be dealt with. We have all acted for farms where partners fall out, often siblings. Whilst the partnership agreement will never prevent a dispute or anticipate the causes of it, it will certainly help provide a good mechanism for getting around a table.

Presumably a partnership agreement can also be used to define what is expected of each partner?

Nick: My experience is that partners fall out over the smallest of issues which then snowball into larger conflicts. If certain key fundamental working practices can be set out, then this must reduce the scope for argument.

Mark: Often the perception is that one partner is working harder than the other, which typically can cause arguments and bad feeling. A well drafted partnership agreement should address this and set out individual responsibilities as necessary. If there are non-working partners it is also helpful to specify what expenses can be charged through the farm account, such as utilities and Farmhouse costs.

Richard: Another area of potential dispute can arise when a partner becomes too ill or incapacitated to continue farming and this has an adverse effect on the business. Often one partner is very sympathetic to the ill partner, whereas another may take a more pragmatic view. There may be conflicts here within families. A well drafted agreement will help families to resolve matters as effectively as possible, at a time that may already be trying.

Another main area of dispute is when one partner commits the farm to expenditure without the express authorisation of the others. The agreement should set out limits to a partner's authority.

If you would like to discuss partnership agreements in more detail, please speak to your usual UHY adviser or find details of your local office agriculture specialist at the back of the Outlook.

> Typically a partnership agreement will have clear clauses on the allocation of capital, supported by schedules of partnership property. This is particularly relevant to the agricultural sector in which a parent may own the bulk of the land and the junior partners of the next generation supply labour and earn their right to a stake in the assets over time.
>
> Richard Williams

WHAT NEXT FOR WINDFARMS, BATWIND?

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Power storage has long been the holy grail for renewable energy suppliers, and may well be the answer to the key challenge for windfarms on windless days.

Historically, the high cost of batteries has proved a barrier to commercially exploiting this technology but, with prices more than halving in the last six years and the efficiency of batteries improving significantly, the storage systems are now becoming viable options. Combining battery energy storage systems with wind (titled Batwind) or other renewable energy production systems can help to optimise the return on your investment and the efficiency of your system. USA and Germany are taking the lead in this field, but the UK is now beginning to seriously consider this technology and we are seeing a surge in companies exploring the market.

We will see a change in the storage systems over the next ten years from the systems used by the Hydropower stations. The systems use off-peak power to pump water uphill into storage reservoirs, releasing it back through the turbines as demand for power increases. Battery systems, and other newer types of storage facility, are being developed and coming to market with the National Grid encouraging the trend.

Additionally, with householders and housebuilders alike beginning to build battery storage systems into new homes and retrofit into existing homes, we are entering a transitional stage with more efficient buildings, smart software to switch to storage power during peak demand spikes, and consumers inspired by power systems such as the 'Powerwall' domestic battery developed by the leading electric car company Tesla.

Benefit from tax reliefs

With all of this new technology to supplement and enhance existing systems, there are huge opportunities for those developing and using the technology to benefit from the generous taxation advantages offered through research and development (R&D) tax relief and tax credits on qualifying projects and costs. R&D tax credits are a Corporation Tax relief that can reduce your company's Corporation Tax bill or even generate a cash credit. It should be noted that as it is a Corporation Tax relief, it can only be claimed by companies.

Whilst many in the farming industry trade as sole traders or partnerships, the benefits of R&D may mean that incorporation is an attractive option. For companies making a profit, the R&D tax relief will reduce their tax liability. Loss making companies can choose to convert the loss to an R&D tax credit, which is a cash sum paid by HMRC.

The cash boost offered through R&D tax claims is significant and must be considered when carrying out your business appraisal for renewable energy systems; especially incorporating energy storage components. With tax relief on R&D qualifying expenditure of 230% for small and medium-sized entities, you can take the enhanced deduction for taxation purposes of the qualifying expenditure, ie. for every £100 of qualifying R&D expenditure, your company can reduce your taxable profits with an extra £130 on top of the £100 spent.

If you are developing the energy storage technology and its uses, you may develop a process that could be registered as a patent and thus qualify for the extremely tax efficient Patent Box regime. The Patent Box regime enables companies to apply a lower rate of Corporation Tax of 10% to profits earned from its patented inventions, known as 'relevant intellectual property income'. The company must be making a profit subject to Corporation Tax from exploiting the patented inventions. To be treated as relevant intellectual property income, the company must benefit from the Patent Box regime by using a manufacturing process that is patented or provides a service using the patented tool. The full benefit of the 10% rate of Corporation Tax applies from 1 April 2017 and is in the last phase of the transitional rates up until then. For farmers looking to take advantage of energy storage, the availability of a connection to the grid network with adequate capacity in the local area is critical.

A turnkey approach

There are firms offering farmers a turnkey approach with a 25 year lease of a site being either an appropriate building, land available for a new building which will revert to the landowner at the end of the lease, or space for storage containers in which the batteries are to be housed. These systems will complement any Anaerobic Digestion, combined heat and power, windfarms, or hydro power energy generation operations on farms; leading to farm diversification, lucrative alternative development opportunities and a low carbon environment.

National Grid are currently looking to energy storage providers to meet demand at particular times of the day and periodically offer contracts at auction to help maintain grid frequency. They have Enhanced Frequency Response (EFR) auctions to storage providers who can deliver the required output within a second of a demand notice.

National Grid are also looking to use Dynamic Frequency Response (DFR) where suppliers of energy are constantly monitoring the frequency of the grid and adjusting production and supply accordingly. Cold store sites, such as potato stores and grain driers, could increase or decrease the load on the system in relatively short periods of time and so could also qualify for these revenue streams.

If you would like to explore the options available to you with regard to renewable energy, please speak to your usual UHY adviser or find details of your local office agriculture specialist at the back of the Outlook.

Example

R&D tax relief for expenditure of £20,000 where the company has made a profit of £26,000

Calculation step	Amount
R&D expenditure	£20,000
R&D relief	£20,000 × 130% = £26,000
Normal taxable profit	£26,000
Taxable profit less R&D relief	£26,000 - £26,000 = 0
Revised taxable profit	0

If your company has tax losses in the period, you can choose to increase the losses by the R&D tax relief to either carry them back, or carry them forward for use in the future.

Example

R&D tax relief for expenditure of £20,000 where the company has made a loss of £10,000

Calculation step	Amount
R&D expenditure	£20,000
R&D enhancement	£20,000 × 130% = £26,000
Normal trading loss	£10,000
Trading loss less enhanced by R&D tax relief	£10,000 + £26,000 = £36,000
Loss available to carry forward or back for Corporation Tax purposes	£36,000

If your company makes a loss, you may want to convert them to R&D tax credits and have these repaid to the company as a cash boost, instead of carrying forward an enhanced loss.

Example

Converting R&D tax relief on expenditure of £20,000 to a tax credit payment for accounting period commencing 1 April 2016 and ending 31 March 2017

Calculation step	Amount
R&D expenditure	£20,000
R&D enhancement	£20,000 × 130% = £26,000
Normal taxable profit	£6,000
Trading loss (after R&D tax relief)	£20,000
R&D expenditure qualifying for conversion to credits	£20,000
Potential tax credit	£20,000 × 14.5% = £2,900
Payable tax credit	£2,900
Losses available to carry forward or back	Nil

MAKING TAX DIGITAL IS ON THE WAY - ARE YOU PREPARED?

Margot Madin
Partner
Nottingham and East Midlands

Self Assessment tax returns with a January filing deadline have been with us for 20 years. Not for much longer! In January HMRC confirmed that from April 2018 unincorporated businesses, self-employed people and landlords will be required to file quarterly returns online using HMRC's new digital service.

The deadline for submitting the quarterly returns will be one month after the quarter end date. So for those with a 5 April year end the first quarter will end on 5 July 2018 for which the filing deadline is 5 August 2018 (harvest or no harvest!). The filing deadline for the fourth quarter would be 5 May 2019. Any corrections will then be made a part of a final adjustment filing for which the deadline will be ten months after the financial year end, ie. 5 February 2020.

The vast majority of farmers and unincorporated rural businesses will have to ensure they are using software which is MTD compliant or, alternatively, pay someone to file the information on their behalf. Keeping manual records or using basic spreadsheets will no longer be an option once MTD comes into effect.

Despite what HMRC keep saying, this will create extra demands on rural businesses and increase costs. The worry that most advisers have is not the question of 'who' but it is of 'what' and 'how' the recording is to be made. Unfortunately, much of the detail of 'what' and 'how' has yet to be published by HMRC.

In the Spring Budget the Chancellor announced the introduction of MTD would be delayed for businesses whose turnover was below the VAT threshold (£85,000 from 5 April 2018), but only until April 2019. These smaller businesses will then be able to file a simplified three line return.

MTD will impact how we work and we are currently in training to ensure we continue to deliver excellent service in this new digital age. Our cloud accounting, business services and tax teams will be here to help guide our clients through this transition.

Cloud accounting

Most software companies offer a free trial, so why not make 2017 the year you consider cloud accounting to ensure you are fully prepared for the changes that MTD will bring.

We are experienced in assisting our clients with online accounting software and bolt-on cloud applications, and our experts are on-hand to help with the transition required by MTD. To find out more, and to keep up-to-date with the latest MTD developments, you can visit our dedicated website page at: **www.uhy-uk.com/MTD**.

Alternatively, if you would like to discuss how MTD might affect your business, or to look at software issues generally, please speak to your usual UHY adviser or find details of your local office agriculture specialist at the back of the Outlook.

THE BENEFITS OF THE CLOUD

For all businesses, 2017 should be the year to seize the opportunity to consider online cloud-based accounting applications, such as those provided by Xero, Sage, Farmplan, Landmark Systems and QuickBooks. The potential benefits are substantial and include the following:

- **Instant access to your accounts in real-time, whenever and wherever you are.** Most cloud providers offer a downloadable 'app' so you can view your accounts on the go.
- **Simplify the process** by allowing your accountant access to your accounts so that they can monitor your financial data throughout the year and efficiently prepare your year-end accounts.
- **Manual data input can be reduced** by linking your bank account and using an automatic data feed; meaning you will no longer need to enter all those bank receipts and payments.
- **Scan in your invoices and receipts at the touch of a button** to easily keep track of how your business is doing.
- View what your tax liability is likely to be, and **plan your cashflow** to be able to pay on time.
- Many cloud providers offer bolt on applications, such as FarmFlo, meaning you can **manage every aspect of your business**.
- The ability to **run financial reports at the click of a button**; enabling you to make more informed decisions, control your costs and keep an eye on your margins.

For more information on the benefits of cloud accounting, visit our dedicated website at:

www.uhy-cloudaccounting.co.uk

ALTERNATIVE TO GROWING OILSEED RAPE

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Autumn 2016 proved to be particularly difficult for farmers across the UK. The establishment of Oilseed Rape (OSR) was much more problematic than in previous years, with many areas failing and subsequently having to be re-drilled with an alternative crop.

The main reason for this? Rainfall did not come at the right time or, if it did, proved to be very localised. Add to this the threat of cabbage stem flea beetles, a pest which, since the neonicotinoid ban in 2013, the farmer has little in their armoury to control; entire crops are being lost or very poor harvests are being produced. These increasingly common failings are causing many farmers to re-think their current strategies in regards to OSR – a once historically favourable break crop. So, what are the alternatives?

Before focusing on the main alternatives, along with the pros and cons of each, we need to understand why OSR has historically been such a popular choice.

WINTER OSR

Pros:

- Being a brassica and board leaved plant species means that OSR is a full break crop which has alternative chemistry for weed control.
- It has strong marketability which leads to good crops having some of the highest gross margins for a break crop, therefore is financially very rewarding.
- Most farmers have experience in growing OSR and are subsequently comfortable in doing so. This, coupled with the early harvest, spreads their workload. These two factors led to the UK recording its highest ever cropping area of OSR in 2012.

Cons:

- Relatively difficult to establish.
- Largely threatened by cabbage stem flea beetles due to chemical application being banned from controlling this pest.
- Slugs and pigeons also plague OSR on occasion; leaving farmers with significant losses.

Profitability

Production level	Low	Average	High
Yields (t/ha)	2.40	3.40	4.40
Output (£)	720	1,020	1,320
Inputs (£)	408	408	408
Gross margin (£)	312	612	912

ALTERNATIVES

SPRING/WINTER BEANS

Pros:

- Field beans are part of the Legume family. Nodules form on the roots to help consume nitrogen from the atmosphere and soil, meaning there is no requirement to apply artificial fertilizers to the crop and so reducing input costs.
- A full break crop to cereals as they are a different plant species and commonly grown instead of OSR. They are later drilled than wheat, which allows time for blackgrass/brome grass control measures to be undertaken; a task highly important in recent years.
- Very easy to establish.

Cons:

- Once established, weed control can be difficult as there are limited chemicals on the market.
- Lower margins are achieved when compared to OSR, however, these are still reasonable if human consumption grade can be made.
- The late harvest means there is limited time between combining the crop and drilling a following wheat crop, but that does give the benefit of spreading the harvest out and this in turn creates less strain on machinery resources.
- Modern agronomy has led to field beans requiring more management than historically necessary - it cannot be left to its own devices.

Profitability – Winter sown and assumed human consumption

Production level	Low	Average	High
Yields (t/ha)	3.00	4.20	5.00
Output (£)	495	693	825
Inputs (£)	250	250	250
Gross margin (£)	245	443	575

(Spring sown achieved slightly reduced margins due to reduction in yield)

Whilst an OSR alternative should be considered, we can be fairly sure that a substantial area will still be grown and farmers should not act irrationally in the long term due to several years of bad luck!

HUSKED/NAKED OATS

Pros:

- Oats, and more specifically naked oats, have made a slight comeback in recent years, with the market for these oats growing as consumers catch on to the health benefits that they offer.
- Oats are a take-all break crop (a soil borne disease that affects wheat and barley, and significantly limits yield), that has medium to low input costs.
- Vigorous growth can help the crop to compete with weeds.
- At the right grade, oats do offer a relatively good gross margin and can therefore be financially rewarding to grow.

Cons:

- Historically, oats have been extremely prone to lodging due to weak standing power, however, modern dwarf varieties and stiffer straw have made this much more manageable.
- Lack of chemical activities to control blackgrass/brome grass due to its similar plant species, and volunteers can be hard to control in the following crop.
- Although markets are growing to meet the increasing demand for these oats, some contracts can be difficult to sell, with significant reductions in sale value if not met.

Profitability – Winter sown and naked oats

Production level	Low	Average	High
Yields (t/ha)	4.50	5.50	6.50
Output (£)	788	963	1,138
Inputs (£)	282	282	282
Gross margin (£)	506	681	856

MAIZE

Pros:

- With the increasing number of anaerobic digestion plants, it could be a viable option to introduce Forage maize into the rotation.
- As it is spring drilled, it provides farmers with the time for blackgrass/brome grass germination. Spreading farm workload is a significant benefit for farmers.
- As a C4 plant, which means it photosynthesises more efficiently than wheat which is a C3 plant, farmers can produce a large biomass in a short space of time due to its vigorous growth.
- Vigorous growth helps the crop to compete with weeds, limits weed size, limits weed numbers and, as a result, limits seed return.

Cons:

- The market for maize silage is limited and would, therefore, need to be well thought out before proceeding as part of your rotation. This also means prices will be volatile.
- The late harvest, along with high levels of farm traffic on fields during harvest, leads to soil structure damage and can make it difficult to follow with a winter crop.
- There is a high risk of soil erosion as maize is more suited to lighter land which can be lying bare during periods of high rainfall – commonly after harvest or before drilling.
- Forage machinery is needed to harvest the silage which will add to input costs, although the crop could be sold as a standing crop.

Profitability – silage sold as standing crop

Production level	Low	Average	High
Output (£)	750	920	1,050
Inputs (£)	311	311	311
Gross margin (£)	439	609	739

SUMMARY

Having focused our attention on several alternatives, and having considered the potential profitability of all options, it is clear that the answer is not a straightforward one – but rather one which will take much more deliberation. Of the options above, the most profitable option appears to be the high quality naked oats. However, there is a substantial risk of not meeting market requirements and realising significantly lower margins than those detailed.

With a relatively easy establishment, options for black grass control and an established market, beans are an old favourite and provide a safe option. However, this crop will certainly not make you rich. On the other hand, maize silage provides both options for black grass control and, if you are in the right area at the right time, potentially some rewarding figures to go with this. Nonetheless, there is a need to be cautious regarding the ability to establish a respectable following wheat crop due to late harvest and related possible soil damage.

All the options above offer lower input costs than OSR which will arguably be a main priority for farmers in the next couple of years, particularly when most farmers are likely to be feeling the uncertainty of Brexit. Just minimising the initial outlay in the notoriously long farming product life cycle will sound very attractive to the majority of farmers.

Whilst an OSR alternative should be considered, we can be fairly sure that a substantial area will still be grown and farmers should not act irrationally in the long term due to several years of bad luck!

Please note that this article has looked at just some of the alternatives out there, however, there are many more less common options which could be trialled such as: peas, soya beans, linseed, ahiflower, canary seed, root crops and quinoa. If you would like to discuss the profitability of your farm or want to prepare budgets for various crop rotations, please speak to your usual UHY adviser or find details of your local office agriculture specialist at the back of the Outlook.

*All figures taken from John Nix, Farm Management Pocketbook, 2017, 47th edition

HOW CAN THE FIVE YEAR AVERAGING RULES BENEFIT YOU?

Brian Carey
Partner
Sittingbourne and Kent

One of the final announcements made by George Osbourne as Chancellor of the Exchequer was, as argued for by the National Farmers Union, the ability for farmers to average their incomes over five years.

The new rules can be found in s25 of the Finance Act 2016 where subsection 3 states, within an insert to S222A ITTOIA 2005, that "an averaging claim may be made under this section in relation to five consecutive tax years in which a taxpayer is or has been carrying on the qualifying trade, profession or vocation if the volatility condition...is met."

The purpose of averaging farming profits is to lessen the effect of good years when taxes are at their highest when they are preceded or followed by a bad year(s). The old two year averaging rules introduced a volatility condition and a marginal averaging calculation depending upon whether profits deviated more than 70%, or between 70% and 75%, from the previous year or following year. The new five year averaging dispenses with the marginal averaging, and only looks at whether A or B is less than 75% of the other, where A is the average of the previous four years to which the claim relates and B is the relevant profits of the last of the tax years to which the claim relates. The example opposite shows how a farming client's results would differ if averaging was used.

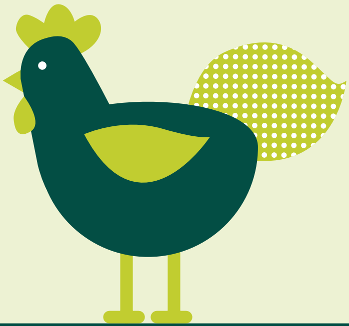
Following on from the example, if in 2016/17 this client posts another good year with profits exceeding £60,167 or a bad year with profits below £33,843, then they may average 2012/13 – 2015/16 with 2016/17 to produce the taxable figure for 2016/17.

It is important to note that the profits averaged are after capital allowances. Therefore, the effect of allowance waivers should not be ignored in the averaging calculation, especially if these results have an impact on tax credits or the ability to claim and retain child benefits.

As an example, let's assume this client were to post a taxable profit after capital allowances of £64,000 for 2016/17, ignoring pension contributions and the like, it is reasonable to assume that any child benefit claimed will be clawed back. The client would also be stopped from making a two year averaging claim between 2015/16 and 2016/17 as the results have not fluctuated by more than 75%. However, the average of the previous four years (2012/13 – 2015/16) is £45,125, which is greater than a 75% deviation. Therefore, the averaged result for 2016/17 becomes £48,900 ((£45,125*4 + £64,000)/5) and, in this case, the child benefit is maintained.

Other sources of income will also have to be taken into consideration, when assessing the benefits or pitfalls of averaging, albeit those other sources are not subject to the averaging rules themselves. There will be many examples and situations in which farmers will benefit from these rules but each year and situation must be looked at in isolation to obtain the optimum result.

If you would like to discuss five year averaging and how it may affect you, please speak to your usual UHY adviser or find details of your local office agriculture specialist at the back of the Outlook.



Example

Fred the Farmer has posted the following results:

Tax Year	Original results	Averaged results
2015/16	£66,000	£55,500 (iv)
2014/15	£45,000	£55,500 (iv)
2013/14	£40,000	£38,500 (ii)
2012/13	£42,000	£31,000 (i) & (ii)
2011/12	£17,000	£29,500 (i)

Notes

(i) It is likely that Fred would average the 2011/12 and 2012/13 results as one year has deviated by more than 75% of the other, therefore 2011/12 and 2012/13 for tax purposes becomes £29,500 each.

(ii) Similarly 2012/13 and 2013/14 will be averaged as £40,000 and £29,500 shows a deviation of between 70% and 75%; and so a marginal claim is relevant - thus 2012/13 becomes £31,000, while 2013/14 becomes £38,500.

(iii) No averaging is relevant for the tax years 2013/14 and 2014/15.

(iv) 2014/15 and 2015/16 may again be averaged as 2014/15 is more than 70% deviated from the results of 2015/16, therefore each year becomes £55,500.

IF AN OPPORTUNITY DOESN'T KNOCK, BUILD A DOOR

Tim Maris
Partner
Royston, Cambridge
and East Anglia

If an opportunity doesn't knock, build a door – or several if you are thinking of converting those unused farm buildings! With increasing emphasis being placed on diversification, we take a closer look at the areas you need to consider when embarking on a new venture. So, where do we start?

IT IS NOT THAT WE NEED NEW IDEAS, BUT WE NEED TO STOP HAVING OLD IDEAS

This is not to say you should not open a farm shop because someone else already has. Go ahead, but do it your way, considering the effect on your current business too. Adding another income stream to the current business could have implications for VAT recovery if, for example, your business becomes partially exempt as a result. Agricultural Property Relief, job related accommodation and farmers averaging are other areas that a new venture could impact upon. Business structure is particularly important for protecting these benefits, so seek advice early to safeguard them.

DILIGENCE IS THE MOTHER OF GOOD LUCK

The planning behind any new venture can take up a significant amount of time, money, and much like building work, significant investment in the initial set-up. However, do not try to cut planning costs. Seeking professional advice, preparing budgets and conducting market research will form the basis for everything else from here on, so ensure all planning items are completed thoroughly and to a high standard.

TIMING, PERSEVERANCE, AND TEN YEARS OF TRYING WILL EVENTUALLY MAKE YOU LOOK LIKE AN OVERNIGHT SUCCESS

Some new start-ups take off very quickly, but these tend to be the exception not the rule. Aim for steady growth over a number of years to ensure you have full control. It may feel as though progress is slow but when you look back it is surprising how far you have come. As accountants we get to witness many successes, near misses and hear the stories behind them all. An overzealous budget from the outset can make you feel as though you are not succeeding. Be realistic with your figures. Take time to ask your neighbour, friend, family member or a fellow business owner who has diversified in a similar way for advice. It is great to learn from your own mistakes, but there is no harm in knowing about those that others have made first!

IDEAS ARE EASY. IMPLEMENTATION IS HARD

One of your first ports of call will be your bank. You will require them to be behind the project, even if you do not initially need funding. Keeping your bank informed will help if you require any funding in the future.

Ensure you are registered with all relevant authorities. If your venture has other partners, are they registered with HMRC? Do you need to set up a new company with Companies House? Will you be registering for VAT? Ensuring you have the correct registrations in place early will help prevent headaches later on. If you are unsure, you should contact your accountant for assistance.

Additionally, choosing an appropriate bookkeeping system requires careful consideration. Getting half way through your first year and realising you have selected an inappropriate piece of software can be costly and time consuming to correct. You may have several streams of income and more than one business for a bookkeeping system to deal with. Many software providers offer free trials that you can take advantage of. You may also want to consider if cloud accounting would be a sensible option. Talk to other business owners and your accountant to see which system they would recommend and the advantages and disadvantages of each.

Even though you have only just started, do not lose sight of your exit strategy. You are not going to be doing this forever, are you? Considering business structure, succession planning and capital taxes now could save you substantial costs in the future.

EVERY DAY THAT WE SPEND NOT IMPROVING IS A WASTED DAY

Now that your new venture is underway you should continuously review your performance - this can be as simple as a year end meeting with your accountant. However, be cautious, these meetings can often be based on historical data, which leaves few options for tax planning. Therefore, you should ensure that you appoint commercially minded advisers and draw up an agenda for these meetings. Talking to your advisers throughout the year and keeping a close eye on budgets and cashflow will also allow you to spot and deal with problems and opportunities early; saving you a significant amount of time and money in the long run.

If you would like to discuss business ventures, or diversification in general, please speak to your usual UHY adviser or find details of your local office agriculture specialist at the back of the Outlook.

Be realistic with your figures. Take time to ask your neighbour, friend, family member or a fellow business owner who has diversified in a similar way for advice.

TOPICAL TIPS FOR THE YEAR AHEAD

CARRY OUT A SWOT ANALYSIS

Determine your business' strengths and weaknesses and where opportunities and threats lie. Consider the impact of each on your business and make a list of action points to address any issues. Remember to be realistic in your goals and targets and apply the SMART rule. Are your goals Specific, Measurable, Achievable, Realistic and Timely? If not, they should be.

PREPARE A BUDGET

A budget is an invaluable tool to help you prioritise your spending and manage your flow of income. Planning and monitoring your budget will you help you to adapt quickly as your financial situation changes. If you have never prepared a budget before, do not be afraid to start – it will become easier over time. Once your budget is complete, be sure to review and compare it to the actual results; assessing any variances so that lessons can be learned going forward.

BENCHMARK YOUR BUSINESS

Assess past results, your competitors and industry standards to identify your strengths and the areas which require improvement. Analyse the differences and ascertain whether you can tweak your plans to achieve an improved outcome. Review input costs and shop around - but do not buy solely on price, service is also important.

REVIEW YOUR ACCOUNTING SYSTEM

Plans for Making Tax Digital are well underway, but there is still time to review what cloud-based software packages are on offer to ensure you make the correct decision for your business. This does not have to be an expensive investment. Ask your advisers for their recommendations, speak to farmers who have already made the change and ensure you request a free trial and a free demonstration before purchasing.

SEEKING ADVICE

One of the most important business growth strategies that you can adopt for your business is to seek advice. When considering the future of the business do not be afraid to contemplate your ideas with family, friends and professional advisers. Your advisers may have access to data that you do not and an impartial opinion could prevent any mistakes. Seek as much input as possible before making any final decisions.

PREPARE FOR BREXIT

Brexit is on the way and with it comes the probability that the Basic Payment Scheme payment will be reduced and your entitlement redefined. How dependent is your business on BPS for survival? What can you do to reduce this exposure? You have time to plan and make changes to reduce your reliance, so do not waste this time.

REVIEW HOW THE BUSINESS IS FINANCED

Most businesses are cyclical and, at some point during the year, cash flows dip. How expensive is it to run an overdraft? Is it less costly and worrying to move part of this onto a longer term loan? With interest rates at an historic low is now the time to review finance options, before they increase? With the economy facing uncertainty over Brexit, now is the time to ensure your business is well equipped to handle any economic turbulence that may arise as a result of leaving the European Union.

ARE YOU PREPARED FOR AUTO-ENROLMENT?

The law on workplace pensions has changed, every employer in the UK must enrol all eligible staff into a pension scheme and contribute towards it. If you are an employer and employ at least one person you have certain legal duties, even if that person is not earning above the threshold you will still need to complete an annual declaration form. Don't leave this too late, seek advice now.

MAKE PLANS

Where do you see yourself and your farm in ten years' time? Succession is part of the evolution of all businesses and is a topic that you must address and discuss. Concentrate on determining your preferred end result, calculate the steps needed to get there and draw up an agreement to reflect each party's view. A legally binding agreement will help to protect all parties involved by giving certainty in case of dispute. Many plan to use a gradual shift in ownership from one generation to the next and so early planning is essential.

COMBINING NATIONAL EXPERTISE WITH A TAILORED LOCAL SERVICE

> We understand the practicalities of farming and are at home speaking with, advising and acting for our clients, tailoring our approach to meet individual circumstances.

OUR SECTOR EXPERIENCE

We act for a range of farming, horticultural and rural businesses, as well as landed estates and renewable energy clients, advising them on a range of issues affecting their businesses. Whether it is tax, business structuring, succession planning or diversification - we can help.

We understand that the rural and agriculture sector is a specialist sector, having unique practices and conventions, making rural enterprises unlike other commercial enterprises. Our approach to each client is therefore tailored to recognise your unique circumstances. We always build an in-depth knowledge of your business so that we can tailor our services accordingly and add value wherever possible.

Our national rural and agriculture team have a genuine knowledge of the sector and the relevant experience to help. We have a thorough understanding of the business structures under which rural and agriculture businesses operate, whether that is company, partnership, sole trader or a trust structure. We understand the practicalities of farming and are at home speaking with, advising and acting for our clients, tailoring our approach to meet individual circumstances.

OUR SERVICES

We provide a comprehensive range of agricultural accounting and taxation services that will give you the confidence to develop your business.

Our services include:

- Technical and taxation advice
- Bookkeeping and payroll
- Raising finance
- Changes in business structures
- Property transactions
- Passing on the family farm
- Business management
- Software advice and cloud accounting
- Cashflow planning

Farming enterprises and their related businesses are often in need of proactive advice in relation to business structures, succession and/or tax planning. We will spend time discussing your needs and future plans for you and the other generations in your family. We can advise you on tax incentives and will unravel, explain and plan for the convoluted scenarios that can arise with Capital Gains Tax and Inheritance Taxes.

We can also provide planning advice to clients looking to diversify into new business areas such as wind, solar and anaerobic digestion.

FOLLOW OUR DEDICATED RURAL AND AGRICULTURE BLOG

Our rural and agriculture blog covers the latest tax issues that may affect you and your business. From Making Tax Digital updates and the latest Brexit news to VAT issues and diversification suggestions, our blog will keep you up-to-date with everything you need to know.

www.uhy-uk.com/rural-and-agriculture-blog

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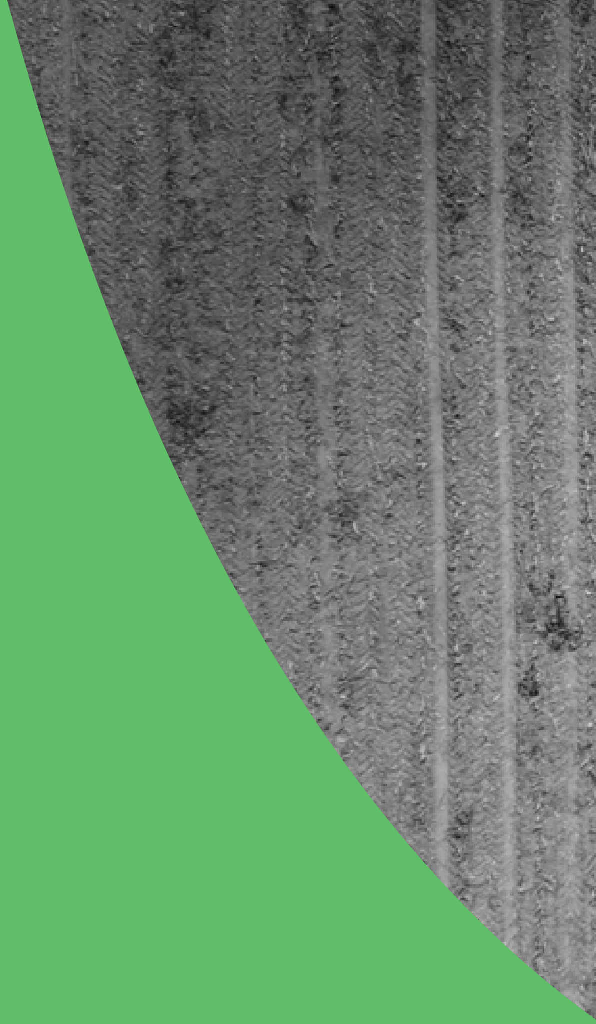

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