Lentells
Chartered Certified Accountants

RURAL BULLETIN Spring 2019

GOOD TIME TO INVEST IN NEW MACHINERY?

The next twelve months could potentially be a good time to invest in new or second-hand machinery before the planned phase out of the Basic Payment Scheme begins and with a potential reduction in capital allowances.

There are tax pitfalls to avoid, so it is sensible to have a long term plan in regards to buying and selling machinery. For accounting purposes, second-hand machinery is viewed in the same way as new. Tax relief is available in the form of capital allowances.

The Annual Investment Allowance (AIA) can be used to offset machinery and plant purchases against tax liabilities. The AIA was first introduced in 2008 and is a 100% allowance that businesses can claim up to a specified annual amount.

For the past three years, the upper limit has been set at £200,000. However, as of 1 January 2019 until 31 December 2020, a two-year temporary increase has been introduced which takes the annual limit to £1m subject to transitional rules. It is thought that the rate will then return to £200,000.

Raising the relief on qualifying expenditure to

£1m is designed to provide an incentive for businesses to increase or bring forward their capital expenditure above the annual limit on plant and machinery. Any additional qualifying expenditure will attract the normal writing-down allowances at the annual rate of 18%.

The timing of the change means that for businesses which do not have a 31 December year end, a hybrid level of AIA will initially be available. It is important to be aware of the timings in regards to claiming AIA. Purchases are deemed to be made:

- when you sign the contract, if payment is due within less than 4 months
- when payment is due, if due more than 4 months later

If you purchase machinery under a hire purchase contract you can claim for the payments you have not made yet when you start using the asset. You cannot claim capital allowances on the interest payments.

Selling second-hand machinery and equipment receives the same tax treatment as new machinery and equipment. It is therefore important to take into account the tax implications of selling second hand machinery; if capital allowances have been claimed the sale price of any second hand machinery will be deducted from your capital allowances pool for tax purposes.

If you would like to discuss the implications and timings of replacing farm machinery, please speak to a member of our agricultural team.

QUICKBOOKS ONLINE TRAINING 2019

intuit QuickBooks.
Platinum Certified ProAdvisor

Lentells are running a series of QuickBooks Online training sessions throughout the year at both our Chard and Taunton offices.

Each session will cover:

- Navigation through QuickBooks Online
- Maintaining the Customers and Suppliers Ledgers
- Performing bank reconciliations
- Amending the QuickBooks Chart of Accounts
- Generating your VAT return
- Generating the QuickBooks Reports
- Preparing Budgets (Plus version only)

Thursday 27th June – Chard
Wednesday 25th September – Taunton
Thursday 28th November – Chard

There will be a maximum of 5 delegates on each session. For more information, or to book a place, please go to the Events page of our website www.lentells.co.uk/quickbooks-online-training-2019

SUMMER SHOWS 2019

We will be at the following shows this summer and look forward to seeing as many of you as possible.

We will be offering refreshments throughout the day and the chance for a welcome sit down and chat. Our agricultural team will be on hand and look forward to welcoming you.

HONITON SHOW Thursday 1st August
As in previous years, we will be in the Blackdown Hills Business Association's marquee which is always a hive of activity showcasing a fantastic variety of local businesses.

DUNSTER SHOW Friday 16th August

DIVERSIFICATION

BE AWARE OF POTENTIAL RATES BILLS

While agricultural land and buildings are exempt from business rates, a diversification project can alter this status and result in an unexpected rates bill.

For land to be classified as "agricultural" and therefore exempt from business rates, it must fall into one of the following categories: land used as arable, meadows and pasture; wood plantation; land that exceeds 0.1ha and is used for poultry farming; a market garden, nursery, orchard or allotment; and land that is occupied with a building solely used for agriculture.

Solar, wind and hydro projects are also facing large increases in rates. If the power generated is all used within the farm it may be exempt but if more than 5% is supplied to another business it could be rateable.

Buildings have a separate set of rules. Agricultural buildings are defined as being associated with agricultural land and used solely in connection with agriculture. Any additional use such as holiday lets, livery yards or third party storage units can result in the buildings becoming rateable as they may be classified as having dual usage.

Small Business Rates Relief

Some diversification projects may fall into the small business category where the rateable value applied is less than £12,000.

In these cases, the owner can apply for Small Business Rates Relief and, if successful, you will not have to pay anything.

Above this figure there is a band of tapered relief up to £15,000. That means the liable party will pay a percentage of the business rates within that band.

For example, a value of £13,500 which is exactly half way between £12,000 and £15,000 would mean a 50% rates bill.

Farmers targeted in scam

A new scam has come to light in which fraudsters are specifically targeting farmers in a scheme involving invoice payment redirections.

As a result some farmers have lost up to £30,000.

The fraudsters are obtaining details of a farm's supplier network simply by searching the internet. They are then posing as the established suppliers and notifying clients by email of changes to their bank account details. As a result, payments have been re-directed to fraudulent accounts.

In some cases, the scam may only become apparent when the genuine supplier chases for payment.

If a supplier notifies you of any changes to their banking arrangements it is important to contact them independently and speak to your regular contact in order to confirm that the changes are indeed genuine.

Labour costs to rise

Farm labour costs will rise from this month as a result of statutory wage rises and an increase in pension contribution rates.

It is a legal requirement for a farmworker's wages to be at least at the same level as the national minimum wage (NMW) or national living wage (NLW), both of which increased as of 1 April.

The following minimum rates apply from 1 April 2019

Age	Wage rate
Age 25 and over	£8.21/hour
21 to 24	£7.70/hour
18 to 20	£6.15/hour
Under 18	£4.35/hour
Apprentices	£3.90/hour

The national living wage is the obligatory minimum wage payable to workers in the UK aged 25 and over while the national minimum wage applies to workers who are 24 and younger.

The following minimum rates apply from 1 April 2019

Pension costs

Meanwhile, for those with workplace pensions under the auto-enrolment scheme, the employer's pension contributions must also rise from a minimum of 2% of pensionable earnings to 3% from 6 April 2019.

The employee's minimum contribution also rose from 3% to 5%.

Self-employed or worker?

It is important to be clear about the employment status of anyone working on your farm in order to avoid being hit with a hefty PAYE and national insurance tax bill and a raft of employment-related liabilities.

One of the critical questions farmers need to consider when deciding if someone is self-employed, employed or classed as a worker is the level of control you exercise over the person completing the work.

If you use a contractor, e.g. to do some hedge trimming or relief milking, who is genuinely in business on their own account and provides their services to other farms in the area and invoices you, then they are likely to be self-employed and you can pay them gross.

Someone who is self-employed won't be entitled to any employment rights or protections.

Hats off to the British Dairy Farmer!

Douglas Green Consulting Ltd

Douglas Green Consulting Ltd are a team of dedicated Farm Management Consultants who produce an annual dairy benchmarking survey to help their clients identify which of their costs are out of kilter with other farmers, and investigate why. Management changes can then be adopted to improve them and make the business more sustainable.

	HSBC Average 1998/99 ppl	DGCL Average 2017/18 ppl	HSBC Top 25% 1998/99 ppl	DGCL Top 25% 2017/18 ppl
Output	21.84	32.92	22.17	33.46
Variable Costs	7.32	14.31	6.69	13.28
Wages	1.47	2.65	0.93	2.49
Power & Machinery	4.49	10.86	4.07	9.13
Property Charges	1.10	1.32	0.97	1.12
Sundry Overheads	0.99	1.27	0.89	0.79
Rent	0.84	1.11	0.79	0.86
Quota Leasing	0.98	0	1.08	0
Interest	2.16	0.91	2.27	0.08
Drawings/Tax	3.14	1.30	2.08	0.68
Total Cost of Production	22.49	31.08	19.77	25.94

This year they have also compared how the cost of milk production has changed since the ADAS/HSBC Spotlight figures from 1999.

Over a 19 year period the average cost of producing milk in the UK has gone from 22.49 ppl to 31.08 ppl. This represents an average increase of 0.45ppl per year or an effective average of 2% inflation per year.

In 1998 the average retail milk price was 59.84 ppl, today it stands at 79.20 ppl, which is an effective inflation of 1.7% per annum.

So how has the price of milk gone up compared to other things we spend money on? The table below shows the Retail Price Index of milk compared to other commodities.

Obviously, we really need to be in alcohol or tobacco production and it is clear why it is harder to find British clothes and shoes on the shelf!

Looking at the Spotlight comparison more closely, the average output (excluding BPS) in 1999 was 21.8ppl and in our 17/18 comparison was 32.92ppl – on average a 2.6% increase per annum.

Average yields in 1999 were 6,655 litres per cow, with the average farm producing 973,000 litres milk. The DGCL figures represent an average yield per cow of 8,456 litres and the average farm producing 2,310,539 litres milk.

The improvement in yield per cow shows what a massive improvement in technical performance the UK dairy farmer has made over this period. For every say 1.2 acres of land, the UK dairy farmer has increased the amount of milk produced from it by nearly 30% in just under 20 years – something that we should all be celebrating. So, when the politicians say that British Farmers should become more efficient, we should remind them of our track record!

	RPI Index* March 1999	RPI Index* March 2018	% Increase
Liquid Milk	153	234	52
Bread	133	219	65
Beef	133	212	59
Utilities	140	260	86
Motoring Costs	172	253	47
Travel & Leisure	164	246	50
Clothing & Footware	117	156	33
Alcohol & Tobacco	201	393	95
Household Expenditure	165	314	90

** RPI Index where 100 is base year Jan 1987*

Janice Radford, Dairy Farm Management Consultant

Variable costs have increased by on average 5% per annum, wages by 4.2%, power and machinery by a massive 7.5%. Property costs and sundry overheads have increased by a mere 1%/yr, but farmers not spending as much on property is not always sustainable in the longer term.

Rents have increased by on average 1.7%/year, but there are many rental situations where the landlord is now receiving the BPS payments on top of the rental income.

Thankfully, we do not have quota leasing/ purchase costs any more, but it is interesting to note that interest payments per litre have actually fallen by around 50%. Back in 1999 the Bank of England base rate was 5.5% and in 2018 it had fallen to 0.75%. So much of this reduction is a reflection of lower interest rates rather than less money borrowed.

One cost which is worryingly low is personal drawings and tax, which has fallen by over 50% over the same period. Farmers are paying themselves less, despite the fact that the job has become much more technical and skills demanding.

So, milk price over this period has increased by 1.5% per year, but the majority of input costs have increased by around 4-5%, reflecting the cost price squeeze we have all been feeling. This is very salutary, especially as many farmers have offset this by increasing supply, which then impacts on price.

The next generation are, quite rightly, demanding more time off and a salary to reflect the complexity of the job and the unsociable hours. But I have never known British farmers not up for the challenge. We have an industry rich in talent and expertise and producing a top class product – something we should all be proud of!

To find out more information please go to www.douglasgreenconsulting.co.uk or email Janice@douglasgreenconsulting.co.uk

Lasting Power of Attorney (LPA)

An LPA is a legal document that allows you to appoint one or more persons (attorneys) to help you make decisions in the future regarding your welfare and financial arrangements should you have an accident, an illness or lose the mental capacity to make your own decisions.

Making an LPA is just as important as making a Will. They serve two separate purposes and should not be considered as an either/or. LPAs relate to management of your affairs during your lifetime whereas Wills relate to the distribution of your estate following your death.

Why it makes sense to have an LPA

Sadly loss of capacity can happen to anyone at any time, not just through old age, but through accident and/or illness – often things that are completely out of our control. Putting in place an LPA while you are fit and healthy gives you the peace of mind that, if necessary, decisions concerning your welfare and financial affairs are being overseen by someone who you trust and who will be acting in the best interests of you and your family.

Do I need an LPA if I have a spouse/partner?

Many people assume that because they are married or in a civil partnership their spouse or partner would automatically be able to deal with their financial affairs and make decisions about healthcare should they lose their capacity to do so. However, without an LPA in place this is not necessarily the case. For example, any assets held in your sole name your partner will not be able to have access to, including ISAs, saving accounts, investments and pensions. In addition, when one account holder of a joint account loses capacity, the other joint holder may not be able to access the funds if there is not an LPA in place.

Types of LPAs

There are two types of LPA. It is possible to draw up one, or both. The same attorney(s) can be appointed for both or someone different can be appointed for each. They are:

- Health and welfare, which appoints an attorney to make decisions regarding medical care, future care needs such as moving into a care home, and life-sustaining treatment. It can only be used once the person can no longer make their own decisions.
- Property and financial affairs, which appoints an attorney to make decisions regarding managing a bank account and investments, paying bills, collecting benefits or a pension and buying and selling property.

LPA for Businesses

If you are a business owner it is important to consider what would happen if you were unable to make decisions. If there is no business LPA in place there may well be issues with bank account signatories, paying creditors and employees and contractual obligations. Without a business LPA in place, an application to the Court of Protection to appoint a deputy to act on your behalf may be needed. There is no guarantee at this stage that the Court will appoint an individual who the business owner would have chosen. This process can also prove more costly and take time, exposing the business to greater risk.

Talk to us about making an LPA

At Lentells we can assist with both the procedure of completing the necessary paperwork as well as advising on all the areas you need to consider ensuring the LPA covers all possible eventualities. If you are writing or amending your Will it makes sense to consider putting an LPA in place at the same time. Alternatively this can be done as a separate exercise at a time to suit you.

HEALTH AND SAFETY EXECUTIVE TARGET FARMING BUSINESSES

Farmers are being urged to make sure their health and safety policies are up to scratch in advance of a programme of targeted farm inspections by the Health and Safety Executive (HSE) this summer.

The HSE inspections are designed to ensure that those responsible for protecting themselves and their workers are complying with the law, to help them prevent death, injury and ill-health. If they are not, the HSE will use enforcement powers to bring about improvements.

Agriculture has one of the worst health and safety records of any industry in Britain. The sector represents 1.2% of the British workforce, but accounts for 20% of reported work-related deaths each year.

The HSE also estimates that there are some 13,000 non-fatal injuries each year, and 17,000 cases of ill health, especially lung disease and musculoskeletal disorders.

The Health & Safety at Work Act 1974 requires employers to prepare a written statement of health and safety policy where there are five or more employees. If there are less than five employees there still has to be a policy in place, although it does not need to be documented

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