



Autumn 2008

Nail on the head – good times or bad?

- 1) Are things looking good for agriculture – as we thought last spring – or do recent price reductions mean that things are looking bad?
- 2) If the country is heading for a recession is farming going to be dragged down with it?

The answer to these crucial questions rather depends on whether you are a glass half empty or a glass half full person. Tending towards the latter, I would suggest that although there are some problems out and about there are also considerable grounds for optimism.

To give an opinion on the second question first. Although a recession in the economy in general will not help agriculture neither is it likely to have immediate dire consequences – despite the ceaseless panic mongering of the press. Most people will remain in a job and unless inflation starts to rage out of control which, given recent falls in the oil price and weakness of sterling, seems unlikely, they will retain a similar level of spending power and there is no reason to assume they will spend significantly less on food. It could be suggested they may spend less on eating out but this is also debateable.

The global situation impinges on the answer to both questions. The global economy is still growing – despite the present problems it is thought it will grow by nearly 5% this year. Population is rising and general standards of living – particularly in China – also seem to be rising. There are long term pressures on both fuel and food supplies. This suggests that although there are likely to be speculator and weather driven fluctuations the underlying price trend will be upwards. This means that prices achieved by farmers will be better but costs will also rise. As a glass half full person I see the former outweighing the latter and the possibility of agriculture becoming increasingly profitable.

Why is this important?

The reason these factors are important is that farmers need not think that everything is stacked against them. There are grounds for optimism so every farmer should be looking at their business and thinking about where they want to take it. This is where our specialist farming teams at Old Mill can help. We want to help you make every possible use of the tax planning opportunities that exist, while also helping you to improve your business profitability. We also want to help you plan for the long term future of your farm be that for expansion, succession or retirement. And, crucially, we want to make sure all our clients' affairs are in the best state to minimise Inheritance Tax. In this newsletter you will find details of a number of ways we can help you. There are many more – please feel free to come and talk to us.



Mike Butler, Head of Rural Services

Guest spot

Cedric Porter, Director of the 2009 Oxford Farming Conference and former Editor of Farm Business Magazine.

Profiting from improved supply

Food shortages over the past 18 months have concentrated the minds of shoppers, governments and supermarket bosses.

Most people in Britain had become used to paying little for their food, with the average family earning enough between New Year's Day and St Valentine's Day to pay for all the food they needed for the whole year. But growing demand around the world and production problems combined to send prices of many staples soaring. Bread prices leapt by 20%, milk by 16%, and beef and butter jumped by 60%. Food prices became political as they helped push up inflation and contributed to economic uncertainty.

As the majority of food in Britain is sold in the supermarkets, the supply of food to retailers suddenly became very important. In the past a surplus of food inevitably meant low prices for the farmers who produced it. Supermarkets had the flexibility to buy from where they wanted. But shortages meant a shift in the balance of power, resulting in better prices and more bargaining strength for farmers.

Some farmers say that this at last gives them the opportunity to get their own back and give supermarkets a 'good kicking.' Although perhaps tempting, this is an unwise stance to take. Supermarkets are still strong and farmers still need to sell the majority of their produce through them. However, it does provide the opportunity for much stronger links between farmers, food manufacturers and retailers to grow. In an era of uncertain supply, the guaranteed delivery of top quality produce becomes more important.

For a long time farmers have been calling for a strengthening of the food chain through better relations. But now it is in the interests of all its members. Processors and retailers rely on successful producers, just as much as retailers and producers rely on successful processors and producers and processors rely on successful retailers.

For these links to strengthen, it is time to place less emphasis on the price of farm products. If the last 18 months has shown us anything it is that most agricultural prices are governed by the supply and demand of products. If they weren't then farmers would have been able to push them up when they were low and supermarkets push them down when they were high. In most cases neither had the power to do so. There has been pressure by retailers to push milk prices down, but this is unlikely to work in the long term. Dairy production is already down 2% on last year and further pressure on farmer profitability is likely to push output down further, which will eventually result in higher prices.

Instead the emphasis needs to shift to ensuring profitability within the chain. This is particularly relevant for farmers as higher prices have been accompanied by higher costs particularly of fertiliser, animal feed and fuel.

It is likely that most grain farmers need a price of at least £120 a tonne to breakeven, so current values of around £105 a tonne will leave many growers out of pocket. Even record beef prices of more than 270 pence a kilogram are not enough for many to make a profit, while milk prices of 25 pence a litre leave little left over for re-investment. Sustained unprofitability among farmers will lead to reduced production (something that is already occurring in the red meat and milk sectors). This will hit processors and reduce choice for retailers.

An unprofitable food processing sector will mean factory closures leading to fewer outlets for farmers to send their produce to and less choice and flexibility for retailers. Meanwhile, retailers have access to consumers – the most important part of the food chain. Those consumers cannot be cultivated or developed by unprofitable supermarkets.

Greater understanding of the food chain by its members is the best way to ensure greater profitability. Farmers, processors and retailers need to share



Cedric Porter, Director of the 2009 Oxford Farming Conference

information, set each other standards and targets, and help each other operate more effectively. If they don't then more farmers will go out of business, food processing units will shut down and consumers will be faced with higher shopping bills and much less choice. The food supply problems of the last 18 months should be a wake-up call to us all.

Cedric Porter was formerly the editor of Farm Business magazine and has recently been appointed as Director of the 2009 Oxford Farming Conference. He has now established an agricultural supply chain consultancy called Supply Intelligence providing information, ideas and support to retailers, processors and others seeking to develop their agricultural supply arrangements. He can be contacted on 01892 543444 or by email: cedric@supplyintelligence.co.uk.

The Family Asset Plan



Julia Banwell,
Consultant
Financial Services

“The fewer assets that are owned at the date of death, the lower the inheritance tax (IHT) liability.”

This is stating the obvious but for the taxpayer there is an uncomfortable tension at the heart of successful IHT planning: if a taxpayer wishes to reduce their IHT liability by making gifts the legislation requires that they also gives up all benefit from the assets given away. This means that they cannot benefit from either the capital value or the income on any gifts used in this way.

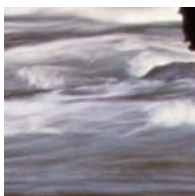
For taxpayers who cannot afford to reduce their existing income stream, or who do not wish to give up control of their assets, this rule can block any gift-based IHT planning. Indeed, the scope for planning on this front has been narrowed further by the recent introduction of the Pre-Owned Assets Tax.

For clients such as these, we have recently developed 'The Family Asset Plan'. This plan provides a structure for taxpayers to make IHT efficient gifts without requiring either the surrender of the income benefit nor the control of the asset in question.

Inevitably the Plan will not be suitable for every client nor every asset; it is particularly aimed at taxpayers who own, for example, investment companies, share portfolios, valuable art and antiques, or farming and other trading assets that do not qualify for maximum Agricultural or Business Property Relief.

As always, with Inheritance Tax Planning in particular, with thoughtful and professional advice it is usually possible to reduce a taxpayer's IHT liability. There are a range of options available today and a discussion of the Family Asset Plan should form part of any review.

If you would like to arrange a meeting to discuss how the Plan works in more detail, and whether it would be suitable for your own particular circumstances, please contact us. Any initial meeting is without charge or obligation.





Annual Investment Allowances open up new opportunities

The introduction of the Annual Investment Allowance (AIA) could have a significant impact, not only reducing the tax bills of farming businesses, but also creating an opportunity to claim tax credits.



Kim Davies,
Tax Consultant

AIA, effective from 6 April 2008, replaces the existing capital allowances regime and enables businesses to claim 100% tax relief on capital expenditure, up to a limit of £50,000 a year. Even the purchase of a moderately priced tractor for say £30,000 may be enough to reduce profits enough to facilitate a tax credit claim. Setting that sort of sum against profits in a single year may mean profit will swing wildly from one year to the next, particularly for farming businesses where capital expenditure may be high one year, but low the next. That can have a dramatic impact on the ability to claim tax credits. The family element of child tax credit is available where income is up to £58,000, for families with up to two children. Tax credits can be very valuable where profits are low in the year and can,

depending on individual circumstances, entitle you to thousands of pounds.

However, claims can only be backdated by three months, so it is important to take advantage by submitting provisional claims as soon as possible, if you think there is a possibility that profits for the year will bring you within tax credit limits.

The fluctuation in profit levels created when claiming AIA can also have a detrimental impact when applying for a loan or mortgage. For example, if a substantial AIA claim is made the profits may be entirely wiped out. It is important to consider the timing of making such a claim so as not to jeopardise your loan or mortgage application. However, there may be a way of explaining this to potential lenders, such as including a deferred tax adjustment in the accounts, which seems more sensible than accepting a higher tax bill just to facilitate borrowing.

If you have had any change in circumstance which may affect your tax credit entitlement, or are in doubt that a claim may be possible, Old Mill would be more than happy to offer guidance on this.

Every cloud...

The weakness of Sterling against the Euro and the Dollar has been a feature of the financial pages of the newspapers recently – along with all the other media driven gloom around the economy.

However, we should remember that every cloud has a silver lining. As the price of oil is determined in dollars

the significant reduction in the ratio between Sterling and the Dollar will tend to make oil cheaper. This is on top of what looks like a significant reduction in the crude price at the moment.

Perhaps of more direct significance to farmers is the weakness of the pound against the euro. The level of Single Farm Payment was determined by the exchange rate on the 1st September. This was £0.8138 which compares with £0.6968 in 2007. A difference of around 16%. As long as you are paid in sterling your payment should be higher this time around.

Cash flows under pressure – and then I get a ridiculous tax bill



Ian Sharpe,
Partner

If one of the stereotypes of farmers is that all they do is moan about the weather is to be believed, then farmers have performed true to form this year.

If I could influence the weather then I would talk about it but as I can't, it is pointless. The truth is organising the weather is beyond everyones control and I would sooner concentrate on things that can be influenced to the extent that the unexpected or the uncontrollable can be absorbed without panic.

There is no economic order at the moment and no matter how many accountants, advisers, bankers and experts you speak to, you will never be able to rely on any of their predictions with any certainty. The solution is to run an increasingly tight ship and plan your business in such a way as to handle the unexpected. Be fluid enough

to move and take advantage of the good times but when things do become tight, don't panic. Next year could be boom... or will it be bust again. One thing's for certain, its surely got to be sunny in Summer 2009!

And then of course there is the final sting in the tail. For those who have had a better 2007/08, the chances are a tax bill will arrive for January 2009 asking the farmer to pay for tax on that increased income. The real killer is that that tax bill will come at a time when profitability and cash flows are under pressure and paying tax is the last thing on people's minds. Once again, be prepared and perhaps more specifically be prepared to firstly question whether that level of tax needs to be paid. Should we be paying anywhere near as much tax on account of next year and actually can we do something to reduce the tax bill or ensure that we can get some tax back when this year's accounts are finalised. Accountants should be there to give advice not to simply add up your books and records. Use us to your advantage. That is certainly what we expect our own clients to do and the service we expect to deliver to them.

Accounting success for former milker

Dan Knight, of the Rural Services team in Exeter, has been awarded a special prize of high street vouchers by the Association of Taxation Technicians (ATT) for his success and progress in studying for his accountancy exams at Bridgwater College.

Neil Montgomery, programme manager for accounting technician (AAT) training at the college, commented that Dan had made outstanding progress over his three years of part time study. "For the first 18 months he was working as a milker on a dairy farm but was determined to make a career move. His dedication and diligence have provided a role model for other students."

Fifteen months ago Dan was taken on by Old Mill in their farming team in Yeovil where he has been able to develop his accountancy skills whilst working in an

area where his previous experience has proved invaluable. This summer he has moved on to help develop the rapidly growing Rural Services team at Exeter. However, Dan still keeps his hand in by doing relief milking at the weekend.



Dan Knight (second from right) with Neil Montgomery (far right) and Mike Butler, Partner, Head of Rural Services and Jolyon Stonehouse, Managing Partner at Old Mill.

Guest spot

A view from the Rural Surveyor, James Stephen, Partner at Dreweatt Neate.

We live in interesting times and so when I was asked by Old Mill to write an article on topical issues affecting Rural Surveyors I knew there was plenty to talk about; indeed where to stop is probably the problem.

So, what are the primary drivers currently affecting our work? Well, we find ourselves with split personalities at present. On the one hand we have the positive impact of rising farm gate prices, initially in arable and dairy and more latterly in beef and sheep, although the initial euphoria has been tempered by rapidly rising input costs and more recent drops in commodity prices.

On the other hand we are seeing the effect of the "credit crunch" which has undoubtedly stimulated the long expected downturn in the wider property market. It seems likely we are only in the early phases of this particular economic cycle and anyone owning residential property in particular should brace themselves for several years of negative capital growth.

Thus as so often happens, agriculture is experiencing an upturn in fortunes as the wider economy enters a sharp slowdown, if not recession and it is these two opposing forces which are occupying the minds of most Rural Surveyors in one way or another.

On the agency side, despite the recent rise in value of agricultural land, which was initially driven by outside investment and more latterly by farmers themselves, there is a feeling we may well have seen the best of this market for a year or two although we are not expecting values of farmland to fall. This is in contrast to the pure residential sales market which is in serious trouble although as ever location is still vital.

This was evidenced to me recently when I attended an auction in North Somerset where there were six lots including two suburban houses, two small development



James Stephen, Partner, Dreweatt Neate

opportunities, a secondary location commercial property and one 1950s house with seven acres, stables and a stunning view. As far as I could see, there was only one bid on the first five lots, none of which



sold, but the last lot sold well to competitive bidding showing that even in a bad market well located property will still sell well which usually benefits rural property.

While agency struggles, the management side of surveying is busier than for many years. For the first time in well over a decade, landlords are now looking for significant rental increases. As a result, Agricultural Holdings Act rents are rising by around 20 and 30% to between £60 and £80 per acre and good arable land let on an FBT has been achieving £100 per acre or more.

Obviously there is a huge variation in rents and these are only indicative figures with Landlords often looking to maximise the rental value of residential properties which can significantly distort the overall farm rent per acre. But, large as these rental increases may seem it has to be remembered that there has been zero if not negative rental growth over the last ten years or so and the latest increases represent little more than inflationary growth over that period.

On the professional side we are also being challenged with difficult valuation exercises. Valuation is more an art than a science and this art has become particularly tricky in recent months with property values dropping sharply in some sectors while still rising in others. This is a particular challenge when valuing a rural estate with a wide range of property types varying from commercial, through residential and agricultural to forestry and amenity property assets.

Such valuations also have great significance where inheritance tax is concerned and we are increasingly involved in rehearsing the arguments surrounding the difference between the "agricultural" and "market" of both farmhouses and land in the wake of the Antrobus cases.

So, as I said at the outset we are living through interesting times which are setting the surveying profession and many of our clients significant challenges. But, on balance our farming clients seem likely to benefit at least in the short term from the current economic climate provided they do not need to borrow too much money and are not exposed too significantly to the downturn in the wider residential and commercial property markets.

Agricultural Tax changes – what are the practical implications?



Andrew Vickery,
Manager – Exeter
Rural Services team

For those involved in the farming industry the last twelve months have seen some of the most significant changes to the tax regime for many years.

These were not immediately obvious at the time of their introduction but many will now be starting to feel the full effects, particularly with the current volatile markets for agricultural commodities and rising input prices, notably for fuel and fertiliser.

Elsewhere in this newsletter we have examined the opportunities and threats that the new Agricultural Investment Allowances pose for farmers. At this point it is just necessary to emphasize that for most farmers they will require extra awareness and monitoring and managing to assure that the most is made of the opportunities and that the potential pitfalls are not triggered.

More detrimental for most businesses will be the demise of Agricultural/Industrial Buildings Allowances. Prior to April of this year investment in farm buildings including most grain storage, cubicle and covered yards for livestock would be written off at 4% per year so that the whole cost would be written off over a period of 25 years. That in itself was not particularly generous, but at least investment could be made knowing that tax relief would be available in full over time. These allowances are now to be phased out and no write off will be available after April 2011. In effect, this is retrospective taxation (or perhaps retroactive is a better description) as those that invested in good faith expecting to receive the full relief over time are now having this removed.

This will affect businesses that have put up agricultural and industrial buildings over recent years and will almost certainly lead to higher tax liabilities as a result.

So what can be done? In the arable and dairy sectors, farm profits were, in many cases, particularly strong for the 2007/08 accounting year. These reflected stronger harvest prices for the 2007 harvest and at least an element of the higher milk prices available from around October 2007 respectively. This will leave many farms with a balancing tax liability in January 2009 for sole traders and partnerships but difficult 2008 harvest conditions and higher input prices make the current year look more challenging for most. It may be that Farmers' Averaging can be used to eliminate any higher rate tax liabilities (of 40/41% for individuals) and, where higher payments on account for the 2008/09 tax year fall due, in January and July 2009 based on higher 2008 results, anticipated farm profits for the current year should be considered carefully. Where this is likely that profits will be lower, there may be scope to reduce payments on account accordingly, providing a welcome cash flow advantage. Although the tax should never be the primary consideration when making business decisions there may be some simple options such as making pension contributions and bringing forward repair expenditure to save tax in the most efficient manner. Where investments in new buildings are planned consider using Self Invested Personal Pensions (SIPPs) for example to make the expenditure as tax efficient as possible.

At a time when many farming businesses are undertaking considerable investment and the cost of borrowing is increasing don't suffer paying tax on hard earned profits unnecessarily. There are a wide variety of potential options to save tax but the key is to plan ahead and get proactive advice to find the best solution. At Old Mill our rural services teams are keen to help you with this planning.

Golden opportunity for landowners to mitigate tax on property lets

Landowners renting out surplus business property could find it qualifies for Inheritance Tax relief, and, for a limited time only, can ask the Capital Taxes Office for advance confirmation of its position.

Although rental property is not normally exempt from Inheritance Tax, certain circumstances can open the door for some businesses to claim Business Property Relief (BPR). Until 31 October 2008, landowners can get

advance clearance for BPR claims under a trial being run by the Capital Taxes Office.

This is a golden opportunity for farmers who are renting out property to see if it will qualify for BPR. There are significant tax savings to be had, and, by getting an advance decision from the tax office landowners can plan to pass down their estate in the most tax-efficient way possible.

In the case of Farmer v IRC the court held that landowners renting surplus property as part of the overall business were entitled to claim BPR, thus avoiding Inheritance Tax charges. Two of the critical points in this case were that the rentals formed part of the overall business, and had a modest turnover compared with the main business activity.

Many farming businesses will find themselves in a similar situation, renting out cottages which are now surplus to requirement. Even if the properties are found not to qualify for BPR, this is a great chance to plan around that and make alternative arrangements to hand over your assets without incurring a large tax bill.

Usually, landowners have to wait until they die before the Capital Taxes Office will answer whether the

property qualifies for BPR. This window of opportunity is therefore a very valuable chance to mitigate future Inheritance Tax liabilities, as well as to potentially put minds at rest.

Obviously time is very limited on this window of opportunity. If you feel it may be relevant to you please contact us as soon as possible to discuss.

Out and About



Alan Stone,
Group Marketing
Manager

This autumn will, as usual, see Old Mill out and about at shows and farm meetings. We will be making our regular appearance at the Dairy Show at the Bath and West on October 1 and we will be back there for Royal Smithfield on December 5 and 6.

This is shaping up to become an important show for the industry with a focus on the links between farmer producers and the retail buyers. It is thought that most of the major supermarkets will be attending.

On October 3 we are trying something new. Richard Haines is organising a Farmers Golf afternoon at the course of a farmer client at South Cerney Golf Course in Wiltshire. If anyone would like to take part in this

please contact Alan Stone on **01749 335007** or email alan.stone@oldmillgroup.co.uk.

On October 21 Old Mill, along with Clydesdale Bank, are sponsoring the hot supper at an evening meeting being organised by the Royal Bath and West Society on 'Feed Fertiliser and Fuel – What can you do about rising costs?' Many Old Mill staff will be on hand during the evening if you have any tax based questions.

On November 11 a farmers meeting has been organised with Barclays Bank at Padbrook Park, Cullompton in Devon and on 26 November we are teaming up with insurers Towergate Lloyd White and Solicitors Pardoes for a meeting at Bridgwater Rugby Club. We are also at the planning stage of a meeting in the Devizes area of Wiltshire and another in the Taunton area.

Please check the Old Mill website for more details of these and other events – www.oldmillgroup.co.uk.

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