



Summer 2008

Nail on the head – exciting times for Rural Services

These are interesting times for farmers with increased commodity prices but also increased costs. Change brings opportunity but opportunities can only be exploited by those businesses geared up to handle change.



Mike Butler, Head of Rural Services

For the Specialist Agricultural team at Old Mill Accountancy, being prepared to adapt to a changing industry is something we do need to be prepared to do. We are fortunate to have the support and skills of a young, dynamic professionally qualified team. Many come directly from farming backgrounds and all are passionate about servicing our farming and rural clients.

As part of the development of our service, I am delighted to confirm that our Exeter office now offers a dedicated rural services team serving Devon and surrounding counties. Headed by Andrew Vickery and supported by the rest of the team including myself and Ian Sharpe, Andrew will undoubtedly become increasingly known to many of you in the area as he visits and talks to clients and non clients alike about some of the exciting and proactive options available to them in terms of financial management and tax mitigation.

At the same time, as a partner group we are looking at opportunities to have a more permanent

representation in the east of our region covering Wiltshire and the surrounding area. We are however minded that expansion should not be at the expense of quality and it is for this reason that the cornerstone of our development is to build a team of highly skilled individuals who will establish long term relationships with their farming clients, helping them prosper for many years to come.

2008 and beyond is set to provide some interesting times. Farming has got used to a difficult period with more downs than ups in recent years but undoubtedly pressures on food supply and food security will keep farming and farmers very much in the spotlight. Our priority is to have our clients maximise their prospects and we aim to work with them continuously throughout their year giving them the best advice. For those of you that read this piece that are already clients, I would like to take the opportunity to personally thank you for your support over the years. For those non clients, I would strongly encourage you to make contact with us and we would be only too delighted to identify the areas where we can definitely help your business.

I hope you enjoy this newsletter.

Mike Butler, Head of Rural Services

Capital Gains Tax – the all new Entrepreneurs' Relief



Catherine Vickery,
Rural Tax Specialist

The Government announced in January a new relief in response to the outcry from business owners that the new Capital Gains regime of taxing all Capital Gains at 18% was unfair to business owners who had been used to a 10% rate under the old regime.

This new relief is entitled Entrepreneurs' Relief, and it bears an uncanny resemblance to Retirement Relief introduced by the Conservatives that was actually abolished by Gordon Brown shortly after Labour came into power.

Entrepreneurs' Relief effectively taxes the first million pounds of Capital Gain on the sale of an individual's business interests at 10% rather than 18%, whether this is shares in a trading company, a sole trader enterprise or a partnership interest.

It also covers associated disposals such as land and buildings owned personally, but used by your company or partnership if you are selling these up to three years after the sale of the business.

However there are some pitfalls that could result in not qualifying for the relief that can be avoided in certain circumstances if you plan well ahead of any sale.

One instance when relief will not be available is where an asset used in the business is being sold, but the owner is continuing in the business, for example if a field is sold but the individual continues to farm the remaining land.

Instances where relief is restricted are where a property is held outside the company or partnership but used by that company or partnership in exchange for rent or has been at any time in the past. Even if you stop renting the property to the partnership or company now you will still not be able to get full relief in the future. It may be possible however to "cleanse" the ownership period in order to get full relief. Relief may not be available on company shares if a company owns investments or even significant amounts of cash although again it may be possible to "cleanse" the ownership period to boost any Entrepreneurs' Relief claim.

If you are considering selling a business it is important to take advice and review the availability of Entrepreneurs' Relief well in advance as it may be possible to improve the position with forward planning. It is a valuable relief to have, as it is worth up to £80,000 per individual in the business.

Old Mill recruitment

Due to ongoing growth and success with an increasing number of clients seeking the expertise and care that Old Mill provides, we are always on the look out for more staff to join our talented teams.

In Rural Services we pride ourselves in employing many people from a farming or rural background. It helps us keep our feet in the soil and ensure that we really understand our client's needs.

Coming from a farming background does not restrict candidates to working on farm accounts – there are

also many opportunities in our other teams working in audit, tax and with corporate clients or indeed with our Financial Services team of IFA's.

If you have a son, daughter, niece or nephew who is thinking of a professional career then accounting could be a sound choice. From our point of view the important thing is an enthusiasm to work in the West Country and benefit from the career opportunities that Old Mill can offer.

Anyone interested in learning more about the exciting opportunities available should contact Group HR by emailing careers@oldmillgroup.co.uk or telephone **01749 335026**.



Eco-Gym for People Power



Archie
Montgomery

Old Mill are pleased to be supporting an Eco-Gym run by client Archie Montgomery of Home Farm North Cadbury in the Eco-Zone at the Bath and West Show this year. Here Archie tells us why he sees this as an important issue for everybody.

For some years it has been obvious that Britain, with its historical abundance of coal, oil and gas has taken a very different view of national energy security compared to its European neighbours. On the continent those countries with poor fossil fuel resources have successfully developed alternatives, particularly where political will prevents nuclear power being an option. These energy alternatives are exclusively “renewable” and many rely on farmers and the land based industries to provide the raw materials whether it be wood, crop based bio fuel or waste products. In the process farmers livelihoods and income security have been improved and wealth created in local communities.

In the UK the almost overnight realisation that the North Sea oil and gas reserves were running out and that our coal fired and nuclear power stations were mostly obsolete, has created panic. The political acceptance of the fossil fuel contribution to climate change has only added to the apparent rush towards policies encouraging the domestic and industrial use of renewables. A huge and growing market has been created for any product with a “sustainable” logo, which has led to a feeding frenzy of manufacturers, importers and distributors keen to bring their goods into the commercial vacuum.

However the UK public, while often looking to do something, is unfamiliar with the new ideas and mechanisms. They have for too long been extravagant energy consumers living in a disposable age. On the other hand consumers on the continent are very familiar with sustainable energy technologies. Their high streets are full of shops displaying domestic wood- pellet stores, solar heating panels and energy saving products.

There are many exhibitions and shows promoting new technologies and renewable products, regularly drawing huge attendances. Experience has shown which have been the most reliable or cost effective options and which products don't live up to expectations.

The Royal Bath and West Showground offer a large (230 acre) south facing site with a regular annual current visitor count of over a million visitor days. The Royal Bath and West Society, an agricultural charity, sees a huge potential to use the showground to publicise the sort of material about sustainability which is already household knowledge amongst our European neighbours, and in the process promote the market for the land-based renewable sector.



For three years now a special area of the main shows has been given over to displaying renewables, “the ECO-Zone”. Here members of the public can learn a little about energy, and how to use it wisely. Trade stands show them commercial options. Farmers can learn from the experience of those present in the ECO-ZONE already involved in renewable energy generating from humans, Bio fuel or anaerobic digestion. Novel transport forms, building materials and domestic products are all on show.

But people go to the Royal Bath and West show for a fun day out, and that is what they find at the ECO-GYM. This is an area of the ECO-Zone where people can visualise energy, by using their own muscles to generate electricity for scaletric and toy train races. They can find out just how hard it is to keep one light bulb on, or run a TV, or even boil a kettle. They can lift the weight of their own carbon footprint and by using their own energy see the size of the problem facing the planet.

It is a small but essential step in the long road to public acceptance of the need for change, and a precursor of more ambitious intentions for the showground.



Cash to tackle water pollution



Julia Banwell,
Consultant
Financial Services

South West farmers are being offered access to a cash fund which could provide up to £10,000, per farm, to tackle water pollution. Funds are available through a scheme operated by the England Catchment Sensitive Farming Delivery Initiative.

Cash is available for schemes such as improving stockyards, silage clamps and slurry stores, with an aim of reducing run-off water, for example, by covering these areas with a roof or to provide funds towards separating and storing dirty water to help meet the new rules over Nitrate Vulnerable Zones. Other items such as farm tracks, fencing of watercourses and hard standing around water troughs are also included.

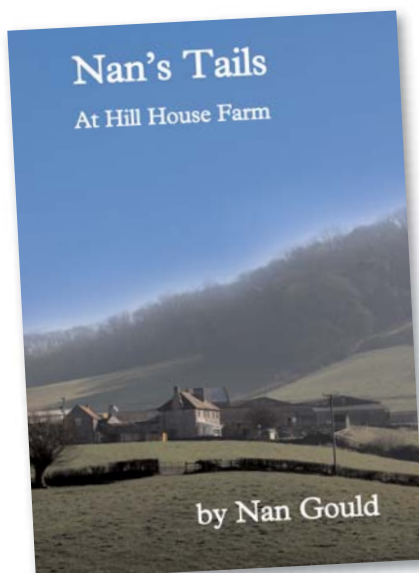
The scheme is targeted at producers in 12 priority areas across the region, with the South West having the largest area of farmland within the 40 priority national catchments.

A total of £5 million is being made available across the country. Specific programmes have been drawn up in each priority catchment, and grants aim to cover between 40 and 50 per cent of total cost. Applications must be made by 30 June 2008 and the works must be completed by end February 2009.

For more details on the CSF initiative and to find out if you are eligible to apply our recommendation would be to speak to the local manager for the region, Adrian Boots on **01823 285548** or Roy Hayes on **01278 484862**. Additionally, further details are available at www.defra.gov.uk/farm/environment/water/csf.

Client spot – *Nan's Tails*

Ian Sharpe was talking to his clients John and Nan Gould from Hill House Farm, Laucherly near Wells when they mentioned that Nan had written a book but a publisher wanted to charge them £7,000 to publish it.



Ian suggested that they speak to Old Mill Marketing Manager Alan Stone as he had been involved in writing and publishing some local history books. Alan helped to prepare the book for publication and the whole exercise will now cost considerably less than one third of the original quotation.

28 April saw the publication of *Nan's Tails* which contains Nan's memories of the animals – pets, farm and wild – which have been



such an important part of her 45 years of married life. The trials and tribulations of being a Somerset farmer's wife and the problems and regulations which beset small farms come through very strongly in Nan's direct writing style.

If you would like a copy of the book – either for reading yourself or as an ideal gift for relatives – buy online at www.somersethistory.co.uk.

New ISA allowances – use them or lose them!



Martin Glover,
Consultant,
Financial Services

Are you making sufficient use of your annual ISA allowances? Well now may be the time to consider this question again as from 6 April 2008 the Chancellor has increased the annual ISA allowance to £7,200 of which £3,600 can be held as cash.

If a partnership or sole trader is holding cash reserves on deposit while the proprietors are not making full use of their ISA allowance, you may be paying tax on the interest received unnecessarily. To put this in to context, an individual who invests the current cash element of the ISA allowance in to a relevant deposit account each year for the next ten years (i.e. total deposits of £36,000) would enjoy a total fund on deposit of just over £50,000

at the end of that period. In contrast if the same individual invested in a non-ISA cash deposit earning interest at the same rate of 6%, tax would be deducted on the interest leaving £47,013 for the basic rate tax payer and just under £44,000 for those paying tax at the higher rate.

Furthermore those with other investments such as unit trusts and equities may also be able to benefit by transferring these investments in to an ISA, (up to the annual allowance) thus avoiding personal Income Tax and Capital Gains Tax on future income and gains from these investments.

Tax concessions are becoming few and far between so make use of them wherever possible while they last. Remember Old Mill Financial Services is available to discuss both your ISA requirements for the 2008/09 tax year and, in a volatile market, now may be the time to review existing pensions and investments as well.

Self Invested Personal Pension Schemes (SIPPs)

Key facts about the potential for farmers to use SIPPs

A Self Invested Personal Pension (SIPP) can be a valuable tool for farmers to build a pension pot and to mitigate tax. However, they are often misunderstood. Here we bring out some of the key points.

1. Contributions of up to £235,000 can be made into a Pension Scheme in the year ending 5 April 2009 and tax relief can be claimed at the highest rate applicable to the individual making the contributions.

Also, Limited Companies may make contributions on behalf of directors/employees and obtain corporation tax relief at the highest rate applicable.

2. The tax payable on farmers' profits can therefore be reduced considerably by contributing to a Self Invested Personal Pension Scheme (SIPP).

3. Contributions do not have to be in cash. For instance stocks, shares and land and buildings can form part of a contribution and full tax relief claimed by the contributor.

4. Pension funds can make a very wide selection of investments, including farm land, farm buildings, farm workers cottages, quoted investments, bank deposits etc.

5. Pension funds can also be used, for instance, to buy land already owned by a Pension Fund belonging to another member of the family.

6. It is important to make the contribution in the tax year in which the tax relief is needed i.e. the year in which the profits are made. Pension contributions cannot be carried back to previous tax years.

7. Under current legislation at age 50 the beneficiary of a Pension fund may draw up to 25% of the fund out as a tax free lump sum or, indeed, can have a similar payment out "in specie" e.g. farm land owned by the Pension fund. In addition a beneficiary can draw all or part of his pension from the remaining fund.

8. In short, by using a Pension fund a farmer can considerably expand his farming business with the help of a maximum 40% contribution from the Inland Revenue and also in some circumstances save the National Insurance as well.

The above notes simply highlight some of the opportunities available though, of course, it is necessary to talk in some depth with your adviser so that all the advantages and disadvantages of pension funds can be fully understood.

Guest spot



Michael Rowe,
Senior Partner,
Clydesdale Bank

Michael Rowe, Senior Partner at Clydesdale Bank, Exeter, takes a look at a possible farm diversification that is interesting the Bank at the moment.

Anaerobic Digesters – where there’s muck there’s money?

When a topic is hot enough to make it on to ‘The Archers’, then it is worth a closer look. There is much talk about on farm anaerobic digestion but what are the truths behind the headlines and the hype?

Energy security is a real issue for the country both in terms of the source of the energy and the lifespan of the current generating capacity. Over the next ten years we need to replace over 40% of our generating capacity.

Therefore, a balanced solution to our energy needs (including being profitable) must be found within which Renewable Energy plays a major part.

Ambitious plans have been announced regarding wind farms but these seem to ignore three key factors – NIMBYISM, what do we do on those days with no wind and what about when it is blowing at storm force?

Electricity and heat production from Anaerobic Digestion does, I consider, have a very large part to play in meeting the future energy needs of the UK.

For farmers, what are some of the key factors when considering Anaerobic Digestion?

The technology of AD is well proven and much of it German/Denmark engineered. (For instance, there are over 4000 on farm AD plants in Germany, providing renewable electricity equivalent to one nuclear power station). The kit is unlikely to let you down, but the output from an AD plant is only as good as what you put into it – it is vital that the supply of ingredients for the digester is balanced, consistent and secure over the medium/long term.

What do you put into it?

For the majority of farms slurry is likely to be a major component with this supplemented by more calorific ingredients such as silage, maize and arable crops. I think however that with the potentially long term upward movement in grain prices, a business model that is over reliant on inputs linked to food production will come under pressure.

For me, the future of AD lies in the incorporation of waste products into the digester – be it household waste/ industrial waste e.g. bakery waste. We are running out of landfill, so the use of waste products to generate ‘green’ electricity and heat is a win/win strategy.

There is the added bonus of the very valuable fertiliser that is produced in the form of the digestate – with ‘bagged’ fertiliser at over £300 per ton and being oil derived, this digestate is going to be of huge importance for long term sustainable farming practices.

AD plants are not the antidote to NVZ regulations, as 90% of what goes in comes out, and the nitrates are still there - however the digestate is in a form that is much easier to handle. The digestate has the potential to be sold to arable producers.

The profitability of AD plants is influenced by two major factors:

1. Government support through ‘Renewable Obligation Certificates’ or ROCS – we await confirmation via statute that electricity derived from AD will qualify for double ROCS
2. The wholesale price of electricity – unless you are going to use all of the output yourself, or can establish a local supply arrangement, then you are going to need to sell electricity to the wholesale market via the national grid. If you do not have close access to the grid, then you may have a problem. Negotiating the correct electricity supply contract is also very important.

I fully expect Anaerobic Digestion plants to play a significant part in meeting the future energy needs of the South West. Here at Clydesdale, we are already providing funding solutions to the sector, and developing new products to assist with the financing of future projects.

Special features of agricultural and business property



Ian Sharpe,
Partner

Any person making lifetime gifts will be aware that business property and agricultural property have additional advantages. First, there is no need to set up trusts because outright gifts can be made with the benefit of the specific Capital Gains Tax Holdover Relief.

This means that any amount of taxable value can be transferred where the property is business or agricultural property because for Inheritance Tax purposes, if gifted outright to another individual, it will be a Potentially Exempt Transfer subject to the seven year survival rule and no reservation of benefit. The important point to watch is that if the donor dies within

seven years of making the gift of business or agricultural property the value of the property gifted becomes taxable on their death and any inheritance tax reliefs will depend on the property still being business or agricultural property in the hands of the donees. In essence this means that the person acquiring the asset should ensure that it is continued as a business or agricultural asset for seven years after the gift. If it is likely that the property is to be sold within the next seven years after the gift then a life time gift to another individual may not be advisable.

Another option here would be to make the lifetime gift into a settlement because as long as the chargeable transfer before any Inheritance Tax reliefs is below the donor's nil rate band (currently £312,000) then the relevant reliefs are locked in. This means that if the donor simply passes away within seven years and in the meantime the property is also sold, there will be no claw back of the relief applied at the time of the transfer into the trust.

Enhanced Capital Allowances – how to beat the £50k allowance

Andrew Vickery – Rural Services Manager

The Enhanced Capital Allowances (ECA) scheme enables businesses to claim 100% first-year capital allowances on items of plant and machinery that meet the government's energy saving criteria.

Although this scheme was introduced several years ago, the changes to the capital allowance regime coupled with the loss of Agricultural Buildings Allowances and rising utility bills should mean that the scheme is considered when undertaking all new building projects.

ECAs are available on two main classes of assets, being:

- Energy-saving plant and machinery, e.g. compact heat exchangers, solar thermal systems and energy efficient lighting
- Water conservation plant and machinery, e.g. rainwater harvesting equipment, vehicle washing equipment and water efficient cleaning equipment


While small businesses can now claim 100% write off against taxable profits for all expenditure on plant and machinery up to £50,000 per year under the new




Annual Investment Allowance (AIA), the 100% allowances for ECA purchases are in addition to the AIA scheme and there is no limit on the qualifying expenditure.

The important point to remember is that for items to qualify for the ECA allowances these must be on the government's approved list of products at the point of purchase. However, the tax advantages mean it is certainly worthwhile checking whether any qualifying items could be used in any new building project and even consider lobbying the manufacturer of the products you are looking at to get the items on the approved list which is updated monthly.


In a climate of rising tax liabilities it is important to consider the tax implications before undertaking substantial investments. In many cases, if a project is structured correctly tax can be saved by planning ahead and making sure that assets are classified correctly. The last thing a business needs when investing for the future is a large tax bill so speak to your accountant and take advice at an early stage.



2008 CAP health check – new opportunities and challenges



Proposals expected spring 2008, with the aim of reaching agreement in second half 2008.



The Health Check is not intended to represent a further radical overhaul of the CAP, but build on the reforms of 2003 **and:**

- Make the direct aid system more effective and simple
- Make the market support relevant to the expanded EU
- Answer the question of how to confront new challenges from climate change, biofuels, water management and the protection of biodiversity

England has potentially less to fear from new proposals than either Wales or Scotland, as big steps taken in 2003 set England apart from the rest of the UK and most of Europe. However, new proposals may have an impact, for example, a proposal put forward by the French known now as Article 58 (based on Article 69 which concerned the use of national envelopes), where funds unmatched by national governments can be diverted for specific needs set by national governments. The UK government is not thought to be in favour of this

although UK environmental groups are calling for its adoption at an increased rate of 15%, rather than the proposed 10%. This additional fund may also be seen by DEFRA as an easy way to fund disease cost sharing proposals, and Carmen Suarez, the NFU Chief Economist, believes other countries may see it as an opportunity to re-introduce direct support payments.

Capping of payments seems unlikely although a progressive modulation regime has been suggested which would reduce payments over a certain level, currently suggested to start at 100,000 Euros, and increasing as the payment size increases in a similar way to income tax.

The NFU is lobbying for any increase in EU modulation in this way to be offset by reduced modulation at a national level, thereby reducing the difference between England and other European countries and creating a more level playing field. In this way it would then be anticipated that the overall rate of modulation would be unchanged except for very large payments, but even then the increase may not warrant the restructuring of a business to reduce overall modulation because of the inconvenience caused and the associated legal and professional fees incurred in doing so. This will obviously be an area to watch.

Contact Old Mill Rural Services

Mike Butler and Neil Cox

Number One Goldcroft, Yeovil,
Somerset BA21 4DX tel: 01935 426181
email: yeovil@oldmillgroup.co.uk

Andrew Vickery

Berkeley House, Dix's Field, Exeter,
Devon EX1 1PZ tel: 01392 214635
email: exeter@oldmillgroup.co.uk

Ian Sharpe and Richard Haines

The Old Mill, Park Road, Shepton Mallet,
Somerset BA4 5BS tel: 01749 343366
email: sheptonmallet@oldmillgroup.co.uk

www.oldmillgroup.co.uk