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LFB LandFamilyBusiness
Strategic Tax & Accountancy for Farms & Estates

Winter 2020

Welcome

Welcome to our latest newsletter. There are substantive changes happening in our industry and we cover some of the main ones in this issue.

Initially 2020 harvest has been well below average with many businesses down in sales, however tax bills in Jan 21 will be based on the 2018 and 2019 harvests.

We include our annual benchmarking results and continue with our no-till comparison figures.

This year we have analysed the reduction in the BPS on our clients. We have been approached by many farmers across the country to discuss collaboration joint ventures – there are many options and every situation is different. We have substantial experience in setting these up over the past 20 years and there are some fundamental tax pitfalls that need considering.

Finally, we are all aware that our Government needs to raise substantial tax in the near future and we have assisted many farming businesses to start addressing succession and handing down assets in a tax efficient and divorce proof way.

We hope you find this newsletter useful

Gary Markham

BPS reductions - what strategy?

The latest indications from DEFRA are that the direct payments will be phased out from 2021 until 2027 with the reductions for 2021 shown in the table below. Subsequent payments decrease over a 7-year period.

Direct Payment Band	2021 Reduction Percentage
Up to £30,000	5%
£30,000 - £50-000	10%
£50,000 - £150,000	20%
£150,000 or more	25%

Our latest benchmarking results indicate that on average the BPS payments make up 84% of the Net Farm Income. The average reduction in payments is 22%.

Reliance on BPS	Average	Top 25%
BPS % of income	84%	52%
Percentage reduction in BPS in 2021	22%	21%
Average reduction	£21,000	£20,000

This clearly shows the serious impact this will have on farming businesses and will typically hit cashflow in December 2021. Although DEFRA have pledged that money saved will go into mainly environmental schemes it is unlikely that funds will be received in the farm bank account before December 2021. Therefore, there will be a funding gap from early 2022, potentially for several years depending upon individual circumstances.

The most obvious strategy a farm business can take will be to aim to replace the loss of the £20,000 in 2021 by rental income and many clients have already started to put this in place.

LFB joint venture decision matrix

	Contract Farming	Share Farming Contracting	Share Farming Contracting	LFB Hybrid Model	Machinery Syndicate
Inheritance Tax	?	X	✓	✓	✓
Cost Sharing	X	✓	✓	✓	✓
Future Flexibility	X	✓	✓	✓	✓
Exclude BPS	?	?	?	✓	✓
Personal Wellbeing	X	X	✓	✓	✓
Machinery Sharing	X	✓	✓	✓	✓

The above table summarises the various forms of JVs including the LFB model which is based on the standard contract farming agreement but on a share farming cost sharing basis - this excludes BPS.

One of the main considerations of farmers is the effect the JV will have on their IHT relief. A true contract farming agreement will probably provide the relief however there are many that have deviated with potential unfortunate consequences. A traditional Share Farming agreement will reduce the farming activity of the Farmer thus possibly exposing the business to failing the Balfour tests depending upon the business.

Robust cost sharing models are needed to cope with the volatile future changes in the arable industry and these will be a Machinery Sharing JV together with an appropriate Share Farming Agreement for the crops.

To discuss further please call Gary Markham on 07970 794495

Tax small steps now for big wins later

There has been much reported that the Government will need to raise taxes in the near future to fund the Covid public spending and there are many rumours around as to which taxes will change. This background has led to many farms and estates reviewing their inheritance tax and succession plans.

Development Land

One of the most important considerations relates to land with potential development that may come to fruition in the forthcoming few years. This land will have agricultural value and an increasing amount of development value as time progresses and eventually will end up as cash with the owners. Typically, this will be the elder generation and probably be subject to 40% tax. Important questions would be:

- The first step is to clarify who owns the land and if personally owned whether it is held within or outside a partnership.
- Who has the land been left to in the Will?
- Should the land be gifted now therefore just bringing the succession forwards in time?
- Is this an opportunity to consider wider ownership in the family to include non-farming siblings?
- Will the eventual proceeds be retained by individuals or left in the business to be rolled over into further business assets?

Balfour

There are widely held beliefs that the 50:50 rule rule which applies to trading and investment assets, will reduce to 80:20 at some stage and this will affect many farming businesses and estates. Therefore, serious consideration should be given to rearranging the ownership of assets currently held in partnerships by gifting to trust or passing ownership onto the next generation to hold outside the partnership. Currently legislation exists to enable farming and assets to be gifted free of tax and there is a possibility this opportunity may not be available in the future.

In conclusion our thinking is that all assets will eventually pass to another owner based on a Will and maybe now is the time to bring that forward to try and maintain as much net of tax wealth within the family as possible.

To discuss further please call our tax team - Samantha Corner, Chrissie Deller or Luke Cochrane on 01480 445490

Tax Planning | Family AGM | Succession | Accounts | Diversification

RURAL BUSINESS SURVEY 2019 HARVEST

	LFB Survey 19		LFB Survey 18		LFB Survey 17		
Farm Size (Acres)	**Top 25%**	**Average**	**Top 25%**	**Average**	**Top 25%**	**Average**	**Average**
Woodland	-	-	-	7	-	-	-
Livestock	-	212	-	338	-	73	256
Arable	782	910	1,548	880	990	771	1,571
Contracting	454	476	-	477	-	418	1,532
Other	-	96	46	129	86	81	183
Total	**1,236**	**1,693**	**1,595**	**1,832**	**1,076**	**1,343**	**2,011**
Arable Net Margin (£/Acres)							
Arable gross output	**536**	**473**	**503**	**479**	**470**	**417**	**350**
Variable costs							
Seeds	19	31	22	31	22	24	28
Ferts	80	73	54	62	60	66	55
Sprays	94	80	66	77	75	77	59
Other	14	17	11	14	16	11	12
	207	**201**	**153**	**185**	**173**	**177**	**154**
Arable gross margin	**329**	**272**	**350**	**295**	**297**	**239**	**199**
Livestock gross margin	**-**	**(13)**	**-**	**208**	**-**	**270**	
Contract farming income	**194**	**119**	**-**	**181**	**-**	**157**	
Farm Gross Margin	**331**	**257**	**348**	**283**	**285**	**223**	
Fixed costs							
Paid labour	27	26	58	40	37	26	38
Machinery							
Depreciation	59	58	50	60	66	64	43
Spares & repairs	29	18	22	24	23	23	20
Contracting & hire	13	54	66	60	30	38	7
Fuel	26	20	24	26	29	22	15
Other	8	8	9	11	9	9	5
Total labour and machinery	**162**	**185**	**229**	**221**	**194**	**181**	**128**
Groundswell Margin	**167**	**88**	**121**	**74**	**103**	**58**	(Avg) (Top 25%) **71 - 91**
Property	56	54	31	48	43	40	
Administration	50	45	32	47	44	36	
Margin before rent and finance	**78**	**(2)**	**90**	**(2)**	**47**	**(12)**	
Ad hoc contracting income	21	14	36	27	24	16	
Other farming income	61	46	30	23	20	22	
Basic Payment Scheme	127	106	110	105	97	97	
Environmental payments	63	35	7	16	36	18	
Rental income	64	48	41	43	49	39	
Other non farming income	36	17	4	19	3	18	
Rural business profit	**372**	**201**	**274**	**175**	**232**	**158**	
Rent and Finance							
Rent	133	75	76	49	64	54	
Finance	17	14	26	19	27	20	
Net Farm Income	**243**	**127**	**206**	**124**	**142**	**96**	

SURVEY ANALYSIS

The 2019 harvest marks the 27th year of our benchmarking service for our clients and it is interesting to recall the key messages over the years as the industry has changed and adapted. In the early years the farms in the Top 10% were simple arable businesses with the least diversification - the more non arable income the lower the overall profit. This was when farming businesses were in the process of adapting to change. As time has progressed most farms have become rural businesses with diverse income streams as opposed to arable farmers and alongside this, the farmers as individuals have had to adapt their management.

As shown in the table below, the Rural Business Profit has increased over the past 3 years whereas the margin from farming has remained relatively static.

Margin before rent and finance	Top 25%	Average
Margin before rent and finance 2017	47	(12)
Margin before rent and finance 2018	90	(2)
Margin before rent and finance 2019	78	(2)

Rural Business Profit	Top 25%	Average
Rural Business Profit 2017	232	158
Rural Business Profit 2018	274	175
Rural Business Profit 2019	372	201

Based on the results of the 2020 arable harvest it is likely that this divergence will be even greater.

Comments about BPS reliance and income from contract farming arrangements are discussed elsewhere in this newsletter.

We have over the past two harvests included our Conservation Agriculture No-Till benchmarking group as a comparison in our annual survey. The average value of machinery per acre has increased dramatically over the past several years with total values per acre well in excess of £300, with depreciation around £60 per acre.

We have therefore introduced a new benchmark which is the Machinery Capital per Tonne of Winter Wheat produced. This is obviously not a benchmark for overall profitability as profit is governed by the actual amount of tonnes produced per acre relative to their cost of production but is a very useful guide to efficiency of the business in terms of the main cost contributor.

Typically, the value of machinery per tonne of winter wheat varies from £77 to around £120. What is interesting is the difference between the No-Till group and our LFB clients.

Machinery capital per tonne	Benchmark	No-Till
Machinery capital per tonne 2017 (yield)	120 (3.33)	89 (2.68)
Machinery capital per tonne 2018 (yield)	106 (3.52)	107 (2.95)
Machinery capital per tonne 2019 (yield)	91 (4.00)	77 (3.54}

The key points about the 2019 top 25% results

- High arable output and gross margin £329 v £272
- Positive margin from contract farming of £32
- Higher environmental payments £63 v £35
- Higher rental income of £64 v £48
- Large contributions from non-farming activities
- Rural business profit £171 higher than average
- Large rental cost but still high net farm Income

For further discussion or any questions, call our Accounts Manager - Will Sherring on 01480 445490

JOINT VENTURE STRUCTURES

It is becoming increasingly clear from our benchmarking results that farming businesses in the Top 10% and several in the Top 25% Group are using machinery syndicates in combination with share farming to run their arable businesses by sharing costs with other farming businesses. In contrast to this the average group show a negative margin from contract farming agreements as shown in the table below.

Margin from contract farming	Av 2019	Av 2018	Av 2017
Income from contract farming	119	181	157
Labour and machinery	185	221	181
Net margin to the business	(66)	(40)	(24)

True joint ventures (JVs) are based on cost sharing whereas a contract farming agreement is a service provided by one business to another with a margin. In addition, most contract farming agreements include BPS payments in their structure and therefore will need to be renegotiated. The farming industry needs true cost sharing joint ventures based on commercial crop production to be able to adapt to the changes ahead.