

This time last year our clients had, for the first time in many years, seen a good harvest and sensible prices. In some cases, clients quite literally had so much corn they did not know where to put it. Accordingly, throughout the early part of 2009, we were reviewing interim accounts for harvest 2008 and advising on tax minimising strategies for the 2008/09 financial year. We knew that output prices would be lower for harvest 2009 and fertiliser prices, in particular, would be much higher. We were, therefore, anticipating a significant reduction in profitability between the two years. There is a general tax strategy of accelerating expenditure and deferring income wherever possible. This fitted in well with the practical issues of catching up on several years' accrued repairs, whilst not needing to sell grain urgently because of strong cash flow.

The first interim results for harvest 2009 are now available and it is clear that a number of things did not turn out as expected. Our forecast was correct regarding prices and costs for harvest 2009 but, in many cases, yields have been above average and the weather was relatively kind, allowing a quick, cheap harvest.

Other factors have also come into play:

- Currency fluctuations have worked in favour of the UK farmer and single payments were almost 15% higher
- Sugar beet compensation was paid in full earlier than expected
- Livestock prices have been good in most sectors
- Many farmers sold corn forward and therefore secured good prices for at least some of this year's harvest
- ...and of course, the acceleration of expenditure/deferral of income, referred to above, has tended to spread part of the 2008 harvest through to the following year. As a result of these



2010 – An interesting year?

factors the position is mixed but, in many cases, projected profits for harvest 2009 are not much lower than those achieved for 2008.

So what action should be taken now?

Do not forget the old adage about not letting the tax tail wag the business dog. Certainly, for some businesses with a March year end, it would still be possible to purchase equipment during the current accounting period and secure a tax allowance of up to 100% on that expenditure. (Following the introduction of a temporary first year allowance in the last Budget, a 40% allowance will be available over and above the £50,000 annual investment allowance.) However, even in the best of circumstances, expenditure of £10,000 on machinery will only give a tax saving of £4,000. If the machinery is not strictly required for the

business, it still represents a negative cash flow of £6,000. Nonetheless, it is worth looking at the cash flows to form a reasonable projection for the harvest 2009 accounts with a view to fine-tuning the capital expenditure budget in good time. Remember, if the asset is purchased on HP terms, it will need to be used in the business at the year end in order for allowances to be available.

Alternatively, there is still time to make pension contributions before 5 April. For many people, these will still secure full tax reliefs. Unfortunately, the matter is not as simple as it used to be, particularly if your income is substantial, since the relief may be restricted for those who have had a total income in excess of £30,000 in this year or either of the previous two years. All these points need to be considered in the light of the "bigger picture" overleaf.

Tax planning - the bigger picture

It cannot have escaped anyone's attention that the Government's finances are not in the best of health. The public sector borrowing deficit is enormous and, for the government that comes into power, there is a mountain of debt to climb and the prospect of tax cuts is therefore minimal. Putting this into context:

- The increase in the PSBR is projected at somewhere around £128 billion
- That is one hundred and twenty-eight thousand million – £128,000,000,000!

Looking at it another way, there are approximately one million farmed acres in a county the size of Norfolk. At the current price of £6,000 per acre, the capital value of the county's farming acreage would come to £6 billion, so if the entire county was nationalised and sold, it would cover less than a month of government borrowing. Alternatively, with the total increase in deficit of almost £130 billion, the Government would need to raise a sum close to the entire value of every arable acre in one of the Eastern counties just to pay the interest.

Those of us with long enough memories can still recall income tax rates of 98% and capital taxes of 75%. In that context, current rates for the main taxes still look quite modest, so whilst one would be reluctant to second-guess what may change in tax terms, it is probably a reasonable assumption that the position will not improve. There are certainly two or three areas where an incoming Chancellor might see that he could increase the tax "take" without creating too much unhappiness amongst the wider electorate.

Having said that, what can be done between now and the election?



The following should be considered:

- Do not rush into inheritance tax planning exercises for the sake of it; these can be complicated and it would be unwise to "act in haste and repent at leisure". However, if you are already doing something in this area, it would make sense to complete this before the election.
- There was much talk in the press, at the time of the Pre-Budget Report, that capital gains tax rates could rise, although this has not yet happened. At 18% the rate looks vulnerable to increase. The Chancellor could say that it can be difficult to ascertain whether a transaction is income or capital, with a differential rate of as much as 32% (or even 42%), there is an evident distortion in the tax system. Therefore, it may make sense to crystallise capital gains sooner rather than later, particularly if a gain is inevitable in the near future.
- On the subject of capital gains tax, and in light of the turmoil in the financial markets last year, a number of clients may be "sitting" on latent capital losses, for example on bank shares. There is an argument for crystallising some of these (having regard to the "bed and breakfast" restrictions) to establish a usable capital loss for the future.
- It is still in the Conservative manifesto that inheritance tax nil rate bands will be increased. A number of clients may have wills dating from before the transferable nil rate band which refer to legacies being made "equivalent to the nil rate band". When the nil rate band was low, this was a sensible legacy, but if it rises significantly following the election, it could give an unexpected result. If your will is more than two or three years old, it would make good sense to revise it as soon as the impact of the post election Budget is known.
- In previous issues of Farmlines we have referred to the impact of the "MARS" adjustment. All Larking Gowen clients should by now have addressed this but we are aware of farmers who have not yet benefited from this relief. The tax effect may well be substantial and HMRC have confirmed that the adjustment is mandatory – even though it works to their disadvantage. If you are aware of friends or neighbours who have not made the claim, we would be very pleased to assist them.

If you would like further advice on any of the above matters, please call your usual Larking Gowen contact or a member of our Agricultural team on 0845 450 2473. Alternatively, please email agriculture@larking-gowen.co.uk