

onagriculture



The impact of the new accounting standard FRS102 on farms

A new accounting standard FRS102 and FRS105 came in for small companies with accounting periods beginning on or after 1 January 2016. We thought it was worth taking a look at the specific requirements the standard places on farms and related agricultural businesses.

Prior to the development of FRS 102, there were no specific GAAP (Generally Accepted Accounting Principles) related to agriculture. The primary issue is that businesses within the farming sector can choose to adopt either a fair value model or a cost model for each class of biological assets and related agricultural produce. The disclosures required by each model differ and it's not possible to change once an approach has been selected, so it's worth getting to grips with the differences.

The fair value model measures all biological assets – that is, every living animal and plant – at a fair value, less costs to sell. Changes to this value will be recognised in profit or loss columns. The cost model measures the same assets at cost, less any accumulated depreciation and impairment losses. This marks a significant change as in the past, many would list an asset such as, for example, a herd, as a fixed asset and apply the tax value. The change is, in part, one of presentation but also it is worth considering the amount listed in the previous year to make it consistent with FRS 102.

There are advantages and disadvantages to each and we recommend speaking with your accountant for the best option for your business. It is also worth noting, however, that financial instruments such as loans containing caps, collars or swaps and forward contracts for crops and livestock must be listed in the accounts at a fair value and may require a specialist valuation.

Another area where there are some changes is the recognition of BPS grants. Under the new rules, a grant cannot be acknowledged in accounts until there is reasonable assurance that the conditions have been met and a clear date for the receipt of the grant is established. Depending on how you set your tax and business year, this may make a difference to your total BPS income in a given year and that in turn may have an impact on how your profit and your tax bill is calculated.

Ultimately, the changes may seem complex but the best approach is to speak with your accountant to find out how to present the information required to comply with the new regulations. We can help you understand the benefits and pitfalls of the different approaches to biological assets and help you present your accounts to comply with the new regulations without wrapping yourself in red tape.



Alresford Agricultural Show

This September brings one of the highlights of our calendar, the annual Alresford Agricultural Show. We will be hosting a stand at this year's show on Saturday 2nd September and will be sponsoring the Open Ridden Hunter class, which will take place at 9am in the main ring.

We are looking forward to building on last year's successful event, having partnered with Chichester College's Brinsbury Campus and Tinwood Estate for our exciting horticultural-themed competition. Guests had the chance to win a luxury hamper from the local sparkling wine producer by guessing the number of flowers in the tractor display.

One of the most traditional country events, the Alresford Show is just as popular and successful as when it first started, over 100 years ago. With over 150 trade stands and 70 craft exhibitors, horse shows, plants, poultry, farm animals and vintage farm machinery, the show caters for everyone.

Why not come along on the 2nd September from 9am-6pm at Tichborne Park, and see what we have in store this year?

We look forward to seeing you there!



The Future of Farming

When people think of a high-tech future, they picture spaceships and neon cities of skyscrapers, but some of the most advanced technology can be seen in the world of agriculture. Indeed, the sector is on the verge of a second technological revolution. This time, however, it appears it may be more of a boon than a threat - in most cases, the job losses have already occurred due to commercial pressures and the arrival of advances in artificial intelligence (AI), robotics and automation can only benefit the sector.

Many experts highlight that technology may be the key to developing a means of farming that provides the supplies needed for growing populations without decimating the environment. In addition, future developments may be weighted towards helping the smaller operators who can leverage technology to work smarter and generate better returns from their land.

So, how close are we to seeing robots milking cows and monitoring crops? The technical capability is already there, but the acceptance of the approach and the investment needed may still take time. As commercial and environmental pressure increases on the agricultural sector, the use of more technology is inevitable. A machine that can differentiate between a weed and a young plant and pull out all the weeds and reduce the need for pesticides, for example, could be worth a lot on its own. Recent advances in AI have created robots which can plant, monitor, safeguard and harvest crops in a way that maximises the yield with very little human intervention.

The key challenge is the infrastructure and government support needed to make this happen in farms across Britain. Apps which can help with soil analysis could prove invaluable, for example, but without the supporting broadband and 5G mobile infrastructure, it will be hard to fulfil their potential. The initial outlay on new technology may prevent many smaller operators from taking advantage of the latest inventions, but government support and subsidies could improve acceptance of new methods and help farmers meet profit and environmental goals.

The agricultural sector is ripe for automation, and those first few pioneer farmers and their army of 'agbots' who move the ideas from science fiction to reality aren't that far in the future at all.



Seminars for Farmers and Landowners

Following the success of our 'Threats to the Family Farm' seminar last autumn, we are pleased to announce that we will be hosting another series of seminars for farmers and landowners later this year in Hampshire and West Sussex.

Each seminar will include a variety of presentations on the latest topics for rural businesses followed by a question and answer session. Guests will also have an opportunity to network with peers over a selection of refreshments.

Sheen Stickland Partners Philip Sharpe and Harriet Sergeant, who specialise in the agricultural and rural business sector, will be joined by a number of partner organisations.

If you would like to attend one of our upcoming seminars or find out more information on our events for farmers and landowners please contact us on enquiries@sheenstickland.co.uk



Making Tax Digital: Update

We've written previously about the plans that every business will have to file their tax information using digital accounting software that is compatible with HM Revenue & Customs.

Making tax digital is the most fundamental change to the administration of the UK tax system for a generation and following the upheaval of the general election and Brexit, these plans have been deferred until 2019 for VAT registered businesses and potentially 2020 for all other businesses. However, despite these delays, it is likely that the measures will regain momentum once the current political upheavals settle down. It is therefore important to be prepared for the changes and ensure that you have begun the period of transition in plenty of time to ensure that the changes don't become a burden.

The switch to a digital system is not the only change being ushered in under the Making Tax Digital banner. For some, it may mean getting to grips with new software after years of listing their accounts in an Excel spreadsheet, for others it will be the end of the days when they could file away all their invoices and receipts for an accountant to sort out on an annual basis. This is because the changes mean businesses will have to keep HMRC up to date on at least a quarterly basis.

Plans are underway to improve broadband provision in rural areas and this means that cloud applications such as Xero will still be a viable and cost effective option for even the most remote locations. As accountants, our role will be to provide support and guidance to our clients throughout the

transition and whilst the changes may be enforced by HMRC, there may also be benefits in switching to digital and quarterly reporting.

The key benefit being the availability of real time financial data which will provide further insight into your business and allow you to make commercial decisions effectively, swiftly and in confidence as they arise throughout the year.

Whilst there is no doubt that this will bring a significant period of adjustment for many, we believe that with our guidance and support throughout the changes, Making Tax Digital could offer many positive benefits.



Loss Relief

On the 11th April 1967 the Chancellor of the Exchequer James Callaghan announced restrictions in his budget speech to restrict setting off farming (including market gardening) losses after they have been incurred for more than five continuous years.

As of 2017 the legislation remains largely unchanged, subject to clarification that has been sought through the courts in a number of cases throughout the years.

Loss relief can be invaluable where a downturn in profitability arises as it can enable the loss to be offset against other sources of income in the year to reduce the overall tax liability.

With farms seeking diversification with income streams such as rental to supplement the traditional farming trade, the loss relief can be invaluable to farming businesses and therefore it is important to protect the availability of the relief in line with HMRC guidance.

Should HMRC seek to question a loss claim made, a key emphasis would be to establish if the farm is operating on a commercial basis.

A business plan can be vital in demonstrating the farm's intent and plans for the future, because not only can it pinpoint the exact reasons why profits haven't been achieved in a particular year, it can demonstrate how the focus on certain activities can ensure the farm returns to a successful and profitable operation as soon as possible.

It is also worth noting that it is only in exceptional circumstances that a farmer will be able to claim losses for more than five consecutive tax years.

There has been a number of high profile cases in relation to farming losses and the relief available and even unexpected events, such as theft of livestock, do not in any way alter the rules. It is also not possible to use external factors, such as milk and grain prices, disease or other events, to argue that farming enterprises lack profitability in the long term.

CLA Breakfast at the Surrey County Show

We were delighted to once again support the CLA Breakfast at the annual Surrey County Show in May.

Celebrating Surrey's rural business landscape, the breakfast showcased an array of local, high quality food and drink producers including Albury Vineyard, Bake with Jack, Jam Packed Preserves and Bookham & Harrison cheeses.

The event was also an opportunity for rural businesses to hear about Guildford Borough Council's new Rural Economic Strategy and Countryside Vision, which has been developed following a survey of rural business needs.

For more information visit <http://www.cla.org.uk/>



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