

## **Tax Planning for 2011 and beyond – please do not throw this in the bin or delete it before you have read it!**

Some say we have entered an era of much higher commodity prices. Unfortunately none of us have a crystal ball but we should be looking ahead to the next season. For you, the commodity volatility could work two ways. For the 2011 harvest we expect most of our arable farmers to have a good year, high commodity prices and inputs purchased at a reasonable price. Some of our arable clients who didn't sell forward and waited may also be in for good results this year i.e. the 2010 harvest. This is good news for our arable farmers but the age old problem is how to hang on to your profit.

For our livestock farmers the equation is likely to work in reverse and higher commodity prices will mean a much lower gross margin.

The main reason for this note is to provoke your thought processes on 'Tax Planning' for the next few years. We are in the process of contacting all of our clients to discuss this. If you are not a client then either you will be getting a similar call from your accountants or more likely you won't in which case you need to politely remind them they are there to advise proactively not reactively. Please be aware that any Tax Planning for this year must take place in the next few months.

### **Arable**

If you are mainly an arable farm it is likely you are going to have either one or two very profitable years. Those of you that have already taken tax planning measures should not need to make any structural changes to your business but you must be aware of the cashflow implications of what are likely to be higher than average profits. Those of you who have not made any structural changes may wish to review this with us over the next few months. We highlight that pension contributions are still an option but you have to beware of the restrictions in terms of contributions and what can be done with the money when it sits inside a pension fund.

It seems clear that, though the 2011 harvest should be a good year (because farmers have bought inputs at relatively low prices versus the market price), we are concerned that the rise in inputs will mean that 2012 looks far less rosy and a cash crunch is coming. The rise in inputs means you will have a much larger working capital requirement than you have had for some time. You therefore need to beware of the cashflow implications. You are likely to have a larger than average tax bill in January 2013, and possibly 2012, and this, coupled with the increased working capital requirement, could lead to cashflow difficulties. In addition, from April 2012 Capital Allowance rates are reducing. Therefore we have lots of negatives on the cashflow front. To top it all we believe that borrowing money from the banks will become more expensive and problematic with the introduction of new regulations on their capital requirements. We suggest the following courses of action:

1. Produce high level estimates for the accounts in which the 2010 and 2011 harvests fall. For most of you this will be the years ended 31 March 2011 and 31 March 2012.
2. We can then consider your tax liabilities in light of these estimates and make any planning suggestions that we believe are sensible.
3. With this information you can then fit this into your cashflows to see if you are likely to have an additional cash requirement in 2012.

If you have any questions about the above please do not hesitate to contact your usual Chavereys contact.

## **Livestock**

For our livestock clients it is likely to be a more mixed picture and certainly those clients that are reliant on bought in feed will be feeling the pain of the increased feed prices unless locked in to forward contracts. It is therefore imperative that, if you believe results are going to be hit by this, we reduce your payments on account for tax purposes or even go as far as making early tax reclaims where losses may be incurred. Where you are a mixed farmer the increased arable performance could easily offset the reduced livestock performance.

Same three point plan as for arable farmers should be undertaken.

## **Horticultural**

It is quite difficult for us to make any specific comment about horticultural performance. Results as ever are mixed and there is some serious pressure being levied on the sector by the supermarkets. We would suggest the following:

1. A forecast is produced for the 2010 harvest results.
2. We will estimate your tax liability based on this.
3. This can then be built into your cashflow.

In terms of looking ahead to the 2011 season all we can suggest is that you let us know what your budgeted performance is likely to be and that we give you a feel for your potential tax liability. It is clear that the reduction in Capital Allowance rates is going to hit the horticultural sector much more than any other sector because it is so capital intensive.

## **Other**

In terms of other areas such as diversification i.e. holiday lets, commercial lets, you should be able to give us forecasts relatively easily. If you have incurred significant repair expenditure or any property has been vacant for a substantial period of the year, then it is worth letting us know if this is likely to have a detrimental effect on your results.

Likewise if you believe your results will be far better because of a lack of repairs or a new let coming online then we should know about it.

## **Summary**

In summary we believe we have to ensure more than ever that you are educated on the tax planning options available to you and the likely cashflow implications of any tax bills. Your banks will thank you for being prepared. Unfortunately this means you have to do some of the work. It is clear that tax planning is going to get more difficult and that the tax rates are not going to decrease in the medium term.

You can now throw this in the bin or delete it.