



MHA Agriculture

Looking forward to 2015: Farm Profitability and Tax Changes

As harvest 2014 is in full swing some interesting pointers for the financial future are starting to emerge.

On the downside, it now looks as if the contract price of sugar beet will be in the region of £24 per tonne – almost a quarter lower than the 2014 price which, itself was criticised as being too low. At the same time we can see significant reductions in most major commodity crops with wheat, barley and oil seed rape down by about the same percentage. Meat prices have dropped slightly less and milk has shown a small improvement but, one way and another, output prices for the next twelve months do not look encouraging.

Even worse, there is relatively little which individual businesses can do to alter their input expenses to match any reduction in outputs. There may be some scope for reduction in spray and fertiliser costs but, broadly speaking any reduction in output prices is likely to pass straight through to bottom line profitability.

The positive news is that the 2014 harvest results are likely to be bolstered slightly by forward selling and a harvest which should be on the right side of average in terms of tonnage and quality, but unless there is a sharp recovery in prices over the next 12 months, 2015 will look pretty grim.

On the other hand, the income tax regime has, in recent years, been relatively

benevolent with enhanced capital allowances of up to £500,000 for purchase of new machinery. As a result, farms across the country have steadily been renewing their machinery over the last few years so that, for many, the annual tax charge has been reduced but realistically there is little new kit now needed for a few years.

On the assumption that the 100% allowance on the first £500,000 may well be restricted from December, we were anticipating that in future there would have been much less opportunity to reduce taxable profits, and indeed since one of the effects of enhanced capital allowances is to reduce or eliminate the machinery “pool” for tax purposes, taxable profits would have been significantly higher than accounting profits.

We are now wondering if it may just happen that any change in the Capital Allowance rules will interact with a period of low farming profitability so as to take some of the pain out of the situation identified above. When one combines that with the enhanced flexibility to be given by the new Pension Rules and (for many) the availability of farmers’ averaging allowances, the tax computations for the next couple of years could be very interesting indeed.

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