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Agriculture update: Is contract farming for you?

Due to the current uncertainty in the agricultural sector, we are advising a growing number of farmers and landowners on more flexible and innovative farming arrangements rather than the traditional landlord and tenant/ owner-occupier systems.

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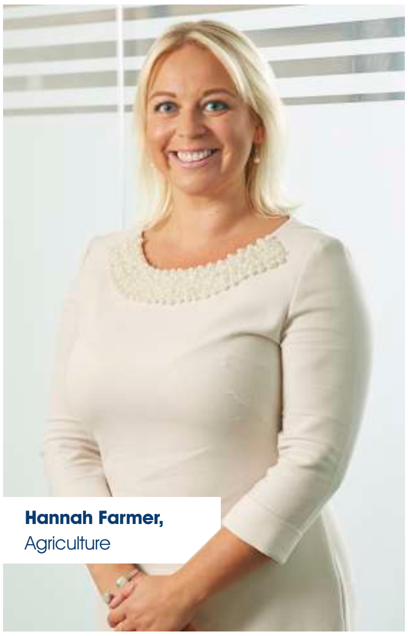

Hannah Farmer,
Agriculture

What is 'contract farming'?

Contract farming is not a new idea, but due to the inevitable decrease in payment support levels post-Brexit, it is something that farmers are beginning to adopt more readily.

A contract farming agreement (CFA) is a contractual agreement between a landowner or tenant (the farmer) and a provider of services (the contractor). Under the agreement, the farmer provides assets such as land, buildings and fixed equipment whilst the contractor generally owns the plant and equipment and employs staff to carry out the farming operations.

What are the benefits of contract farming?

CFAs can be advantageous to farmers looking to release working capital that would otherwise be tied up in expensive farm machinery, whilst enabling them to cut down on their physical involvement on the land and turn their attentions to other income streams.

The arrangement may also suit contractors, as they receive a guaranteed payment whilst maximising economies of scale without having to invest in land or other high value assets. The contractor may also benefit from a share in any divisible surplus.

The arrangement can bring tax benefits for the farmer as long as the arrangement is properly documented and structured. Such tax benefits include reliefs from inheritance tax and capital gains tax. The farmer would also be in a position to continue to claim payment support, as long as the arrangement is a genuine CFA.

Beware of sham arrangements

It is vital that the parties involved in a CFA seek the appropriate legal advice before entering into any binding agreements, to avoid some potential pitfalls.

In order to maximise the benefits, the arrangement must be structured and documented in such a way that the farmer remains in occupation of the land and only a licence is granted to the contractor. Further, the farmer must be able to prove that they are actively involved by keeping written records and holding regular meetings with the contractor.

The farmer must also demonstrate that they are bearing any risk, receiving income and paying all outgoings. This will ensure that the agreement is not construed as another type of arrangement such as a tenancy, partnership or contract of employment to avoid any adverse tax and subsidy consequences.

Summary Checklist

- Ensure arrangement is structured and documented correctly.
- Keep written records and hold regular meetings.
- Demonstrate that the farmer is bearing the risk and is responsible for all income / outgoings.

For help and advice on your existing or proposed contract farming arrangements please get in touch with Hannah Farmer by calling 01904 275 250 or by emailing hannah.farmer@andrewjackson.co.uk

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