Beware, diversification can be a tax minefield

By Andrew Shirley

DIVERSIFICATION is not a simple process and there are plenty of tax traps for the unwary to fall foul of, says a timely new book written by a Hants farmer's wife.

Agricultural tax expert Julie Butler has first-hand experience of the hardships facing farming. The 120-acre farm where she lives with husband, Pete, and their three children has been in the family since 1921, but, even with an extra 100 rented acres, she admits candidly that the former dairy unit is no longer viable.

Take time to think about tax... Julie Butler ponders some of the numerous issues affecting diversification, while husband, Pete, looks on.

Luckily for the Butler family, Mrs Butler's income from Butler & Co, the accountancy firm she runs, has removed some of the pressure. But not every farmer is married to a successful accountant and many are being forced to consider some form of diversification. This, says Mrs Butler, can lead to a number of potentially difficult tax situations.

To help guide producers through the taxation minefield she decided to write a book, distilling all the experience gained through working with her many farming clients into an easy-to-read guide suitable for farmers, landowners and professionals involved with agriculture and the land industry.

The result is *Tax Planning for Farm and Land Diversification*, launched last week by tax specialist Tolley, a sister company of FARMERS WEEKLY.

Some of the key issues Mrs Butler highlights include the worrying possibility that diversified holdings may no longer automatically qualify for the generous tax reliefs afforded to agricultural property. "If the land around the farmhouse is put to non-agricultural use then the house and associated land may no longer be exempt from inheritance tax," she says.

Soaring residential values have not helped either, she adds. "The Inland Revenue tax manual, which covers such circumstances, advises its inspectors to look in detail at properties where the value of the dwelling is in excess of £250,000, but no more than 100 acres are farmed."

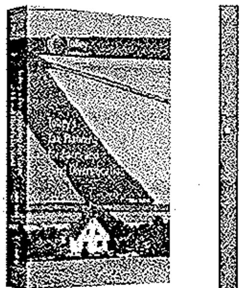
Even innocuous efforts to boost income by letting out parcels of land to neighbouring producers can lead to problems. "Many tenancy arrangements have arisen without the appropriate legal advice having been taken, and this can have unpleasant tax consequences," says Mrs Butler.

One of the most important things when diversifying, she notes, is to make a clear division between farming and non-farming profits, and to allocate the expenses to the right category. This is because farmers are allowed to average losses over a five-year period and to incorrectly book non-farm profits could waste some of that tax relief.

Mrs Butler's main piece of advice is to always look at the tax implications before rushing into any scheme. "The tax relief on agricultural property could be worth millions. There is no other asset on which somebody would be prepared to risk that." ■

Special readers offer

As a special offer to readers, FARMERS WEEKLY has teamed up with Tolley to offer a 25% discount on the book's published price of £49.95. Anybody interested in taking advantage of this offer should write to Lorna Meakin, LexisNexis Butterworths Tolley, Freepost 6983, London WC2A 1BR or call 020-8662 2000 quoting reference A155K.

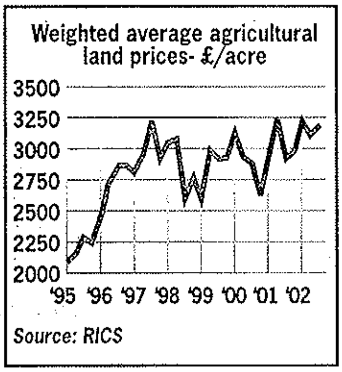


RICS survey sees values buck trend

FARMLAND values flew in the face of expectations and rose during the third quarter of the year, according to figures from the Royal Institution of Chartered Surveyors.

The organisation's latest survey, which polled land agents across the country, says the average value of farms increased from £3096/acre to £3157/acre despite increased availability of properties for the second successive quarter.

This is a reversal of the result for the previous three months, which initially showed a significant drop in values from £3200/acre to £2870/acre. Although this was later revised upwards, taking into account late notification of sales' results, many in the industry thought it could signal the beginning of a downward trend.



Source: RICS

Recent evidence seemed to back this up, especially in East Anglia, with land agents reporting a softening in values (Land, Nov 1). Bare land was thought to be especially vulnerable, but even this gained ground, says RICS, with prices climbing from £2400/acre to £2550/acre — the highest figure since the first quarter of 2000.

RICS researcher Ryan Emmett reckons limited availability is still the main factor preventing a downwards slide. "Although supply has increased recently it has not been a sharp rise and has not been enough to offset the decline over the past few years. But if availability does continue it is difficult to see prices holding," he adds.

● New figures from the National Assembly of Wales reveal that the average value of land sold in 2001 was £2347/acre, an increase of 15% on the previous year. ■

Auctions can knock-down profits

AUCTIONS are often used to sell properties when absolute transparency is required, for example during a family dispute, but sometimes the process can backfire and seriously short-change the vendors.

Guy Hurst, of solicitor Withers LLP, which represents many of the UK's largest landowners, recently acted for a client on the purchase of an estate.

It had been left to a charity and was put to auction, as the trustees thought this would achieve the best price. In the event competition was limited and the buyer got the land for the guide price.

But Mr Hurst said: "My client was extremely happy with the outcome — he had been so keen to buy the property that if the sale had been by private treaty he would have paid considerably over the guide price to secure it." ■