

Breaks & Benefits

Farmers and rural landowners must diversify their business to maximise income. In the first of a two-part series, **Julie Butler** outlines the benefits of giving a warm welcome to tourism

It is a good time to look at farming, diversification and tourism in the UK. Tourism is a tried and trusted form of diversification – government minister Elliot Morley has said that it is more important than farming and, in terms of revenue, there are arguments to support this.

UK tourism depends on farming not only for preserving the countryside but also for the provision of cost-effective, homely places to stay. Farming clients looking for tax reliefs may find setting up bed & breakfast (B&B) accommodation or furnished holiday lets very useful. Bed & breakfast is the simpler activity of the two (though even it is not that straightforward).

Bed & breakfast: The inheritance tax (IHT) position on B&Bs should be handled with care by the tax planner – in fact, in the current climate, the IHT position on the farmhouse should be reviewed regardless of bed & breakfast diversification.

B&B does not qualify for Agricultural Property Relief (APR), and the correct procedure is to claim APR on the agricultural element of the farmhouse and Business Property Relief (BPR) on the part involved in the B&B. Making the distinction could be difficult, depending on the size of the operation and of the farmhouse. As with any BPR claim,

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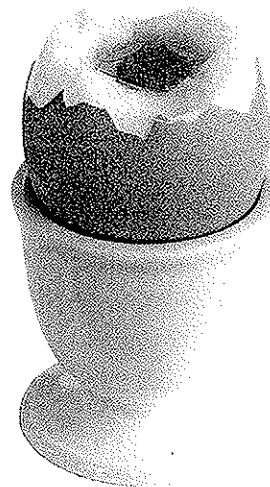
there must be clear evidence of a real business being carried on: part of the farmhouse must be used 'wholly or mainly' for business purposes.

Another potential problem is that if the B&B is a partnership and the asset is not in that business, there could be a restriction to 50 per cent IHT relief. This is a grey area – for example, what happens to a farm partnership that does not include the member of the family who runs the B&B? A move towards diversification should not be made without a review of the IHT considerations.

A bed & breakfast business carried out in property other than a farmhouse should qualify for 100 per cent BPR, as long as it meets the necessary business conditions and ownership requirements. Again, for maximising IHT reliefs, the tax planner must review asset ownership and the interaction of the business structure with the other farming business activities.

The whole activity is only likely to amount to a trade if the owner is still in occupation of the property and services are provided beyond those normally offered by a landlord. For long-term lets, the Revenue tends to argue that there are two sources of income: rent (Sch A); and other relating to the provision of services (if significant and including meals – Sch D1). The Revenue publication IR150 is helpful on this subject.

Finally, the supply of B&B accommodation is standard rated for VAT.



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