

# Diversification is the name of the game but..... beware the pitfalls!

The message is loud and clear from Hampshire's Julie Butler, a first-rate tax expert in the maze of regulation surrounding farming diversification. Mrs Butler runs her own accountancy firm whose main office is in Alresford, Hampshire.

She is a very successful woman who has been favourably reviewed in the Daily Telegraph regarding the book that she has written to help the farming industry. It was launched in December by tax specialists Tolley, a sister company of Farmers Weekly, and is called: Tax Planning for Farm and Land Diversification.



As the experience of many farmers throughout the country has shown, the industry is not making the money it used to. With the Government acting in a more passive manner to, say, the French government towards its farmers, producers in the united Kingdom have found themselves out on a limb wondering which way to go. For someone who has been working the family farm as a fourth or fifth generation person and has known little else, the prospect of turning the farm into a viable source of income in another sphere seems to be a mighty wrench. The Government has made loud noises in this direction so we have witnessed many farm buildings being converted into other uses, whether offices or holiday accommodation. There is plenty of evidence that some farms have bitten the bullet and have invested heavily in new, high-tech equipment needed to attract high rentals.

Julie Butler is no stranger to the agricultural world and the difficulties that face the farming community. Her husband, Pete, has a modest 220 acres (100 of which is rented) to run but it is accepted that this former dairy unit is no longer a going concern. In Pete's case, he is in a position where he need not worry as his wife can support him from her own successful business. There is evidence that many farmers do not share this good fortune and have been forced to look elsewhere to make money, as described above; however, as Julie points out, this can lead to a number of complications.

When she finally got round to writing her book, Julie was determined to make it as simple as possible to read; she had had plenty of dealings with clients who were in the farming industry so her task, to explain in clear and detailed format to farmers, landowners and associated professional advisers alike, was made that much easier. She has many things to say amongst which the following stand out.

### Key Issues

- Diversified holdings may no longer qualify automatically for generous tax reliefs afforded to agricultural property.
- Inland Revenue Inspectors are advised to look at properties where the value of dwellings exceeds £250,000 and no more than 100 acres are farmed.
- Letting out parcels of land to neighbouring producers can lead to severe restrictions.
- Diversification should mean there is a clear division between farming and non-farming profits and that the appropriate expenses are allocated accordingly.
- There are always tax implications to take into account before the commencement of any scheme; the tax relief on agricultural property could be a lot of money.

Referring to some of the points above, Julie Butler has stressed that it is paramount for the decision-maker to be absolutely sure he/she is doing the right thing. For example, she says: "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 endorses her comments by alluding to the allocation of farming and non-farming monies.

The differentiation between the farming and non-farming side of the business must be clearly defined, she says. It is important to get them sorted 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."

Her final comments are worth bearing in mind: "The tax relief on agricultural property could be worth millions. There is no other asset on which somebody would be prepared to risk that." ■

## Copies of the book

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