

DRIVE UP TAX EFFICIENCY

Getting the better of the taxman is rare, but Hants-based accountant Julie Butler has a few tips on how to benefit from some rarely exploited, yet legal, opportunities

MOST overworked farmers fall fast asleep at the thought of tax efficiency and wake up with enthusiasm at the thought of *Baywatch* and Pamela Anderson, but, surprisingly, the two are linked.

A twin-cab pickup (also known as crew cab or dual cab) that is often seen in the popular television lifesaving series featuring Ms Anderson is also very tax efficient. Despite having the same number of seats as a car, it qualifies as a van and, therefore, gets an instant 40% tax allowance. The VAT can be claimed back and if it is used by a farm employee for private use the only tax benefit they have to pay is a £500 "van" charge.

If it is bought on a finance deal just before the end of the farm year, you can achieve excellent tax relief without too much outlay. The only warning is that, like all pleasures, the tax office is trying to attack it.

In order to qualify, your vehicle must be capable of loading



Twin-cab pick-ups can provide a range of tax reliefs, says Julie Butler.

1000kg in the back. This whole issue of supplying farm workers and gamekeepers with vehicles that have some private use does raise a very interesting "benefit in kind" position. If there is an element of private use there has to be some form of taxable benefit. Farmers should check when their last PAYE inspection was and take advice.

Environmentally friendly vehicles may sound less exciting than Pamela Anderson, but they can also be taxation friendly. In 2002 the budget went a little "green", so that 100% tax relief was available on low emission cars which are either electrical-

ly propelled or emit less than 120g/km of CO2 and are registered on or after Apr 17, 2002.

Tax efficiencies can also be found in building work. Many old, inefficient farm buildings are being converted to residential, office or other commercial use and new buildings are also being erected to cope with diversification demands. With careful planning a lot of the building can be claimed as "plant".

For example, grain-drying equipment counts as plant and this means it qualifies for 40% first-year allowances as opposed to 4% writing-down allowance on agricultural buildings.

Telephone and computer systems in converted offices also count. The actual definition of plant is quite arbitrary, so it can make sense to get your accountant to actually put on a hard hat and come to the building site to see what might qualify.

An aggressive, progressive tax planner might also suggest it is worth looking at all the building work on the farm in the past six years to see what can be reclassified as plant and the tax relief claimed. If work has been wrongly classified an error or mistake claim can be made.

One other tax titbit overlooked by the working farmer is the 100% relief on computer and general "techno" equipment (also known as IT) and equipment with designated energy saving technologies.

Other tax problem areas which can be planned to the farmer's best benefit are when an element of a farming business ceases and a new diversified business starts. There can be benefits of transferring machinery from one enterprise to the other.

TAX TIPS

- Twin-cab truck tax efficient.
- Consider low emission car.
- Check if new buildings qualify as plant.
- Remember IT reliefs.

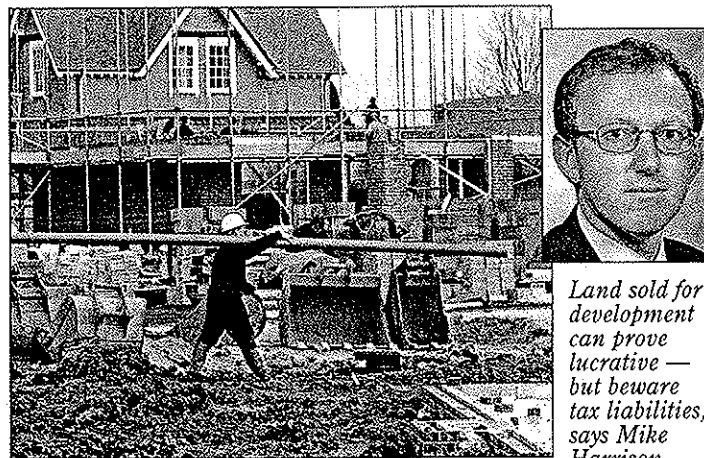
DEVELOPMENT: BIG PRICE, BIG TAX

AS housing developments spread across the country, more and more farmers are finding their land has potential development value. But while high sale prices may be attractive, the tax bill that goes with them is not.

Sales of land and buildings can incur a Capital Gains Tax liability of up to 40%. Fortunately, farmers can benefit from agricultural tax reliefs, provided they follow some basic rules.

To qualify for tax relief the landowner must be actively farming the land, says Mike Harrison, agricultural specialist at accountant Saffery Champness. When bare land is involved, a good way to create useful extra income and still retain the tax relief is by letting it under a grazing licence. This also allows relatively quick and cheap repossession if a development opportunity arises.

"To ensure the availability of tax reliefs, it is important that the landowner remains 'the farmer' in relation to the land rather than becoming a landlord," says Mr Harrison. The owner must therefore carry out



Land sold for development can prove lucrative — but beware tax liabilities, says Mike Harrison.

all husbandry on the land, including breeding, fertilising, and boundary repairs. "As the grazier should essentially be buying only the crop of grass, the agreement must not oblige him to perform any of these functions," he adds.

When the landowner decides to sell his land for development, it will then qualify for CGT

Rollover Relief, allowing him to delay payment of tax and reinvest in other trading assets. But if the owner decides not to reinvest there is another form of relief available, says Mr Harrison.

Taper Relief lowers the CGT rate by up to 75%, but there are stringent eligibility requirements. New farming owners will qualify for Business Asset Taper

Relief after two years. For longer periods of ownership, the Inland Revenue will consider the previous ten years of land use. Any periods when the land was let out, and not farmed by the owner, will only qualify for Non-Business Asset Taper Relief, giving a maximum reduction in tax of just 40%.

"To get the better rate of relief, you've got to have been the owner-occupier farming that land," says Mr Harrison. The same applies to buildings with development potential. "Redundant buildings that are not used for farming activities will not qualify for Business Asset Taper Relief. The landowner should ensure that he stores some farming equipment in them to qualify," he says.

"As with all things in the world of tax, it is not always simple to achieve the maximum potential for reliefs without some element of planning, especially if the land has been previously let," he adds. "But action taken now could bring valuable rewards in the future."