



## The Equine Business and the business plan

It is well known that it can be difficult to be profitable with any business that involves horses. The infrastructure costs are high and areas of the sport are not as focussed on commercial gain as some other sports, e.g. TV coverage, sponsorship, prize money etc.

However there are profits to be made from a well run equine business. A livery business for example must always try and control costs below livery charges and a stud business must be able to sell stock over and above production costs. That sounds an over simplification but the harsh reality is there must always be a focus on profit.

### Business Property Relief (BPR)

One of the current areas of attack by HM Revenue & Customs (HMRC) in their attempt to deny Business Property Relief (BPR) for Inheritance Tax (IHT) is to question commerciality.

In order to achieve BPR there must not simply be a business but a business carried on for commercial gain. In the case of equine business, for example, there must be a profit or evidence that a profit would be achieved.

Questions will be asked by HMRC about the original business plan, the quality of the books and records and the correct PAYE application re staff etc. Good record keeping is not just a requirement for income tax purposes but also supports a claim for Inheritance Tax (IHT).

### The importance of a business plan

It has been said that there are three things certain in life – death, taxes and that on the question of commerciality HMRC will always ask for the original business plan. How can it ever be proven that an unprofitable business was to be of commercial design if there was no original business plan? It is not enough just to take in a few liveries and hope there is a net profit.

An essential part of both income tax and IHT protection is that every proposed equine business has a business plan. There would be income tax losses (HMRC allow a stud has the first eleven years to produce a profit) and in order to protect the claim against total income there must be proof of commerciality.

The ultimate test is that a formal business plan was produced to show a profit can be achieved and was compared to the actual results as they progress through the years. Obviously the one point of greater importance than the business plan, is a profit itself that always proves commerciality.

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