



BUSINESS TAX

208. BENEFITS-IN-KIND FOR FARMING SPOUSES

The structure of family farms varies greatly between farming operations. There are many farms where the husband and wife are in partnership and work as partners in the business. There are other situations where one spouse is in charge of the main operation and the other is simply paid a wage for the work that is undertaken for the farm.

With the prosperity that farming has recently been enjoying, in some farms there has been an increase in lifestyle purchases by the business, such as quality non-commercial four-wheel-drive motor vehicles (ie not vans). The benefit of these vehicles is being provided to farming proprietors and also to spouses employed in the business. Such vehicles can have a high value and therefore a high potential benefit-in-kind (BIK) if they are provided to an employee.

The BIK burden can be reduced with commercial vehicles that qualify as vans. The clearest example of the problem is where a Land Rover Discovery or a Range Rover is being provided to a wife who is being paid a salary of (say) £5,000 and the BIK pushes the employment earnings above the £8,500 ceiling and results in a high tax burden. This additional taxable benefit is often being picked up by HMRC during a PAYE compliance check. It is a clear example of how simple business decisions within the complexity of a farming operation should be considered in the round, and not without a full understanding of the tax consequences.

Obviously, if the wife is taken on as a partner, this question of the burden of the

high taxable BIK can be replaced simply by a private use apportionment. The bigger picture of inheritance tax and capital gains tax should be considered. For example, if the spouse were to own part of the farmland, it would be much more sensible to follow the partnership route where there would be a "tax marriage between the land ownership and the trade".

These problems are being brought to light during PAYE inspections where the adviser has missed the problem or has not been provided with the full information by the client, especially where it has been a long time since a farmer has had a PAYE or VAT inspection. A thorough review of BIKs for both directors and spouses should be considered.

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