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Farm tax reliefs 'at risk'

By Andrew Shirley

FALLING profits and the move towards more diversified businesses mean farmers could be in danger of losing some valuable tax relief benefits, warns one agricultural tax expert.

Farmland values remain surprisingly buoyant despite the continued slide in farm incomes, and many land agents consider the various tax reliefs available on agricultural property to be one of the main reasons.

"One of the most important tax breaks available to producers is agricultural property relief for inheritance tax on the value of the farmhouse," says Julie Butler, of Hants-based accountant Butler & Co. But in the case of a diversified farm business this may not always be permitted, she notes.

"In the past the self-sufficient family farm could exist happily with as little as 100 acres and the farmhouse was clearly part of the business. But given the current situation it is doubtful these units really exist on a commercial basis any more."

Many of the diversification activities keeping smaller farms afloat, such as farm shops that sell goods not always produced on the farm and equestrian-type enterprises, do not fall under the strict definition of agriculture that is confined to the occupation of land wholly or mainly for the purpose of husbandry, points out Mrs Butler.

"The Inland Revenue tax manual that covers such circumstances advises its inspectors to look in detail at properties where the value of the dwelling is in excess of £250,000 but no more than 100 acres are farmed."

Another popular route taken by many farmers is to enter into contract farming or share farming agreements or to rent land out on a farm business tenancy. Mrs Butler says such agreements are also likely to be closely scrutinised by tax inspectors. "Not many landowners are aware that FBTs do not qualify for capital gains tax relief."

But it is not just smaller producers who need to arrange their tax affairs carefully, reckons the accountant. Larger estates where

Plan tax affairs carefully to avoid losing out on valuable reliefs, advises accountant Julie Butler.

much of the income is derived from shooting, fishing and residential lettings could also be at risk.

As well as IHT relief, other concessions in danger could be the eligibility to claim income tax relief where losses are sustained, and the ability to repair and improve the property while reclaiming maximum allowable VAT.

"It is important to obtain tax advice from an agricultural specialist," believes Mrs Butler, who advises anybody preparing farm accounts for diversified holdings to be ready for an inspector of taxes to ask for a split between farming and non-farming activities. "Business property relief may be available in some instances."

Even on non-diversified farms, falling profits could also pose a threat to the exemption from IHT, she adds. "To be considered a viable business the IR requires a farm to turn a profit once every five years - although after recent lobbying this period has been temporarily extended - or else hobby farming rules will apply."

In this situation the farm might be considered a non-commercial unit and could lose its rights to the relief. ■