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## BUSINESS TAXES



### 125. STOCK VALUATIONS AND LOSS CLAIMS

Equine stocks are valued at the lower of cost and net realisable value. The calculation of cost includes production costs as well as keep costs. Producing and breeding competition horses for show jumping, racing, eventing, dressage, and so on can be expensive. Prior to the coronavirus pandemic, with Olympic fever at a peak, some very high market prices were being achieved for the right horses.

However, the position changed within weeks with the Tokyo games postponed for a year and all competitions cancelled until more is known about the pandemic. The value of horses held as stock at year end (often 31 March) of the businesses will have to be written down to reflect market forces. With no auctions and virtually no movement the responsibility of ascertaining that market value will be challenging. The write-down could be substantial as could the equine income tax loss claims arising from this. Business plans will be changing significantly.

HMRC has historically shown a tough approach to claims for equine tax losses (eg, *Murray* [2014] UKFTT 338 (TC) and *Thorne* [2016] UKUT 0349 (TCC)) and has been keen to ensure that the evidence to support the claim is in place (eg, *Cliff* [2019] UKFTT 0564 (TC)). With the financial difficulties currently being suffered by the industry (eg, no racing, no teaching and no competitions) help for the businesses will be sought from the tax refunds arising from loss claims.

An early consideration by tax advisers of the dilemma will therefore need to be contemplated. The 25% restriction of losses against income must be considered as well as the point that losses that are set against CGT are not restricted. In the 'Equine Tokyo boom' that was being experienced by the industry up until the outbreak some hobby operations had become businesses and had perhaps not been fully recognised as such. Advisers must act fast to undertake a full fact find to help their equine clients identify the correct stock values, loss claims and tax position for 2019/20 and to try and keep the business solvent moving forward. Some very tough judgement

calls will be needed based on a forensic understanding of the facts.

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