



HOT ISSUES – Agriculture

Capital Allowances – Are you maximising your claims?

Planning points to consider:

- 100% Annual Investment Allowance currently applicable to £100,000 of spend but post 1 April 2012 will only apply to £25,000.
- Timing of expenditure – writing down allowances reduce from 1 April 2012 from 20% to 18% for the main pool and from 10% to 8% for integral features. Consider accelerating capital expenditure programmes to take advantage of the higher writing down rates.
- 100% allowances for energy saving or environmentally beneficial plant.

Dean Statham regularly assists businesses to maximise capital allowance claims.

Would HMRC consider you to be a hobby farmer?

Small farming operations, especially where there is other income to utilise farming losses are constantly under the watchful eye of HMRC.

There is legislation in place to prevent farm losses being relieved against other income if HMRC perceive you to be a 'hobby farmer' and so it is imperative that your farming activities are carried out on a commercial basis at all times.

The legislation basically says:

- If the farm makes tax losses for 6 consecutive years then you may not relieve the losses against other income.
- If a profit is made in the 6th year the clock is reset, but it is important not to manipulate profits.
- These rules do not apply if a farmer can demonstrate that he experienced extreme circumstances but otherwise would have made a profit.
- With regards to new farming businesses the loss in the year of commencement is not included in the 6 years.

Dean Statham works with many smaller farming operations to help them operate on a pure commercial basis to reduce the risk of an HMRC challenge.

Inheritance Tax Issues for Farmers

Agricultural land and property prices are at a premium it is therefore crucial that your Inheritance Tax position is regularly reviewed to ensure possible reliefs are not lost.

Agricultural Property Relief (APR) is given on the agricultural value of the land and buildings. The rate of relief is 100% or 50% if let on an AHA (1986) tenancy. However there are many pitfalls, for example:

- In order for a farmhouse to qualify for APR it must be occupied for the purpose of agriculture and of character and appropriateness to the land holding to which it is attached. In some cases HMRC argue that the farmhouse is worth more than its agricultural value and attempt to restrict the APR to a percentage of its market value, often in the region of 70%.
- HMRC will normally only accept there to be one farmhouse on a farm and all other houses are therefore considered to be farm cottages. If the cottages are occupied by agricultural workers or retired employees then normally 100% APR will be available. However should the cottage be let out on an assured short-hold tenancy, it will not be an agricultural property and no relief will be given.

Upfront IHT planning could save significant amounts of tax on death. Dean Statham can talk you through this complex area and explain ways to minimise Inheritance Tax.

Call us now to discuss these or any other issues:

Richard Stonier

(01785) 238153 - rstonier@deanstatham.com

