Dean Statham

HOT ISSUES – VAT issues for Farms

Staff Accommodation

If you provide rent-free accommodation for your employees, any expenditure that you incur is treated as attributable to the duties they undertake. For example if an employee solely works on farming activities then the relevant input tax would be fully reclaimable. However if their only work was of an exempt nature, such as maintaining residential let properties, then the input tax would be unrecoverable. If their work is split between taxable and exempt supplies then the amount recoverable should be proportioned accordingly.

If an employee pays you rent for their self contained accommodation (i.e. a farm cottage), whether the rent is physically paid or deducted from their wages, any input VAT incurred on the property will be irrecoverable, including repair work, utility bills and capital expenditure. The rent you receive will be exempt.

Whose Input Tax?

It is only possible for the person who receives goods or services to recover input tax incurred. This may sound simple, however in some farming cases where the land ownership is different from the farm business, it can be a real issue.

For example if it was decided to convert redundant barns into residential or commercial properties for letting and the farm land and buildings are owned by Mr and Mrs Senior, (who are in a partnership with their son) and it is the partnership that is registered for VAT, then care would be needed in deciding who was to receive the rental income. If it was Mr and Mrs Senior rather than the partnership then any input tax incurred would be irrecoverable.

Farmhouses

Farmhouses are considered as being mixed use assets, being used for both business and private. Therefore full input tax deduction is not available. HMRC allow a maximum of 70% input tax deduction for general maintenance, however this depends on the amount of farming activities carried out, if a farmer has a second occupation or is running the farm as a hobby then a lower deduction should be applied.

Costs relating to specific parts of a building must be assessed on their own merit. An office extension would qualify for 100%, whilst a bedroom extension would qualify for 0%.

Input tax recovered on farmhouse utility bills should be restricted to the amount of business use of the property.

Call us now to discuss these or any other issues:
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