

Taxation Aspects of England and Wales Farming

If an individual or company is resident in Ireland but undertakes a farming trade or business in the United Kingdom, there will be UK and Irish Taxation consequences. Generally, credit will be given for tax paid in the country where the activity is undertaken against tax payable in the country of residence.

A farming business is subject to general UK legislation on the taxation of trading profits. See our separate guide on the taxation of trades and businesses, VAT and inheritance tax in the United Kingdom. There are special additional rules which apply to a farming business.

Capital allowances are available for the construction of farm houses and certain buildings. Capital allowances on buildings are granted at a rate of 4% per annum over 25 years.

As in Ireland, profit averaging is available in farming. This permits averaging profits for consecutive years of assessment under certain conditions. This recognises that income can be irregular in farming. There are rules similar to those in Ireland in relation to the losses incurred in hobby farming.

A unique feature of farming in UK tax legislation is that all farming carried out in the UK by a particular person or partnership is treated as a single trade. The results of activities carried out at different locations are merged in order to ascertain the overall profit or loss.

The Single Farm Payment is treated as income, subject to income tax. The taxation of other grants and payments will depend on their purpose. Subsidies paid to make up for loss of income are liable to income tax. Some grants are of a capital nature.

Non-resident individuals are not generally liable to capital gains tax in the United Kingdom. Formerly, reliefs from Capital Gains Tax applied for agricultural business property. Many of the reliefs have been removed upon the introduction of a single 18% Capital Gains Tax rate in 2008.

The majority of farm outputs are zero rated for VAT purposes. This permits reclaim of VAT on purchases without the liability to charge VAT. Certain other categories of “outputs” (i.e. sales) are subject to standard rating.

The transfer of lease and milk quotas is standard rated for VAT purposes. Where it is transferred in conjunction with the sale or lease of land, it is exempt.

There is a special “flat rate” VAT scheme for farmers. Where this applies the farmer cannot reclaim any input tax on purchases he pays but he can charge a flat rate addition of 4% to all his sales which he can keep.

Inheritance Tax is a very significant issue in farming. It is chargeable on estates over £300,000.00 at the rate of 40%. There is an agricultural relief available in respect of UK inheritance tax. Broadly speaking 100% relief is potentially available under certain circumstances.

Agricultural property includes agricultural land or pasture and also cottages farm buildings and farm houses which are of a character appropriate to the property. This can often be a matter of contention.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.