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Taxation of Woodland

Ownership of woodland is becoming of increasing interest for farmers and landowners, whether as an opportunity for business diversification, or to take advantage of new Government schemes such as the Woodland Carbon Guarantee, or simply as an investment.

In June the Government launched a consultation on its new 'England Tree Strategy' regarding plans to accelerate tree planting and improve the management of our existing trees and woodlands.

This article outlines the taxation implications for owners of woodland.

For tax purposes, the following activities are treated as farming, rather than the commercial occupation of woodlands:

- 'Short rotation coppice': the intensive cultivation of trees, such as poplar and willow, planted at high density, with the stems being harvested at intervals of less than 10 years.
- Growing of Christmas trees

Income Tax/Corporation Tax

Profits and losses from the commercial occupation of woodlands are exempt from Income Tax and Corporation Tax. The occupation of woodlands is defined as commercial if the woodlands are managed on a commercial basis with the view to the realisation of profits.

For timber merchants in owner occupation of commercial woodlands, the activities which amount to no more than normal preparation for marketing the timber, up to the point of sawing into planks, are exempt from Income Tax and Corporation Tax.

Where activities that go beyond normal marketing take place, the timber should be appropriated to the merchant's trade at the market value of the sawn planks with subsequent sales being included in the trading accounts at their full value.

Woodland Grants

Woodland grants are normally exempt for Income Tax and Corporation Tax purposes as these follow the same treatment for the occupation of commercial woodlands.

One exception to this is payments received under the Farm Woodland Premium Scheme. This scheme provides annual payments to farmers to compensate for lost farming income as a result of converting land into woodland. These payments are taxable as farming income.

VAT

If land is sold which contains standing timber that the buyer will be able to fell once he has bought the land, the whole supply is exempt from VAT. However the sale of timber itself is standard rated.

Capital Gains Tax (CGT)

On a disposal of commercial woodlands, any monies received from the sale of the trees from that woodland are exempt from CGT. This exemption applies whether the trees are standing or have been felled.

The exemption applies only to commercial woodland. Therefore apportionment of the value between land and trees is not applicable to agricultural or amenity woodland and the full disposal proceeds are subject to CGT.

The occupation of commercial woodlands is treated as a trade for the purposes of claiming Holdover Relief for gifts of business assets and for the purposes of claiming Rollover Relief for replacement of business assets.

Inheritance Tax (IHT)

Woodlands may attract one of four different types of relief/exemption from IHT:

1. Business Property Relief (BPR)

Commercial woodlands are normally eligible for 100% Business Property Relief (subject to meeting the 2 year ownership conditions).

To ensure that BPR is available, a woodland management plan should be in place. A number of forestry businesses offer this service. The management plan should have a felling plan within it as this will demonstrate that the occupation is commercial.

2. Agricultural Property Relief (APR)

Woodlands may obtain APR if they are occupied with agricultural land and pasture and their occupation is ancillary to that of the agricultural land or pasture (subject to meeting the 2 year, or 7 year for tenanted land, ownership conditions).

Examples include woodland shelter belts, game coverts, fox coverts, coppices grown for fencing materials on the farm and clumps of amenity trees or spinneys.

3. Woodlands Relief

Where BPR or APR are not available, for example, woodland held as part of a private residence, or held as an investment, the executors may, subject to meeting various conditions, make a claim for woodlands relief.

The relief defers IHT on the value of the timber growing on the land until a disposal is made. A disposal, whether by way of sale or gift, will trigger a charge to IHT. The rate of tax applicable on the disposal is found by treating the taxable amount as the top slice of the deceased's estate, the maximum rate being 40%.

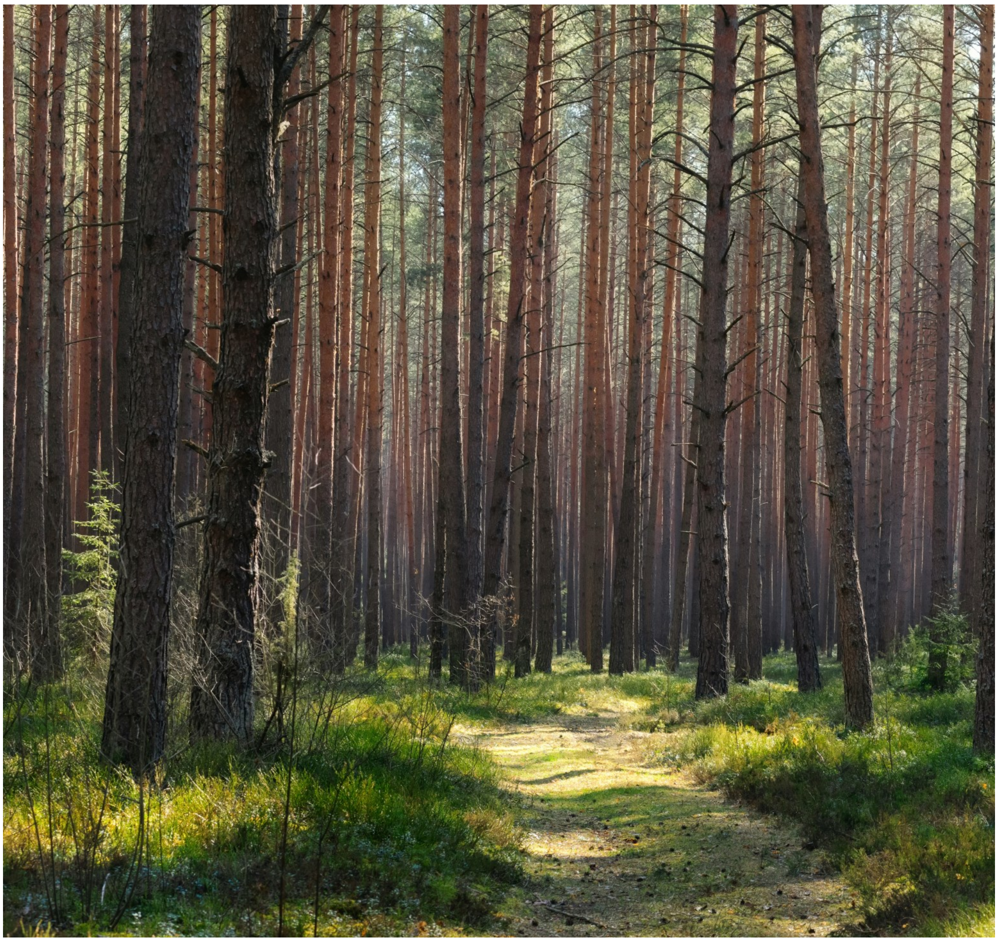
As woodlands relief is only a deferral, it is normally preferable to be able to claim BPR or APR instead of woodlands relief.

4. Conditionally Exempt Transfers for Heritage Assets

Woodland qualifying as of outstanding scenic, historic or scientific interest may, subject to meeting certain conditions, be eligible for Conditional Exemption from IHT for heritage assets. In order to claim the Conditional Exemption, the Executors must give undertakings regarding the preservation of the property and allow the general public reasonable access.

A claim for Conditional Exemption results in no IHT being charged on the value of the heritage assets. However the following may result in IHT becoming due:

- A failure to observe the undertakings given.
- A sale of the property.
- A gift of the property without new undertakings been given by the new owner.
- The death of the owner without new undertakings being given by the new owner.



Does this issue raise any questions in your mind?

Would you like more information on a particular item?

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