CHAVEREYS

tax specialists | accountants | advisers

Viticulture - Wineconomics and Tax

In an oversimplification of this extremely fast growing industry we have broken the options for landowners down into three main approaches:

Renting land to a third party wine producer

A wine producer will be looking to take a long term tenancy, typically 30 years or more, but in return will provide a guaranteed income stream at extremely attractive rates compared to an arable tenancy.

As a landlord many of the valuable tax reliefs will not apply. For Inheritance Tax vineyards *are* agriculture, so Agricultural Property Relief can be claimed on the land in the correct circumstances, but Business Property Relief will not apply unless the land is part of a wider business which qualifies. The Capital Gains Tax relief available to traders such as Rollover Relief and Entrepreneurs' Relief will not apply.

Growing grapes for a third party

In this scenario significant initial capital investment is required to establish a vineyard and to cover the management of the vines for the first two to three years until full productivity is reached. Once harvested, grapes can be sold on either the open market or, more securely, under contract to a winemaker at a pre-determined price. Under the second option this contract can be put in place before the vines are planted.

Depending on yields and on the price that can be achieved for the grapes the return as a grower should be significantly more than as a landlord however it may take 10-12 years to achieve payback on the initial investment.

As a grape grower you are subject to the risks and rewards of trading and therefore Business Property Relief and Capital Gains Tax reliefs can apply. The plant and machinery needed to establish and maintain the vineyard can qualify for Capital Allowances of up to 100% of costs incurred in the year of purchase. This will include the wirework and trellising as well as tractors, etc.

Establishing a winery

This is the most capital intensive of the three options, to include the significant costs of establishing a brand as well as actually producing the wine. For wine production there is the choice of installing an in house winery or using the services of a contract winemaker to produce bottles under your brand.

The availability of Capital Allowances will be of greater importance, given the capital investment needed, and a claim for Research and Development Tax Credits may be lucrative for a corporate entity. When considering how to finance the investment, separating the wine business from the growing business may be necessary to take advantage of tax effective routes such as Enterprise Investment Scheme (EIS).

The important message is to think ahead to ensure that the structure of the business fits your plans for the future. It is crucial to build in as much flexibility as possible so that your business can adapt as the industry grows.

Chavereys is a specialist advisory practice to farms and estates. We are involved in viticulture, horticulture, renewables and energy, arable, livestock, farm diversification and agribusiness.

Our team can assist with your wine adventure by providing business plans, assisting with obtaining finance, providing tax planning advice, and dealing with the financial reporting intricacies of a viticulture business.

Does this topic raise any questions in your mind?

Would you like more information on a particular item?

Please speak to one of our Viti-Culture experts

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