# Landed Estates Update

**SOWING THE SEEDS FOR FUTURE PROSPERITY**

Autumn 2015

## Spotlight on forestry and woodlands

Welcome to the current edition of Landed Estates Update, our publication for landowners and those advising on Landed Estates. In this issue we are focusing on forestry and woodlands. With the increasing popularity of biomass boilers, and the use of timber from the estate to feed them, the management of woodland is becoming ever more important. The tax treatment of woodlands is potentially generous, but depends on the type of woodland.

## WHAT TYPES OF WOODLAND ARE THERE?

There are broadly three types of woodland as follows:

### AMENITY WOODLAND

Amenity woodland is typically small areas of woodland, such as shelter belts, not managed as either commercial woodland or short rotation coppice. When occupied as part of a wider farming business the woodland is treated as being agricultural.

### COMMERCIAL WOODLAND

There is no strict definition of commercial woodland. In simple terms however it is woodland that is managed on a commercial basis and with a view to the realisation of profits. The commerciality of woodland should be evident from the way the woodland is managed e.g. a woodland management plan and activity to demonstrate that this is being implemented and also the business records e.g. annual accounts, a separate business bank account etc.

### SHORT ROTATION COPPICE

Short rotation coppice is a perennial crop of tree species planted at high density, the stems of which are harvested above ground level at intervals of less than ten years. Typically species such as willow or poplar will be planted, with the timber removed to leave a short stump or stool every say three years. For tax purposes it is treated as farming.

## WHAT IS THE TAX POSITION OF WOODLAND?

### INCOME TAX

Commercial woodland is specifically outside the scope of income and corporation tax. Consequently there is no tax payable on the proceeds of timber sales, and more importantly no relief for the costs of managing the woodland, including any expenditure on the preparation of land for woodland purposes. In addition, capital allowances cannot be claimed on the cost of plant and equipment purchased solely for use in the woodland business.

For many estates the woodland business is likely to run at a loss, particularly in the early years, and this cost has to be borne by the other activities being carried out on the estate.

If the woodland is let for a rent, either in its entirety or for activities such as paint balling, the rent received will be subject to income tax. The same will apply if sporting rights are let.

The sale of wood from short rotation coppice is treated as farming income and is taxable in the normal way. Direct costs including weeding and disease prevention should be included in the annual valuation until such time as a sale is made, when they can be offset.

The sale of felled timber from amenity woodland on the estate should be included within the farming or other taxable income of the estate.

The tax treatment of the sale of woodchip will mirror that for the type of woodland from which the timber has been sourced.

There are a number of grants available for woodland and these have to be looked at on a case by case basis, with some being taxable and others not.

## CAPITAL GAINS TAX (CGT)

For commercial woodland the sale of trees, whether standing or felled, is exempt from capital gains tax. The exemption also applies to the receipt from an insurance policy if the woodland is damaged or destroyed. When the woodland is sold standing, the sale price must be split on a just and reasonable basis between the value of the trees and of the underlying land. A taxable gain or loss will arise on the land.

Roll over relief is available for commercial woodlands. Where the woodland is situated within the UK it is only the cost of the underlying land that can be taken into account when calculating the amount that can be rolled over. If the woodland is outside the UK both the value of the land and the trees can be taken into account. The gain on the sale of the old asset is deducted from the cost of the new woodland and only becomes chargeable on a subsequent sale.

Holdover relief is also available on the gift of commercial woodlands or woodland qualifying for Agricultural Property Relief (see below). Any gain arising on the gift is deducted from the market value of the woodland and is taxed on a future disposal.

For the sale of woodland or timber where it is not managed commercially the trees are treated as a chattel. As such there will only be CGT in the unlikely event that the sale proceeds for a particular tree exceeds £6,000. Each tree is looked at separately and they are not treated as a set and grouped together when considering the £6,000 limit.

Where a landowner grants a right to someone to enter the woodland and fell trees over a long period of time it will be treated as a part disposal of the land.

## INHERITANCE TAX

Woodlands managed on a commercial basis should qualify for Business Property Relief (BPR), giving 100% relief from inheritance tax (IHT), providing it has been owned for at least two years. If the BPR position for the estate as a whole is being considered, commercial woodlands form part of the trading activities.

Agricultural Property Relief (APR) is available on woodland if it is occupied with, and the occupation is ancillary to, agricultural land or pasture. This includes shelter belts, game covers and coppices grown for fencing materials on the farm. APR is only available on the agricultural value of the land, making APR a less attractive option than BPR.

For woodlands that do not qualify for either BPR or APR, woodlands relief is available. This allows the IHT on death that is due on the value of the growing timber to be deferred until such time as the trees are sold. IHT is chargeable on the sale proceeds less the cost of sale and replanting, if this is carried out within three years.

The value of the underlying land is subject to IHT on death and professional advice on the valuation is likely to be needed. To qualify for relief the woodland must have been owned for at least five years prior to death and a claim for relief must be made within two years of death.

For ancient woodlands and those of special scientific interest Heritage Property Relief may be available. (see the Landed Estates Update Spring 2015 for more details)

## VAT

Where the estate is registered for VAT, it will need to charge VAT on sales of timber and VAT can be recovered on the costs of maintaining the woods. If the woodland is not part of a larger trading business that is VAT registered, the woodland business can still register for VAT as long as there is an intention to make taxable supplies in the future.

If woodchip is sold for domestic use then VAT will be charged at the reduced rate of 5%. The sale of woodchip to a wholesaler or a business is subject to VAT at the standard rate of 20%. All other supplies of timber are chargeable at the standard rate.

## WHAT IS THE TREATMENT OF CHRISTMAS TREES?

Where Christmas trees are grown as part of a larger farming business, the income is included within the farm profits. Specialist Christmas tree growers are nurseries, and are treated as market gardening rather than farming, and the commercial woodlands tax exemption does not apply. In both cases BPR should be available when considering the inheritance tax position.

If the Christmas trees are taken from the tops of trees felled on commercial woodlands or as thinnings from commercial woodlands then the exemption from income tax will apply.

## CONCLUSION

The tax reliefs on woodlands are potentially generous, and could be used as part of a claim for BPR on the whole estate. For estates wishing to demonstrate that they are managing commercial woodlands keeping the paperwork trail to support this is vital. This will include the accounts, a woodland management plan and notes of meetings documenting the plan being put into action and updated for changing circumstances.

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In September 2006 he joined Hazlewoods, returning to Gloucestershire where he grew up. Nicholas is a member of the Gloucestershire committee of the CLA and away from work he enjoys horse racing, hunting and riding.

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