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CARMICHAEL



Where sharp minds meet

Taxation of Woodlands



Scottish
Woodlands

Inheritance Tax

Agricultural Property Relief (APR)

100% APR is available where woodlands are occupied along with agricultural land and the occupation of the woodlands is “ancillary” to it.

Woodlands occupied for other than agricultural purposes such as woodland used for the production of commercial timber will not be agricultural property and qualify for APR. However, they may be eligible for woodlands relief or business property relief.

Business Property Relief (BPR)

Commercial woodland currently attracts 100% BPR from Inheritance Tax (IHT) provided you owned the woodlands for two years. If death occurs within two years of ownership, IHT will be payable at 40% on the value of the woodlands in excess of your Nil Rate Band (currently £325,000), with any IHT due potentially payable by instalments.

What are Commercial Woodlands?

Woodlands are treated as commercial if they are managed on a commercial basis with a view to the realisation of profits. Evidence will need to be retained to substantiate such a claim, for example, accounts and records should be kept showing historic details of any profits and losses made.

Woodlands Relief

In the event that APR and BPR are not available, on death, the beneficiaries of your woodlands can ask that the value of the timber (but not the land) be excluded from an individual's estate, provided that the individual has owned the woodlands for five years. When the timber is subsequently sold, IHT will be due on the proceeds received on the sale of the timber less allowable expenses (including the costs of replanting after disposal).

Heritage Relief

In addition, certain woodlands may qualify for Heritage Relief and may be exempt from IHT. This relief is available for assets of a national heritage quality e.g. land of outstanding scenic, historic or scientific interest.

Capital Gains Tax (CGT)

For commercial woodlands, there is no capital gains tax (CGT) liability arising from the sale of any standing or felled trees. However, any gains arising from the sale of the land (i.e. the solum or prairie

value) on which the trees are situated on is liable to CGT.

It is important that separate valuations for the value of the timber and land are obtained on any acquisition or disposal of woodlands, otherwise an apportionment will be made on a just and reasonable basis between the value of the land and the timber/trees.

For non commercial woodlands, CGT is payable on sale of the timber, however the chattels exemption should apply, provided the gains arising from the timber do not exceed £6,000.

Gift Relief/Holdover relief on the land (solum or prairie value)

Relief would be available on the gains arising from the gift of woodlands. The gain arising on the gift of the woodlands would be deferred until the recipient of the gift disposes of the woodlands at a later date. The claim for gift relief will need to be claimed by completing Form HS295 by both the donor and donee within four years from the end of the tax year in which the gift was made.

Entrepreneurs' Relief

For income tax purposes, the commercial occupation of woodlands is not a trade, therefore the disposal of woodlands is not a qualifying business asset for the purposes of Entrepreneurs' Relief.

Roll over relief

For commercially run woodlands, gains arising on the sale of the land may be deferred by rolling over the gains against the cost of replacement business assets (such as further woodlands, but not standing timber) within one year before or three years after the sale.

Income Tax

Income Tax Exemption

Income received from the sale of timber or from the occupation of commercial woodlands (or land being prepared for forestry) is exempt from income tax. Therefore:

Income tax relief is not available on any expenditure incurred on the woodlands, for example on the preparatory work on the land for forestry purposes or clearance of the woodlands. Capital allowances cannot be claimed on capital expenditure incurred on plant and machinery used for the commercial woodlands. No tax relief is available for any losses suffered.

Taxation of Grants

Depending on the nature of the grant received, income received from grants for woodlands are usually exempt from income tax. However, income received for the compensation of loss of revenue for the woodlands owner for example loss of farming or rental profits are taxable (e.g. the Farm Woodland Premium Scheme). You should speak to your tax advisor if in doubt.

Other points

The exemption from income tax on woodlands does not include income received from the sale of:

- Christmas trees and
- Short rotation coppice cultivation, trees which are harvested at intervals of less than ten years, (for example willow or poplar trees).

In addition, where an owner of woodlands lets their woodlands and receives rent from them, this income is taxable. Income derived from the use of the woodlands includes for example

- Income derived from picnic and camp sites in woodlands or
- Sporting rights in the woodlands are subject to income tax.

Corporation Tax

There is no Corporation Tax charge on profits arising from the commercial occupation of Woodlands, whether it be from the sale of timber or from certain Woodlands Grants. No relief is available in respect of losses incurred on commercial woodlands.

VAT

Woodland owners who are currently registered for VAT, must charge VAT on the sale of timber from the woodlands. The current VAT registration limit is £85,000 per annum.

It is possible to voluntarily register for VAT before you start making taxable supplies (i.e. the felling of trees), the intention to make taxable supplies being sufficient. The supply or grant of any right to fell or remove timber is subject to VAT at 20%.

Once VAT registered, you are able to recover input VAT on goods and services incurred in connection with the Woodlands operations.

Land & Buildings Transaction Tax (LBTT)

LBTT is payable on all commercial property purchases including the purchase of Forestry. Below are the rates and thresholds at which LBTT applies:

Price (£)	Rate (%)
0 - 150,000	0
150,001 - 350,000	3
Over 350,001	4.5

Stamp Duty Land Tax (SDLT)

SDLT is payable in England, Wales and Northern Ireland, on commercial property purchases including the purchase of forestry. Below are the rate and thresholds at which SDLT applies

Price (£)	Rate (%)
0 - 150,000	0
150,001 - 250,000	2
Over 250,001	5

Need further help?

Speak to your local accountant or tax adviser or visit HMRC's website (www.hmrc.gov.uk) for further guidance and assistance.

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