

AGRICULTURAL LAND AND LAND MANAGED AS ONE ESTATE

This Help Sheet gives you information to help you fill in the Land and Property Pages in your Tax Return. The box numbers mentioned below refer to those Pages.

This Help Sheet covers two different situations:

- the additional loss relief, known as 'agricultural relief', available to you where agricultural land is included in your rental business
- land managed as one estate under a valid election and the restriction of the pooling of all income and expenditure within your rental business brought about by the special rules governing such estates.

AGRICULTURAL LAND: SPECIAL PROVISIONS FOR MAINTENANCE EXPENDITURE

Where your rental business includes land used for agricultural purposes you should keep a record of any expenditure on maintenance, repairs, insurance and management on agricultural land let out. (Note that interest paid is not an agricultural expense.) Normally any loss you make in your rental business can only be carried forward and set against future profits of the same rental business. However, there are special rules that allow you to set-off the amount of your rental business loss equal to the expenses, against your total income. You can set the lesser of:

- the loss, or
 - the relevant expenditure on the agricultural land you let out,
- against your income from other sources of either the tax year in which the loss is incurred, or of the following tax year. Any set-off will reduce the rental business loss available to carry forward to future years.

What is agricultural land?

Agricultural land includes land, houses or other buildings in the UK occupied wholly or mainly for the purposes of husbandry. Under tax rules husbandry does not include market gardening. That apart, activities normally recognisable as farming, such as the growing of crops or the raising of farm livestock, will all fall to be included as acts of husbandry.

If you are the owner occupier of a farm not carried on on a commercial basis, you may be able to claim some agricultural relief under Extra Statutory Concession B5. If you wish to make a claim under Extra Statutory Concession B5, use box 5.44. For further information ask your Inland Revenue office or tax adviser.

How to claim agricultural relief against general income

Where you have made a loss in your rental business in a tax year you should enter the total amount of that loss in box 5.41 on Page L2. By keeping a separate note of the expenditure on maintenance, repairs, insurance and management of the agricultural land you will be able to compare this total with the total rental business loss made in the year, to arrive at the maximum relief due against your general income from other sources. The amount of agricultural relief available is restricted to the smallest of the following three figures:

- your general income after any allowable rental business losses have been deducted, or
- the amount of the rental business loss made in the year (box 5.41), or
- the expenditure on repairs, maintenance, insurance or management of the agricultural land.

You should include the amount of relief available in box 5.44. If you calculate your tax, add the figure in box 5.44 to any other losses you are claiming against general income (for example, trading losses) and copy that total to box w2 in the standard Tax Calculation Guide, or c2.6 in the Comprehensive Tax Calculation Guide.

Example 1

Louise lets out a number of properties including two small farms in Scotland. In 2000-2001 she makes a loss in her rental business of £3,000. Repairs and maintenance of the two farmhouses amounted to £2,200 and this figure was included in her expenditure for the tax year. Louise can claim the full £2,200 as agricultural relief against her general, non rental business, income of either 2000-2001 or 2001-2002. (If she has less than £2,200 general income in one of the tax years she can claim the unallowed agricultural expenditure against her general income for the other).

Louise will be able to carry the remaining loss of £800 forward and set this against future profits of her rental business.

Example 2

Bob lets out a number of properties including a small farm. In 2000-2001 he makes a loss of £500. Expenditure on the farm amounted to £2,000 of which £1,800 related to expenditure on maintenance, repairs, insurance and management. Bob can only claim £500 as agricultural relief against his other non rental business income of either 2000-2001 or 2001-2002. He cannot claim more relief than the total loss made in his rental business. Assuming a valid claim is made, there will be no loss available to carry forward to set against future rental business profits.

If you are not sure what relief is due, ask your Inland Revenue office or tax adviser.

LAND MANAGED AS ONE ESTATE - SPECIAL RULES FOR EXPENSES

Under the rules in force before 1963-64 both owner-occupied properties and let properties were taxed by reference to an annual value. Land and property managed as one estate was treated as a unit as far as maintenance was concerned. Income and expenses on properties managed as one estate could thus all be pooled together. Where the expenditure on repairs and maintenance of owner-occupied (that is, unlet) property on such an estate exceeded the annual value of that property included in the assessable profits, the excess expenses could be set-off against the rents from the let properties on the estate. From 1963-64 owner-occupied properties are no longer subject to tax on their annual value. However, the current rules enable the owner of land and property managed as one estate to continue to get relief for expenses on owner-occupied property along the same lines, provided there is a valid election over the estate.

There must be a valid one estate election in force

If, at the end of 1962-63 any land was managed as one estate, the owner could have elected that this arrangement applied to the estate for the future. If an election was made then, any successor in title can also elect to continue the arrangement. An election can only be made if all the previous owners of the estate since the end of 1962-63 have also made the same election. The election must be made by notice in writing to your Inland Revenue office within twelve months from the end of the tax year in which the person making the election first became entitled to do so.

Where such an election has been made for land you continue to manage as one estate, you can get relief for repairs and maintenance expenditure on estate property that you use yourself, against the income from other let properties on the estate. To obtain the relief you must include in your chargeable income in box 5.20 the full current annual value of the property that you are using personally.

How to arrive at the current annual value of owner-occupied properties

If the property is situated in England or Wales, you should use the rateable value last in force for that property before the introduction of Community Charge and Council Tax. If the property is in Scotland you should use the rateable value fixed in the 1978 revaluation and not those fixed in 1985. If the property is in Northern Ireland you should use the current rateable value fixed in the 1976 revaluation.

In all cases the gross rateable value should be included. If you have difficulty in converting a net value to a gross value, or finding the correct value, ask your Inland Revenue office or tax adviser for help.

Rules regarding the set-off of expenditure on land etc. managed as one estate

Where there is a valid election, expenditure on owner-occupied properties forming part of the estate cannot be set against rents of properties outside the estate that form part of your rental business.

Conversely, expenditure on let properties forming part of the estate **can** be set against rents from any other properties comprised in your rental business. And, excess expenditure on properties outside the estate can be set against the profits from the estate.

How to calculate the amount of allowable expenditure on owner-occupied property

The rules only restrict the allowable expenditure on owner-occupied property where it is more than your total rental income you have included in box 5.20 in respect of the whole estate (that is, not merely the annual value of the owner occupied property). To discover whether any restriction is required you should first separate income and expenditure on the estate, and separate expenditure on let properties in the estate from expenditure on owner-occupied properties.

If the expenditure on the unlet properties is greater than the total income of the estate, the excess must be separated from other business expenditure and carried forward to the following year as expenditure on unlet properties.

What figure do I put in box 5.46?

Where the separation of expenditure and the restriction to the pooling rules illustrated in Example 3 (on page 3 of this Help Sheet) results in excess expenditure that cannot be set-off in the tax year, you should enter this figure in box 5.46 on Page L2 of your Land and Property Pages. You will also need to reduce the total expenditure entered in box 5.29 by the same amount. Include the figure in box 5.46 as an expense of your estate for next year.

Withdrawal of one estate treatment

Please note that 2000-2001 is the last year for which these special rules operate. The one estate election will cease to have effect for Income Tax purposes on 6 April 2001.

Example 3

Ruth owns a number of flats in Glasgow, which she lets to tenants. She also owns an estate near Inverness in which she lives, which has been run as one estate and over which a valid election has been made. The part of the estate that Ruth lives in comprises a mansion house and garden. In 2000-2001 Ruth's rental business includes the following income and allowable expenditure:

Annual value of mansion house and garden	£600
Rents from let properties on the estate	£5,000
Non-estate letting income	£20,000
Total income	£25,600
Mansion house repairs	£6,200
Expenditure on let properties in estate	£4,300
Expenditure on non-estate properties	£5,960
Total expenditure	£16,460

Without the special rules relating to 'land managed as one estate' neither the annual value of the mansion house nor the repairs expenditure on it would appear in Ruth's rental business accounts. The special rules bring in the income and expenditure, but restrict the benefit of the relief on that expenditure, to properties in the estate.

At first sight the rental business profit would be £9,140 (£25,600 minus £16,460).

The effect of the restriction, however, is to set off first the mansion house expenditure against the annual value of the mansion house and garden and rents from let properties on the estate.

Rents from let properties on the estate	£5,000
Annual value of mansion house and garden	£600
Total	£5,600
Mansion house repairs	£6,200
Surplus expenditure	£600

The excess expenditure of £600 cannot be set-against other non-estate rental business properties. But the £4,300 spent on other let properties in the estate can be deducted from the rental business income from property outside the estate. Ruth's rental business profits for 2000-2001 are therefore £9,740 calculated as follows:

Non-estate letting income	£20,000
Expenditure on non-estate properties	£5,960
Expenditure on let properties in estate	£4,300
Total	£10,260
Profit	£9,740

Ruth has £600 expenditure to carry forward and include as repairs to the mansion house in her 2001-2002 rental business calculations.

What to do if land you manage as one estate includes agricultural land

Where land managed as one estate includes agricultural land as defined on page 1, the relief for losses in relation to any expenditure on maintenance, repairs, insurance and management of the agricultural land is **not** extended to relief for losses in relation to any agricultural land you use personally and do not let out. Agricultural relief is available in the normal way on agricultural land on the estate that is let out and that you do not use yourself.

Example 4

George owns a number of flats in Manchester, which he lets to tenants. He also owns an estate in Cornwall, which is managed as one estate and over which a valid election has been made. Part of the estate comprises a farm and a farm house that George lives in. He lets out the farm land. The other properties on the estate are let out for residential use. In 2000-2001 George's rental business includes the following income and allowable expenditure:

Annual value of farm house	£500
Rents from let properties on the estate including farmland	£2,000
Non-estate letting income	<u>£24,000</u>
Total income	£26,500
Expenditure on farm house	£6,000
Expenditure on residential properties in estate	£4,500
Expenditure repairing fences on farmland	£500
Expenditure on non-estate properties	<u>£20,000</u>
Total expenditure	£31,000

At first sight George would appear to have made a loss of £4,500 in his rental business. But the expenditure of £6,000 on the farm house can only be set against the income from the estate as follows:

Expenditure on farm house	£6,000
Annual value of farm house	£500
Rent from let properties on the estate	£2,000
Total	<u>£2,500</u>
Surplus expenditure	£3,500

George, therefore, has excess maintenance expenditure of £3,500 to carry forward to the next tax year as expenditure on owner-occupied properties. This is not a loss for the purposes of agricultural relief. The loss of £4,500 arising in his rental business is therefore restricted by £3,500 to £1,000.

Of the £1,000 rental business loss, George can claim the £500 spent on let agricultural land against his other income as agricultural relief. Assuming relief is given against other income, his rental business loss available to carry forward to set against future rental business profits will be reduced to £500.

The total loss of £4,500 will then be dealt with as follows:

Set against other income	£500
C/F to set against future rental profits	£500
C/F as expenditure on owner occupied properties	<u>£3,500</u>
Total	£4,500

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.