

VAT implications for rural diversification

It has come to our attention that HMRC appears to have a campaign underway to check the VAT returns of farming businesses where there has been some diversification of activity. We would add that cases we have seen so far the targeted farms have at some point received DEFRA or similar grants to support the diversification.

What are HMRC looking at?

In particular, officers are considering situations where a farm has other activities such as, bed and breakfast accommodation or holiday cottages run under the auspices of a separate business. They are looking for evidence that this 'separation of businesses' is genuine and that, where one business benefits from the facilities, staff or equipment of the other, that commercial charges are made.

What could this mean for you?

If HMRC are not satisfied that businesses are truly separate then they will raise assessments on the basis that both businesses are in fact one. Alternatively they may issue a direction to that effect from a current date.

For example, where a farming family let holiday cottages through a limited company with an annual turnover of £30,000 per annum, HMRC may find that this business is not truly separate from the farming business assess the farm for VAT on the basis that holiday cottage income is actually income to the VAT registered business.

What can be done to avoid the problem?

Ensure that all relationships between separate businesses are on a commercial footing and that all advertising supports the fact that businesses are separate. Each business should have separate bank accounts and financial records, ideally separate premises and a separate telephone number. If you are not sure that your business has been sufficiently separately and would like further detail, call us and we can advise further.

We will be pleased to offer further help and advice on this as required. Please contact your usual Ensors contact or speak to Graham Page on 01284 722331 or email graham.page@ensors.co.uk

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