COULD YOUR HORSES BE COSTING YOU DEARLY?

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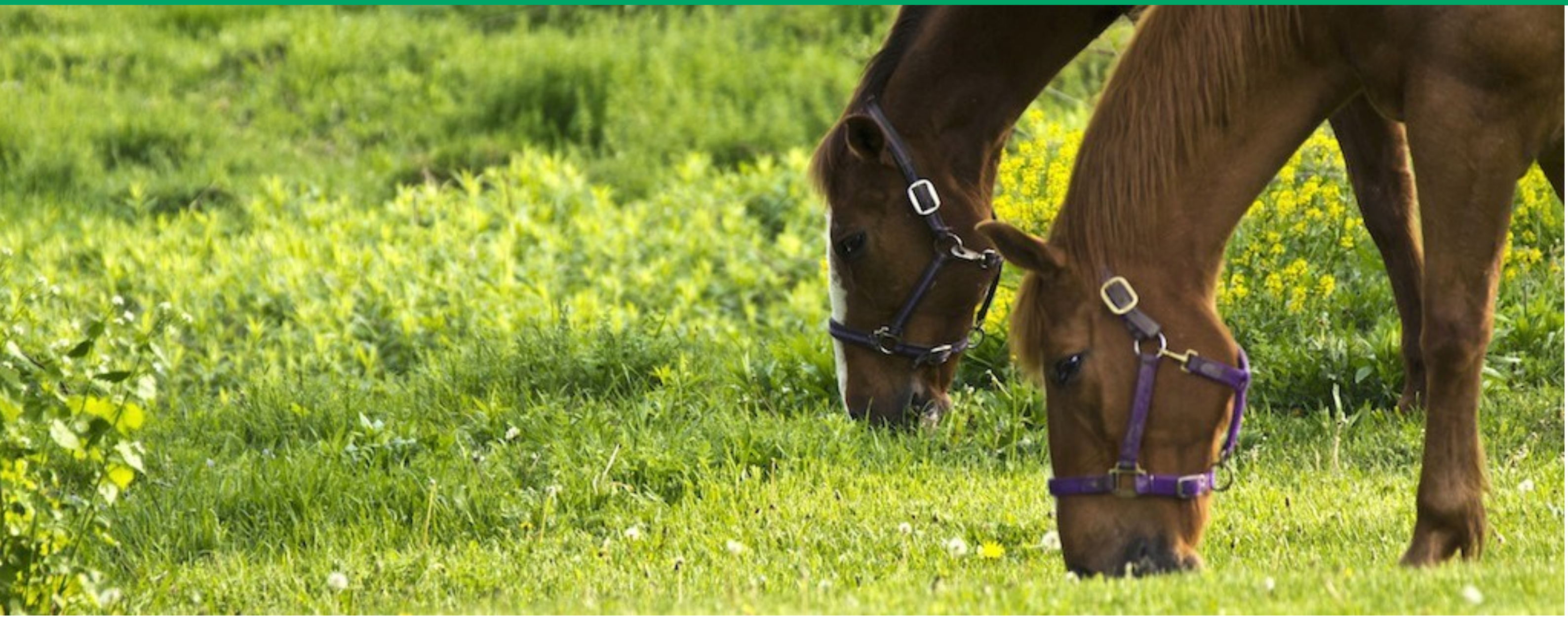
Obviously the answer to this is 'yes'. Owning horses is an expensive business however you look at it. They may be owned privately for the benefit of the family, you might provide land and / or stabling for a DIY livery enterprise, or you might run a horse enterprise as a trade - each has its own, potentially unheeded, tax consequences.

Most farmers expect the value of their land to qualify for Agricultural Property Relief (APR) from inheritance tax (IHT) at 100% - albeit only on the agricultural value of the land and buildings.

But it will only qualify if it is used for agricultural purposes, which for horses means that it will only qualify if the horses are:

- Being bred for food
- Used in the cultivation of food (i.e. draught horses pulling ploughs or carts)
- Being bred and reared as a breeding activity on a stud farm.



It follows then that land grazed by private horses, and land grazed by horses on livery, is not being used for agricultural purposes and will not qualify for APR. A stud farm will qualify providing it satisfies additional requirements such as commerciality and trading with a view to profit. A stud run as a hobby will not qualify.

Business Property Relief (BPR) may be available either for additional value over agricultural value (e.g. land with development potential) or where the horses do not qualify as agricultural. This may be the case for some livery enterprises.

A DIY livery undertaking, that typically involves the granting to horse owners of a license to occupy land, will fail the BPR test unless additional services are provided. The taxpayer needs to show that the business is "a serious undertaking earnestly pursued". Grazing agreements may be helpful – but must be carefully drafted, and should specify the services that are included such as responsibility for fertilizing and topping, maintaining fences, emergency feeding, vet visits, security, provision of feedstuffs, lessons and all-weather facilities. Poorly drafted agreements can be counter-productive, indicating investment rather than trading activity.

APR and BPR are immensely valuable tax reliefs to horse-owning landowners. It only takes a few acres of non-qualifying land for a sizeable IHT bill to mount up. However, that might not be the worst of it. BPR looks at considerations such as capital employed, profitability, turnover and time spent to determine the dominant activity of the business. If the scale of non-trading horse use is such that the business is judged to be predominately non-trading, then the whole value of the business will fail to qualify for BPR.

Horse-owners should be aware that horses can cause significant problems for IHT relief and landowners need to be aware of the potential pitfalls of having horses on their land.

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