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Welcome to the Autumn edition of our equine newsletter. In this edition, we discuss the VAT implications on the sale and purchase of horses from other countries. We also look at a significant recent case which overturned a HMRC decision to deny Business Property Relief to a DIY / Part Livery business.

As always, if you would like to discuss any of the stories or points raised in this newsletter then please do get in touch.

A win for livery yards

Business Property Relief (BPR) can provide Inheritance Tax Relief on business assets at a rate of 50% or 100% of their value. This relief can be very valuable but in order to claim it HM Revenue and Customs (HMRC) require the business to be a trading one which is defined as one not wholly or mainly dealing in securities, stocks or shares, land or buildings or in the making or holding of investments.

Historically, BPR has been denied to businesses that essentially let out land as this is deemed to be an investment and not a trading activity. Therefore, BPR would typically be denied on DIY liveries as this is usually just the letting of a stable with some grazing and any grass liveries where only grazing rights are provided.

The matter as to whether a business is trading or not is more of a grey area when it comes to Part and Full liveries with a range of services provided. We have recently seen an increase in the denial of BPR on Furnished Holiday Lets on the basis that these are viewed to be a letting of property and even with multiple services provided. It is therefore surprising and pleasing to hear that the HMRC's decision to deny BPR on a DIY/ Part Livery business was overturned by the First Tier Tribunal (FTT).

The case

The late Mrs Vigne owned 30 acres of land from which she provided livery services. As well as providing stabling and grazing for her livery clients she also provided the following services:

1. The provision of worming products, including administering them where and when necessary, on a quarterly basis
2. Providing the horses with hay feed during the winter months
3. Removal of manure from the fields
4. Undertaking a daily check of each horse

HMRC initially denied BPR but this was overturned by the FTT as they considered that the Vigne's livery business was not "wholly or mainly" that of "holding investments" due to the additional services provided to the horse owners meaning that the business was more than a DIY livery. They also considered the level of care Mrs. Vigne provided and the responsibility she undertook and said that it was in no doubt that the business was a genuine livery business which was developed so as to be a recognisable livery business offering significantly more than the mere right to occupy a particular parcel of land.

This decision demonstrates that livery businesses can qualify for BPR. However, HMRC may appeal this decision and therefore although we cannot rely on this fully yet, it is certainly a step in the right direction.

VAT and overseas transactions

Many of our clients, especially in the eventing, show jumping, dressage and racing world, buy and sell horses as part of their trade.

The sale of horses is a taxable supply for VAT purposes with VAT chargeable at 20% (unless the second hand margin scheme applies) for transactions within the UK. However, many horses are bought from, or sold to, other countries including Germany, Ireland and the USA. VAT on sales or purchases from other countries is not as straight forward as UK only transactions, and accounting for the VAT also depends on whether it is a transaction within the EU or outside of the EU and whether the item is a good (such as a horse) or a service (such as international horse transport).

A summary of how to account for the VAT is as follows:

Goods

Outside the EU

- Imports – VAT paid (at the same rate as goods would be chargeable in the UK) on the value of the goods imported at the point of entry into the UK.
- Exports –zero rated (but need evidence of exporting such as contracts/invoices/freight confirmation).

Inside the EU

- Acquisitions (imports) – UK trader accounts for acquisition tax and input VAT. It is therefore VAT neutral.
- Dispatch (exports)
  a. If the UK supplier knows the VAT number of the recipient – zero rated.
  b. If the UK supplier doesn't know the VAT number of the recipient – standard rated.

Services

UK supplying to overseas

- If customer is VAT registered – not a taxable supply.
- If customer is not VAT registered – standard rated.

Overseas supplying to the UK

- UK VAT registered trader accounts for input VAT and output VAT (reverse charge system). It is therefore VAT neutral.

The transactions need reporting on the VAT return and may or may not need to be included in the EC Sales and EC Purchases box.

This is a complex area of VAT and Ellacotts can assist you with the reporting of your overseas transaction in your VAT returns together with other VAT matters.

Forthcoming Events

Join our Tax and Wealth Planning team on Thursday 23rd November, the day after the Autumn Budget, as they deliver a timely summary of the announcements, how it affects you and what you can do to save on tax payments.

Budget Breakfast - Banbury | 7:45am - 9:45am

Banbury Cricket Club, Bodicote, Banbury
Breakfast will be served.

Budget Evening Seminar - Kettering | 5pm - 7pm

Ellacotts, Vantage House, Kettering
Drinks and canapés will be served.

If you would like to attend either event, please contact Rosie Parish on 01295 250401 or rparish@ellacotts.co.uk

We will be sponsoring and attending the following Point to Points in 2018:

Oakley, Brafield-on-the-Green, Northamptonshire | Sunday 18th March

Bicester with Whaddon Chase, Edgcote | Sunday 8th April

North Warwickshire, Mollington,Oxfordshire | Saturday 14th April

Pytchley, Guilsborough, Northamptonshire | Sunday 15th April

Warwickshire, Mollington, Oxfordshire | Monday 7th May

Grafton, Edgcote | Sunday 20th May

Meet the team

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