

## Woodlands and Forestry



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The UK tax code includes a number of special rules and reliefs that can apply to owners of commercial woodland. In this note we explore a number of the rules that apply to individuals.

### Income Tax

Profits and losses derived from the occupation of commercially managed woodlands in the UK are outside the scope of UK income tax and so generally speaking income derived from woodlands is not subject to income tax in the UK.

There are a few exceptions to this rule. Firstly, woodlands are only occupied on a commercial basis if they are commercially managed with a view to the realisation of profits. If the woodlands are not occupied on this basis then income derived from them may still be subject to tax.

Secondly activities such as short rotation coppice or the growing of Christmas Trees does not qualify as woodlands (rather the activity is seen as cultivation) and so any resulting profits are subject to tax (but equally any resulting losses should be available in the ordinary manner).

### Capital Gains Tax

In a similar position to the rules for income tax, if woodlands are managed on a commercial basis with a view to realising profits, any consideration received for the disposal of trees (whether felled or standing) or saleable underwood is not subject to capital gains tax.

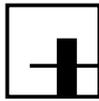
While the value of the timber is not subject to capital gains tax, if a forestry unit is sold the underlying value of the

land is still subject to capital gains tax. It will therefore be necessary to apportion the sale proceeds received on a forestry sale between the value of the standing and cut timber (which will not be subject to capital gains tax) and the value of the land (which will be subject to capital gains tax if a taxable gain is realised).

A number of favourable capital gains tax reliefs apply to commercial woodland. Firstly, commercial woodlands are a qualifying asset for “rollover relief” purposes meaning that rollover relief can apply on the disposal of commercial woodlands (if other qualifying assets are then purchased), or if the disposal proceeds from qualifying assets are re-invested into commercial woodlands within the applicable time limits.

As well as “rollover relief” commercial woodlands also qualify for “holdover relief” meaning that they can generally be given away without triggering a capital gains tax charge (provided the various other conditions for the relief are met).

While commercial woodlands qualify for rollover and holdover relief, generally speaking (unless they form part of a wider trading business), disposals of commercial woodlands do not qualify for “entrepreneur’s relief” and so to the extent that the disposal of commercial woodlands does give rise to a chargeable gain, the standard rates of tax will apply.



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### Inheritance Tax

There are a number of potential inheritance tax reliefs that may apply to commercially managed woodlands.

Firstly commercially managed woodlands are generally considered to be a qualifying business for “business property relief” purposes. As the rate of business property relief that can apply is often 100% this means that if the various conditions for the relief can be met, the value of commercial forestry interests can often escape inheritance tax altogether. There are a number of conditions that have to be met before an interest can qualify for business property relief. Firstly, the forestry operation must amount to a “business” and it must not be an “investment business”. The general view is that to avoid these issues preventing relief from applying the woodland should be managed on commercial principles with a view to realising a profit. The exact requirements to meet this test will differ from case to case and therefore forestry owners looking to qualify for business property relief should ensure that they take suitable advice to ensure that their activities meet the necessary standards.

Secondly, the woodland must be owned for at least two years in order for it to qualify for business property relief on death or any other chargeable transfer (such as a gift to a trust).

In addition to the possibility of business property relief applying to a commercial forestry operation, landowners operating mixed use landed estates sometimes seek to argue that, notwithstanding that the estate contains some

“investment activity” (e.g. property lettings), overall the business is a trading business (and so qualifies for relief). For these purposes commercially managed woodland should be seen as a trading activity.

As well as the potential application of business property relief, woodlands can qualify for other forms of inheritance relief. The first of these is agricultural property relief and this applies if the woodland is occupied with agricultural land and the occupation is ancillary to the land. While this is unlikely to include large scale forestry operations, it would include shelter belts, game coverts, fox coverts, coppices grown for fencing materials on the farm and clumps of amenity trees.

It is also worth noting that certain “agri-environmental” schemes” such as the Farm Woodland Premium Scheme will generally not qualify for agricultural property relief.

Finally, there is also “woodlands relief”. This can apply where woodland does not otherwise qualify for relief and allows landowners to defer any inheritance tax charged on the value of growing timber until the timber is disposed of (whether through timber sales or disposing of the underlying land).

### Conclusion

The purchase of woodland or forestry for commercial purposes has useful tax benefits. Not only is the income derived from the sale of timber free of income tax, forest assets can also be used for rollover relief purposes and for shielding against inheritance tax.

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