

Forestry Taxation Incentives

Investors can benefit from a range of grants and tax incentives designed to encourage private ownership of woodlands in the UK. Professional forest management, combined with careful tax planning, can lead to reliable and competitive returns from a highly tax-efficient investment.

The principal forms of taxation affecting forestry are Income Tax, Capital Gains Tax (CGT), and Inheritance Tax (IHT).

Income tax

The income and profits from timber sales in woodlands managed commercially are free from both Income and Corporation Tax. This makes it particularly attractive to higher rate tax payers.

Other business activities in the woodland are subject to income tax (e.g. letting of sporting rights, holiday cabins).

Woodland Grant income is generally not taxable (provided it is spent on woodland management) and currently is rarely available after planting.

No income tax relief is available for the cost of assets used in forestry or other woodland expenditure.

Capital Gains Tax (CGT)

The gain in value of **standing timber**, whether from the physical growth of the trees or rises in timber prices, is entirely free from Capital Gains Tax. The sale price or transfer value of the trees is also left out of Capital Gains Tax calculations.

However, the increase in the value of **land** is assessed for CGT. Capital expenditure on improvements such as new roads, fences or buildings used for business purposes, can be offset against the land value. Entrepreneurs Relief may be available subject to strict considerations.

Forestry can be particularly attractive for investors with a Capital Gains Tax liability, following the sale of a business asset, as forestry **land** is eligible for 'rollover relief.' Planting a new commercial

woodland, or investing in a younger plantation where a higher proportion of value is in the land is, therefore, a route to building up an asset free of immediate capital taxes.

Inheritance tax

The entire value of commercial woodland, including both the land and the trees, attracts Business Property Relief, currently at 100%, once it has been owned for two years. Provided this condition is met, there is no Inheritance Tax liability.

Woodlands of outstanding scenic, historic, or scientific interest may qualify for Heritage Relief, allowing a conditional exemption from Inheritance Tax.

Woodlands which are ancillary to farmland (such as shelter belts) may be eligible for Agricultural Property Relief.

If woodlands are not commercial it may be possible to claim woodlands relief which has the effect of deferring IHT on the value of the trees until they are sold.

Value Added Tax (VAT)

Woodland owners can register for VAT and reclaim the tax on expenditure. VAT registration is mandatory if VAT taxable turnover is more than £85,000. It is possible to register below this limit to reclaim input VAT.

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Transaction Taxes

Transaction taxes (commonly known as 'stamp duty') are payable on purchases of forestry land. These are now a devolved matter and rates vary by country within the UK.

What is 'Commercial Forestry'?

Note that these tax exemptions refer to commercial forestry, the definition being 'managed on a commercial basis and with a view to realisation of profits'.

Whilst there is no clear-cut definition of what this means, HMRC will want to see evidence of an intent to make a profit even if it is in the long-term. This evidence could include:

- Annual budgets and accounts.
- A long-term plan showing profitable intent.
- A separate bank account and possibly VAT registration.

- Active management by a professional forester.
- Engagement with forestry regulators e.g. grants, felling licences.
- Active trading (e.g. timber sales). Income from sporting only is generally not sufficient.

We have noticed increased interest from HMRC in recent years to ensure the tax treatment of forestry is not abused.

Self-Invested Personal Pensions (SIPP)

It is possible to hold commercial forestry within a SIPP and this is an attractive approach for some owners. There are relatively few SIPP managers who have the facilities to hold forestry within the SIPP structure, and the arrangements are generally complex, involving a leaseback arrangement for growing timber.

Owners should also be aware of the risk (given the recent strong performance of forestry) of exceeding the lifetime allowance (LTA) – currently £1.05m.



Tilhill Forestry are not qualified to give taxation advice. This guide is prepared to give a general outline on a complex subject, and to ensure your woodland investments are tax-efficient and planned to suit your individual requirements, we strongly advise all clients to consult their own professional financial or tax advisers.