

proactive

Farmhouses & Elephants –
Would you recognise a
farmhouse if you saw one?

Read more inside

SPRING 2003

Retiring Chairman

Our Chairman, Christopher Rimmer retired from the partnership on 31 March. He joined A.C. Mole & Sons in 1996 as part of the merger with the Taunton office of Kidsons Impey. He is a past President of the South Western Society of Chartered Accountants and has been a dedicated Rotarian for many years. He is planning to devote more time to his interest in photography. Having successfully completed a City & Guilds Applied Photography course he now holds the coveted Associateship of the Royal Photographic Society. We wish him well for the future.

Vice Chairman

On 11 April, tax partner Paul Aplin was elected Vice Chairman of the Institute of Chartered Accountants Tax Faculty. The Faculty is responsible for the Institute's representations to the Inland Revenue and to government on tax issues. Over the next few weeks the Faculty will be heavily involved in influencing reaction to the Budget and Finance Bill. Paul, who has an established reputation as a tax writer and lecturer, also sits on the Faculty's technical and executive committees. He will continue to be based at Stafford House.

Best Tax Team

For the second year running we have been shortlisted in the Best Tax Team in a Small Firm category in the national Butterworths Tolley Tax Awards. The winner will be announced at the London Hilton on Park Lane on 10th June.



Further expansion at Bridgwater

When Steve Golby opened our Bridgwater office in 1992, two members of staff accompanied him. By 2000 the premises in Angel Crescent had become too small and we moved to the present offices at Riverside House.

The client base continues to expand and we are again adding to the office space and personnel. Tax partner Paul Kingdom will soon join Steve, associate Julia Croughton and the seven staff now at Riverside House. Paul, who is a Chartered Tax Adviser, will divide his time between Taunton (where he will continue to see existing clients) and Bridgwater. Welcoming the move Steve said, "Having Paul here regularly

will considerably enhance our on site tax services. The state of the art computer link between the two offices means that he can operate from either location without having to transport mountains of files"

Our many Bridgwater clients include HM Group, and Chickmaster UK. You can read more about our relationship with them on page 4.

Farmhouses & Elephants

Would you recognise a farmhouse if you saw one? If you were about to say "of course I would, I live in one" and were counting on Inheritance Tax relief read on...

IHT relief is available for cottages, farm buildings and farmhouses occupied for the purposes of agriculture, together with the land occupied with them, if they are of a character appropriate to the property. This "character appropriate" test was critical in two recent tax cases.

The Inland Revenue often selects cases where (in their words) "there is a farming business, but the land occupied...for the purposes of agriculture...is less than 20 acres". They also look at cases where "the farmhouse is very valuable (say, over £250,000) and the acreage farmed...is comparatively small in relation thereto (say, less than 100 acres)". It is easy to see why the two recent cases were selected.

In the first case, the "farmhouse" was a substantial former hunting lodge set in 63 acres of agricultural land (mostly grass) and 68 acres of woodland. The estate was worth over £1million. The owner had carried on mixed farming until he retired and the land was thereafter let. His nephew (who inherited the estate) knew that the farm would represent an appalling business investment. The Commissioner hearing the case decided that

the building was "a house with farmland going with it and not vice versa"; it was not the style of house in which a typical farmer would live. The claim for relief failed.

The second case concerned another substantial farmhouse in 126 acres of land. The Revenue accepted that the house (a Grade II listed building) was a farmhouse but the Commissioner had to decide whether it was of a character appropriate to the property. Trading results had varied from small profits to significant losses, but there was evidence that it was a genuine working farm. The house was deemed appropriate to the farm and consistent with other farms in the area. The Commissioner granted relief and helpfully set out some tests:

- Are the size and layout of the house appropriate to the area being farmed?
- Is the house the place from which the farming operations are carried out?
- Is it historically connected to the land farmed?
- Is there a viable (as distinguished from profitable) farming business?
- The elephant test (Used to define something hard to describe but easy to recognise): does it look like a farmhouse?
- Would an educated rural layman regard the property as a house with land or as a farm?

We do not believe that Inspectors are out to deny relief for genuine working farms. They are targeting expensive houses packaged with small amounts of land or land that is not being farmed commercially. The Commissioner in the first case said, "this is an inheritance tax ...and the object is to facilitate the continuance of the farming after the death of the farmer". That is the principle underlying the Revenue's approach.



"You can instantly recognise this as an elephant..."



"...but how sure are you that this is a farmhouse?"

If you are in any doubt about your own situation, please contact either David Perry or Chris Loveluck at our Taunton office.

Are they watching you?

Traditionally, VAT inspectors made an appointment and spent a day poring over the books and records. Although this type of visit still takes place, Customs and Excise are increasingly targeting businesses in less open ways.



Retailers, particularly in the catering sector, receive attention, as they are believed to have a poor record on accuracy.

Investigators have developed a wide range of methods to identify businesses that deliberately underdeclare their true takings for VAT. They have a wide choice of potential targets and make their selection based on the additional tax they might secure. After selection, they may make:

- Visual or video observations
- Test purchases, posing as customers

Observations of the number of customers and average meal or take-away price give them an idea of the approximate takings they would expect to see declared on the VAT returns. They then compare the result with the actual declared takings. More observations may be carried out to demonstrate that the under-recording of takings was not an isolated error.

In order to understate takings, purchases must also be suppressed if the overall profit margin is to be maintained. Food purchases are therefore not always recorded, (as food is zero rated when supplied to the catering

trade by wholesalers, the business does not suffer any loss of input tax). Officers may visit suppliers to ensure that all sales made by them are accurately recorded in the business's records and may also observe delivery vehicles.

One fish and chip shop was so careless when suppressing its purchases that it failed to record any pie purchases for the preceding 3 years. This made it difficult to explain to the Inspector how they had managed to sell him one.

Once the evidence has been gathered, the proprietors will be asked to attend a meeting. Full co-operation will normally result in a penalty of 20% of the tax evaded, but the penalty for not co-operating will be 100% of the tax. Investigations are extremely stressful and should only be handled by those with experience.

The end of the investigation is not the end of the problem; details will be passed to the Inland Revenue for them to extract their pound of flesh...

This article was contributed by Peter Baumgardt of The VAT Consultancy. Peter (who is an ex Customs & Excise officer) supports our tax team with specialist VAT support.

Self Invested Personal Pension (SIPP)

Many investors have, over time, built up what is often a bit of a ragbag of pensions, usually managed by Life Offices, depending on their employment history and changed personal circumstances. Often these are held in insurance company With Profits and Managed funds. This may not be optimal for self-employed and entrepreneurial people.

An alternative is to hold their entire pension fund in a Self Invested Personal Pension (SIPP). There are several key benefits, both before or after retirement.

Control You direct the investment strategy or appoint a fund manager of your choice for the entire pension fund and choose from a range of asset classes – Cash, Gilts, Unit Trusts/OEICs, unit linked funds in various insurance companies, quoted stocks and shares, commercial property. You may, for example, buy premises for your business and pay rent (a tax deductible cost) to your pension fund and eventually take tax-free cash from the fund on retirement.

Cost The cost of holding your fund in a SIPP is often much lower than hitherto in traditional pension plans.

Flexibility Having directed the investment strategy of your fund, you

may have a range of options available to you when you retire. You may wish to postpone annuity purchase until 75 or you may wish to protect the interests of your spouse, depending on his or her pension position.

Death Benefits The interests of your dependents can be safeguarded in line with your own wishes.

Typically, a fund of £50,000 is needed to make a SIPP worthwhile (or £100,000 if you are about to retire).

Please contact John Brown of A Wills & Co Ltd, at our Taunton office on Taunton (01823) 338999.

Website: www.awills.co.uk. **E-mail:** clientservices@awills.co.uk

A Wills & Co Ltd are Regulated & Authorised by The Financial Services Authority.

We get the "more" from our friends at A.C. Mole & Sons

From its headquarters next door to our Bridgwater office, H M Plant controls a network of 10 branches across the UK. Founded in 1979 it supplies excavators to the civil engineering, construction and mining industries. It is the number one supplier of crawler excavators in the UK and Ireland and the largest Hitachi excavator dealer in Europe.



A.C. Mole & Sons has provided the H M Group of companies with tax compliance and advisory services for several years now. Steven Hanney, the Group Finance Director says of the relationship "the level of competence and commitment you show exceeds that of the 'Nationals' which we use from time to time. We always sense a tremendous team spirit and your firm's tax service is second to none. You always give the impression of being ahead of the game and proactive in your approach to corporate tax matters".

You can visit the company's website www.hmplantltd.co.uk

Chick Master is a world leader in the development and production of large poultry incubation systems. Its customer base spans the globe. Founded in Cleveland, Ohio in 1974 the company underwent significant expansion in 1998, acquiring Buckeye International Ltd in the UK and La Nationale SARL in France. Manufacturing takes place at the Medina and Bridgwater sites and the Bridgwater facility services customers in Asia, the Middle East and Africa.

Chick Master's Mike Hurd writes: "Of the many challenges a company faces when acquiring or managing a subsidiary in a different country, the multi-faceted issue of cultural differences is the most difficult. It was a major concern of ours at Chick Master that we align ourselves with professions in the UK who could help us with the practical side of doing business here. While we were fortunate enough to acquire a company in Somerset with a good management team relatively intact, the legal and reporting implications of their new

status as the subsidiary of a U.S. corporation was a concern to all of us. We were fortunate to find Steve Golby and the firm of A.C. Mole & Sons to assist us in this transitional process. While many professionals understand the theory of financial practice, Steve and his able associates brought to us the "reality" of how things truly functioned.

Our relationship has grown stronger over the past few years as our mutual respect and friendship has blossomed. As our operations in Somerset have grown, our banking, legal and administrative support requirements have grown with us. A.C. Mole & Sons helped us find the right professionals - both for their knowledge and personality match - to keep us growing and improving.

There is more to a relationship with outside accountants than understanding accounting principles. We get the "more" from our friends at A.C. Mole & Sons.

You can find out more about Chick Master at www.chickmaster.com



Chick Master in Bridgwater



Taunton Office: Stafford House, 10 Billefield, Taunton, Somerset TA1 3NL T. 01823 251311 F. 01823 336398

Bridgwater Office: Riverside House, Riverside, Business Park, Wylds Road, Bridgwater, Somerset TA6 4BH
T. 01278 446088 F. 01278 450027

E. info@acmole.co.uk www.acmole.co.uk