



**Fountains
Forestry**
AN F&W COMPANY

A Guide to UK Forestry Taxation

Woodland and forestry investment can be an attractive financial proposition with the underlying returns from timber growth and land, enhanced by the current tax treatment of commercial woodlands* for UK taxpayers. The financial opportunities vary, so it is important to consider each property as a separate case when calculating the possible returns. The underlying return from forestry is derived principally from the physical growth of the timber.

The UK has an internationally competitive timber processing industry and home-grown timber is processed into a range of products such as construction timber, pallets, packaging and paper. This market has an annual value of around £10 billion



Emerging markets for biomass and renewables are helping to increase demand for timber products and enhance timber prices. There may also be opportunities to enhance returns from the land element of the investment through the introduction of non-timber revenue sources such as wind farms and various sporting and leisure activities.

Commercial Forestry Taxation

UK taxpayers investing in commercial forests and woodlands* in the UK can benefit from a number of tax advantages which can add to the appeal of the forestry investment.

INHERITANCE TAX (IHT)

Commercial forestry can qualify for 100% IHT Business Property Relief after two years of ownership. If owned at death, no inheritance tax is paid on the total value of the land and trees. If there is any Capital Gains Tax liability (see below) which has been held over or rolled over, the liability will be cancelled on death.

If a commercial forest is gifted, the donee should retain the commercial property as commercial woodland* for the lifetime of the donor or seven years, whichever is the shorter period. The donee may sell the forest asset, but should invest the entire proceeds in another qualifying asset within a short time to ensure 100% business relief is still available.

CAPITAL GAINS TAX (CGT)

Where forest and woodland is managed on a commercial basis, CGT is not payable on any increase in the value of the asset which is attributable to the trees during the period of ownership. The increase in the value of the underlying land may be liable for capital gains tax but capital works on the land during ownership can reduce the gain. There is also potential to take advantage of roll-over relief. An individual with a CGT liability arising from the sale of a business asset can roll this liability into the cost of acquiring another qualifying asset, such as a forestry investment.

INCOME TAX

Income tax derived from the occupation of commercial woodlands such as the sale of timber is not subject to income or corporation tax. However, other income arising from the ownership of the land, such as shooting rents is subject to income tax.

No income tax relief is available for expenditure incurred in commercial woodlands.

The income tax benefits have the effect of increasing the returns compared with taxable sources of income. For example, a tax free return of 5.0% is equivalent to an 8.3% return for a higher rate taxpayer.

VALUE ADDED TAX (VAT)

Investors can elect to register for VAT to enable them to reclaim the VAT element of expenditure on forestry operations. Investors may also have to VAT register if acquiring the commercial forestry on the transfer of a going concern.

Forestry investment can involve periods of expenditure and no taxable supplies. HMRC will usually accept registration for VAT provided there is intention to produce taxable supplies at a future time.

Fountains Forestry provides a VAT administration service as part of a comprehensive forest and woodland management service provided to investors in, and owners of, forests and woodlands across the UK.

STAMP DUTY LAND TAX (SDLT)

SDLT is payable on purchases of forestry properties in England and Wales. This cost is taken into account when estimating returns from forestry.

SDLT RATES IN ENGLAND & WALES

The current rates applicable to non-residential property purchases, including forests and woodlands, applied to the various layers of price, are:

FOR THE ELEMENT OF PURCHASE PRICE BETWEEN:	SDLT RATE
£0 - £150,000	0%
£150,001 - £250,000	2%
£250,001 and over	5%

LAND AND BUILDINGS TRANSACTION TAX (LBTT) - SCOTLAND

From 1 April 2015 LBTT replaced SDLT in Scotland. The current rates applicable to Scottish non-residential property purchases, including forests and woodlands, applied to the various layers of price are:

FOR THE ELEMENT OF PURCHASE PRICE BETWEEN:	LBTT RATE
£0 - £150,000	0%
£150,001 - £350,000	3%
£350,001 and over	4.5%

A COMPLEMENTARY ASSET

A woodland or forest investment can complement any portfolio as it has a low correlation with the performance of other assets such as equities and can be less volatile than bonds**. The long term nature of the investment also provides an element of stability and, through careful planning, enables the return to be spread out over a period of years.

For further information or advice on commercial forestry acquisition and management please contact Fountains Forestry.

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**Throughout this document any reference to 'commercial woodlands' means woodlands in the United Kingdom which are managed on a commercial basis with a view to the realisation of profits. Some of the taxation benefits are dependent on managing the property on a commercial basis.*

*** IPD Forestry Index 2013*

INTRODUCING F&W FORESTRY SERVICES INC.

Fountains Forestry is a wholly owned subsidiary of F&W Forestry Services Inc. which is a global forestry management company based in the U.S.A .

With regional offices spread throughout the U.S, South America and Europe, F&W Forestry Services Inc. currently manages over 900,000 hectares (over 2 million acres) of forests and woodlands in North and South America and Europe.. This allows Fountains Forestry to draw upon a wealth of forestry knowledge and resources from a company which manages over 2 million acres of forestry worldwide.

IMPORTANT NOTE

Fountains Forestry is not a financial advisor and interested investors should consult their own financial advisors to check the applicability of the taxation benefits and the suitability of forestry investment for their particular circumstances. While every care has been taken to ensure that the information provided is accurate, neither Fountains Forestry nor its employees accept any liability for the contents, or their application to any individual circumstances.

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