

Capital allowances and specialist farm buildings

Introduction

Claiming capital allowances for facilities and buildings on a farm can be challenging. With the increasing costs and sophistication needed for the modern farm building, capital allowances can be an important consideration. However, careful tax planning in advance is needed to give yourself the best chance of being successful with your claim.

There has been recently a case involving the claim of capital allowances on a grain drying facility referred to as a 'horizontal grain silo'. The case has now been heard, and the decision released earlier this year (court case *May and Anor* (2019), TC 06928) ruled in favour of the taxpayer.



So, is this an opportunity to consider your own position, if you have recently invested similar facilities or another specialist building? However, it is important to understand the circumstances of this case when reviewing your own circumstances.

How was Stephen May's farming business able to claim capital allowances?

Over the years, there been many farming enterprises that had invested in similar grain storage facilities. One of the witnesses giving evidence in this case, who had been a technical specialist with HMRC, had stated that it was their policy to "hold the line" and ensure such structures didn't qualify for plant and machinery allowances.

Stephen May's farming business included around 700 acres of arable land, and he needed a facility to dry and condition the grain he grew, which was sold to local

farmers and grain merchants. He explored various options before deciding that the horizontal rather than vertical silo was the most effective for his business.

The quotes for the work stated that the provider was to manufacture and supply a grain store building purposely designed for the customer, to include control of temperature and moisture levels for grain. The structure was simple and efficient to manage labour costs, and suitable to the local weather conditions. It is also noted that the actual cost of the structure itself was about double that of a general-purpose agricultural building of a similar size.

When the First Tier Tribunal (FTT) conducted a site visit they noted that, to a uninformed observer with no specialist knowledge of agriculture, the facility looked like large steel-framed barn or shed with a concrete floor with piles of grain lying on it.

Inside the building were several pedestals that were used to carry a fan assembly, allowing air to be drawn up through the piles of grain. They noted that the building was constructed with 10ft tall thicker concrete panels, to retain the maximum amount of grain that would be stored. The walls contained air inlet vents and an extraction fan to manage the air in the building and draw air into the interior of the structure to maintain the condition of the corn.

The Tribunal accepted that the drying mechanisms would not work if the pedestals were removed from the building, and that the facility worked together as it required the whole structure to provide the air flow. As the grain was air dried it was important that the air was drawn through the building. The roof space above the grain was specifically designed for the extraction system to work. Therefore, the whole building worked as a single unit to carry out its function and purpose.

FTT decision

The FTT had to decide whether the facility was:

- 1) A silo provided for temporary storage, and therefore fell within the meaning of List C in Section 23 of the Capital Allowance Act 2001, and;
- 2) The whole facility was plant and machinery within the meaning of Section 11 (4) (a) of the Capital Allowance Act 2001.

They were satisfied that the building could not be used for any other purpose during the year because of the very smooth flooring, and that the air space was suitable for grain, but unsuitable for livestock, machinery or forage storage. They were also satisfied that the pedestals were essential to meet Home Grown Cereals Authority (HGCA) standards. And they were satisfied that the use of the facility was temporary, as once the corn was sold the premises were cleaned and made ready for when the next year's harvest became available.

Recommendation

While the above example is in relation to a grain storage facility, the principles established could be related to many other types of specialist farming building. It is therefore important to have sufficient evidence to show

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that it is a purpose-built facility, with no opportunity to be used for anything else. In this case the grain store could not be used for anything else other than the drying, condition and storage of grain. In tax cases the burden of proof will rest with you as the taxpayer, so it is important to have detailed information to support your claim for a review of any capital expenditure. This detailed information should extend and include the initial specification and purpose of the building to demonstrate it is bespoke for its intended use.

If you would like to discuss further in relation to your business, please contact:

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