

Case Study – The sale of a Farm

BACKGROUND

After many years of ownership, our clients wanted to sell their farming business. They gave their children the option of taking over the farm, but they had little interest in staying in the farming industry. The sale of the company was to be completed for £2.6 million, plus the sale of animals and farm equipment.

After selling the farm our clients wanted to make sure they would have enough money for a comfortable lifestyle, to give their kids presents, and to pay as little tax as possible. Given that an agricultural property with an IHT exemption will be turned into cash, there was also a large Inheritance Tax (IHT) concern.

SOLUTION

Various investments to achieve the different objectives.

Prior to the farm sale, a preliminary meeting with the client was scheduled to go over the desired outcome. A second meeting was held to discuss a more thorough plan and to prepare some investments for when the sale closed.

The following investments were made in accordance with the varied goals:

Pensions

Pension contributions of c. £300k were made to increase basic rate band and save tax at higher rate. This also has the benefit of being outside the estate for IHT purposes.

VCT

VCTs were used to further reduce the Income Tax liability. The client made contributions of £100k saving £30k of Income Tax. They also receive tax free dividends (target 5% pa) and no CGT on sale after 5 years.

ISAs/Unit Trusts/Investment Bonds

A combination of investments was made to ultimately give tax free income in retirement:

ISAs – Tax free growth, tax free withdrawals

Unit Trusts – Produce capital gains so can utilise CGT Annual Exemption

Inv. Bonds – 5% of original investment can be withdrawn tax free

AIM (Alternative Investment Market)

In order to start to address the clients IHT position £300k was invested into an AIM portfolio. This directly invests in the FTSE AIM, a sub-market of The London Stock Exchange. As these companies are smaller investing in them qualifies for 'Business Relief' for IHT purposes.

NOTES

Any client wishing to sell their business could use this, and it's crucial to try and meet with them beforehand to reassure them of the plans we have for them. Also, some of the investments, pension contributions, VCT investments are time sensitive so planning is essential to ensure potential tax savings are not missed.

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