Diversification

Diversification from agriculture often results in activities beyond the scope of the agricultural business rates exemption thus making them rateable. However, there are ways in which rating liabilities can be mitigated or minimized. If the diversification has already taken place, action can be taken which may be effective in achieving a lower rating liability. However it is preferable to consider business rates at the planning and budgeting stages of the process as this can mean the development can be planned in advance to minimize rates from the outset as opposed to having to make changes afterwards.

Typical rateable farm diversifications include car and caravan storage in buildings or yards or a series of small office units or combinations of a number of different things. Whether there is planning permission or not in place for the diversified uses is irrelevant as to whether they are rateable or not.

Individual diversifications are usually individually rated. Office units are usually rented out to individual tenants who as occupiers are liable for the rates although it is advisable to ensure this by putting this obligation for the tenant to cover any rating liability in a tenancy agreement. Many small units will attract a Rateable Value (RV) below £15,000 which will allow the tenant to apply for Small Business Rates Relief (SBRR).

An issue that could arise for the land owner is in a situation where the units become unoccupied for example where the tenancy has ended and the tenant has moved out. Empty property relief can only be granted for a period of 3 months for offices before rates become payable again and it will be the owner who will be liable. The owner (now as occupier) could claim SBRR however, if he / she has other rateable properties for which he / she is liable for the rates, he / she will not be able to claim this relief. Ways in which this could be dealt with would be to split the rateable properties up to individual owners. For example, the farm business could own one unit, the farmer a second unit and the farmer's wife / child the third. This would allow SBRR to be claimed by the individual entities on all the individual properties provided they are below the relevant RV thresholds.

Alternatively an owner could consider reoccupying the property for a minimum 6 week period before vacating it again. Rates would be payable for the 6 weeks but after this the 3 month empty property relief would be retriggered. There is no limit on how long this cycle persists but the 6 week occupation itself must be for value and must be enough to be considered occupation. An example of this could be using the unit for storage of business accounts or for equipment used for other diversifications such as furniture for holiday lets. Left over office furniture and equipment from the previous occupier will not count.

Moving furniture in and out of buildings to meet the 3 month and 6 week requirements can be time consuming especially if it is anticipated the arrangements will be relatively long term. Empty property management companies can take on the task of managing this and usually charge a percentage of the savings made in rates bills.

Diversifications such as car storage do not usually result in the car owners having occupation of individual units. Rating liability therefore falls to the owner or tenant of the building. If there is more than one building being used for the activity, the ratepayer could consider splitting up the occupation of units by creating different businesses in the same way as detailed above to maximize the use of SBRR.

Pack houses

It is becoming common practice for food producers to pack produce grown by other producers. This could be to ensure year round supply to a retailer or to fulfill larger orders than a single business is able to do.

Buildings and premises for packing produce for wholesale is usually covered by the agricultural exemption provided it is occupied with agricultural land and ancillary / consequential to the agricultural operations being carried out on that land and / or other agricultural land. This means that growing could take place at a number of farms within the same ownership yet not physically connected to each other. The exemption however is usually only to the extent that the produce being packed has been grown onsite or on another farm in the same occupation or forming part of a single unit. Likewise one grower could contract with another grower with a pack house to pack potatoes before their sale as this would be produce grown on other land to which the pack house is ancillary. However, if the pack house occupier buys in produce from other farms not forming part of the same unit and packs it alongside their own this will fall outside the scope of the exemption.

Packing produce in a building occupied by a syndicate of no more than 25 members each who occupies agricultural land where the produce is grown can fall within the exemption. Another option could be use of the building by a co-operative all of whose members grow the produce to be packed on their land.

If produce from other farms which are unconnected to the farm on which the pack house is situated is being packed at that site, it is probable that this will be rateable if the volumes exceed 5% of the overall time spent on packing of all produce. Frequently the same equipment is used for both produce grown on the agricultural unit and produce brought in from other farms. This could result in the whole building being rated. One way of minimizing a rating assessment is to clearly define areas of the building and equipment used for the two different sets of produce. This can be done by clear signage and tape on the floor. If the area of the building that is then rateable attracts a RV of below £15,000 and the occupier of the building has no other rateable properties, SBRR can be applied for which may result in £0 liability if the RV is below £12,000.

Food processing

Food processing can attract a rating liability in circumstances where the processing involves using ingredients not produced on the holding and / or goes beyond preliminary processes required for marketing and disposal for profit.

Cheese making on site using milk produced on the site occupied by the same business can be exempt. If milk is brought in from elsewhere is may be rateable. It is important that the cheese production element of the business is run as the same business entity.

Buildings used for manufacturing of crisps, jams, deep freezing of produce for long term storage, sausage making and bacon curing are examples of what could be rateable. This is because of the additional ingredients brought in or the fact that the processes go beyond those considered to be preliminary.

Considerations

When planning diversifications, careful consideration should be applied to the size of units and whether individually a tenant occupying them could claim SBRR. When considering new buildings for food processing / packing which involves food brought in from other farms consider whether these could be kept separate from or have separate areas from the areas / buildings which are used for the produce grown on site. Also consider whether such operations could be run as a syndicate or co-operative with the other producers.