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Agricultural value – practical applications

Farm tax advisers are very mindful of the need to restrict Agricultural Property Relief (APR) to agricultural value in accordance with section 115(3) IHTA 1984. The practical application of this with regard to Form IHT400 is less clear and how this is dealt with in practice is a question of some debate.

It is particularly relevant for chartered accountants currently taking their probate exams and the executors have a duty of care to instruct a professional valuer to carry out the probate valuation. There should be clear instruction as to the agricultural value of the farmhouse as APR has to be restricted to the agricultural value. The same would apply to any area of the farm which has potential development value and splitting that between agricultural value and market value so that APR can be claimed on the agricultural element of the land and Business Property Relief (BPR) can be claimed on the “hope” value (the difference between market and agricultural value).

Some valuers have often not felt it appropriate to provide the agricultural value of the farmhouse or to say that in their view, agricultural and market value are fairly near the same. Perhaps it could be because the farmhouse is in a remote place or that the farmhouse is close to the farm buildings but in a bad state of repair etc and actually the agricultural value and market value are fairly close.

Some professional valuers have taken the view that it is up to the district valuer to raise objections over the matters but they will not restrict the market value of the farmhouse because it is up to the district valuer to set out his view. Starting with a best position for the client, then a 100% APR claim on the farmhouse is the best one.

However, in practice this is not the best solution and does put the executors and the professional valuer at risk. The practical matter is that the executor that instructs the professional valuer should be very clear in these instructions and the person responsible for filling in the IHT400 should be very careful in their application of the APR claim to restrict this figure as appropriate.

Many professionals think that it is up to the district valuer to raise the negatives, to find the negatives and the best approach is to claim 100% relief on everything. However, that does fall short of HMRC disclosure requirements and the penalties situation associated therewith. A balanced and fair approach, where there is possibly still room to debate the agricultural value in the best interest of the taxpayers has to be the correct professional solution.

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