Inheritance tax liabilities: valuing farm machinery

Accurate probate values are key to assessing inheritance tax (IHT) liabilities on farms, especially when they include development potential or working machinery. Julie Butler FCA, partner at Butler & Co explains the tax implications

Julie Butler

Partner, Butler & Co
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Many farms have barns full of a lifetime of farming memorabilia which sometimes might be known as farm 'junk'. On death, the farmer's property must be valued for IHT at 'the price [it] might reasonably be expected to fetch if sold in the open market at that time' under s160 Inheritance Tax Act 1984 (IHTA 1984). The executor will be faced with a number of problems in that regard and recent guidance has helped with direction as to when a professional valuation is needed.

As noted in the August 2018 edition of its trusts and estates newsletter, HMRC has provided updated guidance on valuing individual items within an estate. Previous guidance across both excepted and non-excepted estate regimes varied, but broadly suggested that professional valuations should be sought for any individual item above £500.

The guidance, found in the IHT206 and IHT400 notes, has been updated to advise that valuations should only be sought if the executor considers an item may be worth more than £1,500 and in instances where the value of an item cannot be reasonably estimated.

This update has not changed the way that valuations should be conducted and items should still be valued using the open market value at the date of death as under s160 IHTA 1984, not an insurance or replacement value.

With regard to 'reasonably estimated' most working farm machinery has the advantage of monthly machinery books setting out items for sale and agents who can help sort an accurate valuation. From a tax viewpoint, the executor must work with the accountant and family to find out what is used in the farm and qualifies for valuable business property relief.

The decision on the qualifications excepted and non-excepted has to be thought through in the context of the tax legislation. In practical terms with farms a large amount stored will either cost money to clear or there are valuable gems amongst the stinging nettles.

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Hope value

A recent case before the Lands Chamber of the Upper Tribunal (UT) has emphasised the importance of accurate probate valuations. It is key for the executors to understand the concept of hope value and the instructions they are giving to the valuer.

In *Palliser v HMRC [2018] UKUT 0071 (LC),* the UT decided that a property with 'great potential' should have included hope value in its IHT valuation for probate. This was a North London property, not a farm, but the case has a significant impact on farming valuations where there is development potential and on how farms are sold and marketed after death.

When looking at professional probate valuations, it is very difficult to arrive at an accurate figure of what the hope value is, as was considered in *Palliser*. Valuations in the *Palliser* case made use of comparisons with similar neighbouring properties, some of which had been developed, but this may not be so easy in the farm context.

Subsequent marketing

As shown in the *Palliser* case, how the farm is subsequently marketed after probate must be considered. The sale details must be consistent with the probate valuation otherwise this will raise an instant alarm with HMRC.

What subsequently happens to the stored farm junk is also important for the valuation. There can be a fine line between sorting the cost of 'farm clearance' and identifying historic farm implements and memorabilia.

It is the responsibility of the executor to ensure all assets are included in the valuation. Farms held in the same family for some decades or centuries can store valuable items including pictures. Work must be sorted with correct 'provenance' and understanding to ensure that the maximum price is achieved when being sold and 'fairness' is regulated in respect of items taken by family members.

Ironically old farm machinery and items of farm history do have a value in that they are often sought after by collectors and for 'filmography' purposes. The key for the executor and tax planner is to make sure they are correctly identified and promoted and included on the IHT400. Like 'hope value', 'valuable' farm chattels must not be ignored but approached with dedicated hard work.

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