Old Land Values in Partnership Accounts could cost you a fortune…

Negotiating a way through the maze of Inheritance Tax ("IHT") relief's is rarely the first thing on most farmers' minds. However, given the potential tax relief available from either Agricultural Property Reliefs ("APR") and / or Business Property Relief ("BPR"), it is wise to ensure that all the farm and partnership financial records are up to date as HM Revenue and Customs ("HMRC") is adopting an increasingly aggressive approach, particularly to claims on hope or development value on agricultural land.

It is common for balance sheet items on typical farming partnership accounts to be carried forward from one year to the next without updating asset values, including the partnership freehold property. Usually the property figures are historical and, with various purchases and partial sales made over decades, convincing HMRC what land is included in the partnership accounts can be difficult. Sometimes it is the death of a partner that prompts a valuation review for the purpose of probate.

APR normally provides 100% relief from IHT only on the agricultural value of agricultural land (there is a 50% restriction on relief on land subject to tenancies created before 1st September 1995). The land must have been occupied for two years, or owned for seven years and occupied during this period by the owner - or another - for agricultural purposes. Certain buildings associated with the agricultural land are also covered: principally, farm buildings and farmhouses. BPR normally provides 100% relief from IHT on a partner's share in partnership assets other than the agricultural value of agricultural land such as live and dead stock, agricultural vehicles and machinery. There is a 2 year ownership qualification.

The hope or development value of any agricultural land, with or without planning permission or an option, will not qualify for APR, but should qualify for BPR. The relief will be 100% if the land or buildings are partnership assets and on its balance sheet. However, BPR is restricted to 50% for land or buildings owned by an individual partner and used for the business of the partnership. So, if the land or buildings are not partnership assets, 40% IHT will be payable on half of the hope or development value.

In order to prove that this land is part of the partnership assets, don't rely on historical figures. A solution is to revalue the land and substitute the current figure for the historical figures and create separate land capital accounts in the partnership accounts showing the percentage of the land ownership of each partner in the same way as a typical farm capital account. Thus, on a partner's death, the extent of the land included in the partnership as part of its business can be established to HMRC by reference to this valuation, a copy of which should be kept with the partnership financial records. The accounts could include a note specifically referring to the valuation and the date on which it was made.

About the author

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