Fuller Spurling
CHARTERED ACCOUNTANTS

Inheritance Tax and Land : what qualifies for Agricultural Property Relief "APR" and what is Business Property Relief "BPR"

Inheritance Tax "IHT" is due on the value of someone's estate when they die, generally when the £325,000 nil rate band is exceeded (£650,000 for married couples on second death). There is a relief which provides a reduction of part or all of the IHT levied on land, if that land qualifies for APR.

What is APR?

APR is available if the land in question is used for agricultural purposes, such as farming and other relevant qualifying activities. The relief applies to the agricultural value of land and property provided that the land was actively used for agricultural purposes up until the point of death. This relief can also apply during lifetime transfers which trigger an IHT liability, for example the gift of land during an individual's lifetime to a connected person (i.e. family member).

The property must be owned and occupied for agricultural purposes immediately before death (or lifetime chargeable transfer) for APR to apply.

What is classed as 'agricultural purposes'

APR is land or pasture that is used to grow crops or to rear animals intensively. It also includes:

- Growing crops
- Stud farms for breeding and rearing horses and grazing (excludes riding stables)
- Trees that are planted and harvested at least every 10 years
- Land not currenty being farmed under the habitat scheme, crop rotation scheme
- The value of milk quota associated with the land
- Some agricultural shares and securities
- Farm buildings, farm cottages and farmhouses

What about property on the land?

There have been several cases and also media interest relating to converted farmhouses and barns which have become increasingly popular in recent years.

Property on agricultural land must have been owned and occupied for agricultural purposes immediately before death (or lifetime chargeable transfer) for either:

- 7 years before death if the property is let out
- Or owned and lived in by the taxpayer 2 years before death

The relief applies on the agricultural value of the land which may be considerably different to the market value of the land. For example, farmers have sold land for development and the 'hope' value of a land suitable for development can be much higher. A sale in this instance may only relieve part of the value of the land taxable, unless a claim for Business Property Relief is relevant as an alternative "BPR".

BPR

BPR is a relief against IHT which relates to qualifying assets (relevant business property) in relation to both:

- Lifetime transfers; and
- In the death estate

The relief is either 100% or 50% depending on the type of business property in question.

BPR relates to trading activities with minimal investment activities and generally the business property must be held for 2 years before a BPR claim can be made.

Tax Planning points – BPR and APR

BPR can fill the gap when there is a difference in land value between the agricultural value (often the current value) and the potential value if the land is developed. This is particularly pertinent in relation to farm land and for individuals who hold land with development potential. In addition, some activities do not qualify for APR but will qualify for BPR such as:

- Letting of cottages or furnished holiday lets
- Commercial woodland
- Market gardening
- The use of farm buildings for non-agricultural purposes, such as workshops or farm shops
- Festivals, music concerts and outdoor venues.

We currently advise a number of individuals and companies who are looking to develop land, are currently working in the property development industry or looking to acquire land for investment or development.

Please call our Chertsey office to see how our experts can help with your venture.