

Both Agricultural Property Relief (APR) and Business Property Relief (BPR) can provide 100% relief from Inheritance Tax (IHT) on death. They remain extremely important and valuable reliefs in that there is no upper limit on the amount that can be claimed.

Agricultural Property Relief

- Relief can be claimed on agricultural land or pasture/woodlands, farm buildings and farmhouses which are of a character appropriate to the land of which they form part. APR is available at either 100% or 50%. For either percentage to apply the property must have been owned and occupied for the purposes of agriculture for:
 - 2 years if occupied by the owner
 - 7 years if occupied by someone else
- 100% Relief is available after 2 years on Property farmed in hand by the owner. Land let under a Farm Business Tenancy after 1st September 1995 will also qualify for 100% Relief. In other cases the relief will be at 50%.
- To be classified as a farmer for APR purposes the taxpayer must be in occupation of the land for the purposes of active husbandry. The actual use of the land will normally be the determinant of the purpose of the occupation. 'Active' requires evidence to be demonstrated of involvement in the business and the farming enterprise. Contract Farming arrangements and Farm Business Tenancies need careful attention to ensure they comply with the conditions for claiming the relief.
- APR is limited to agricultural value only and does not include any uplift for 'hope' value of commercial or residential development. Such uplifts in value can be covered by BPR.
- A detailed review of operations can often result in the securing of 100% relief where prevailing circumstances would indicate a 50% rate – given the amount of tax often at stake this can be a highly beneficial exercise.
- Diversified operations can sometimes result in APR being lost, for example letting cottages for holiday accommodation, land let under grazing licences and the keeping of horses for recreational purposes.
- Other potential problems include derelict buildings which are no longer occupied for agricultural purposes.

Business Property Relief

- BPR is available on a holding of shares in an unquoted trading company, a sole trader business or an interest in a partnership, but the relief can be denied where the activity amounts on the whole to that of investment.
- There is a minimum two-year holding period before BPR is activated.
- Businesses with large holdings of cash or working capital not necessary to carry out day-to-day operations can see BPR claims reduced or denied completely.
- A common misconception is that buy-to-let and furnished holiday letting properties qualify as trading businesses for Inheritance Tax purposes.

- Shares in AIM-listed companies can qualify for BPR after 2 years.
- Expert advice is needed to determine the precise nature of operations and to pinpoint problem areas so as to maximise the relief.
- Wills, Partnership Agreements and Shareholder Agreements need careful review to ensure a claim to relief is not compromised.

Despite recent relaxations in the Inheritance Tax regime for married couples and civil partners in relation to main residences, the above two reliefs remain highly relevant to the vast bulk of small business owners and farmers, particularly where they are considering passing on their wealth to the next generation. This wealth will already have suffered taxation on income and gains, and the residual capital can potentially then be liable to a further 40% tax charge on death. Without careful lifetime tax planning it can sometimes result in the very assets that are being passed down having to be sold to meet the tax on their market value at death.

A review of these reliefs is a value-added service, where the assurance gained and the potential tax saved can be significant. Often, ignorance can simply lead to wealth passing into the hands of HM Treasury rather than to the next generation within the family.

Find out more

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This is a general illustrative guide only and individual professional advice should be obtained on specific issues. Information is believed correct at time of publication but may alter.

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