

## Fall in value of related property and lifetime gifts

**(Lecture P1210 – 16.13 minutes)**

*Property valued with other property (s.176 IHTA 1984)*

On death, certain property may be valued using the related property rules e.g. where a husband and wife or civil partners both own shares in the same company. Alternatively, this could apply where assets form part of the deceased's free estate as they own certain shares outright, but they also had a life interest in the same company through a trust also forming part of their settled property on death.

When valuing such assets for inclusion in the death estate, the Personal Representative must compare the unrelated valuation with the related property valuation and use whichever is higher in the death estate. In such a situation 'the whole is greater than the sum of the parts'.

However, where some or all of such property is sold post death at below that related property valuation, relief is available where the sale(s) take place within three years of death and the sale is to an unconnected party. In this case, the original unrelated valuation is used in the death estate, not the actual sale proceeds.

*Example – Keir*

Keir died on 10 November 2019. Included in his estate was a 10% shareholding in an unquoted investment company. On his death, his wife also owned 40% of the company's shares.

On death, shares in the company were valued as followed:

10% shareholding	£30,000
50% shareholding	£275,000

The shares would be valued for probate in his death estate using the related property rules giving a value of £55,000 ( $275,000 \times 10/50$ ) as clearly the unrelated value of £30,000 is lower.

However, the Personal Representatives sell Keir's holding to an unconnected director for £20,000 on 18<sup>th</sup> August 2020. As this is within three years of death and the sales proceeds (£20,000) are below the related property valuation (£55,000) the Personal Representatives can restate the value of the shares in the death estate to the original unrelated value of £30,000.

### *Fall in value relief for lifetime gifts (Part V, Chapter IV IHTA 1984)*

Where a donor dies within seven years of making a gift (either potentially exempt transfer (PET) or chargeable lifetime transfer (CLT)) and the gift becomes chargeable to a death IHT charge, the donee can claim relief for any fall in value in either of the following circumstances:

- The asset gifted is worth less at the date of the transferor's death than it was when originally gifted (where the donee, or their spouse or civil partner, still owns the property), or
- The asset gifted has been sold to an unconnected person by the donee before the donor's death and the sale proceeds were less than the value at the time of the original gift.

In either case, you can deduct the "fall in value" from the gross chargeable estate when calculating the death tax.

However, the unadjusted (i.e. original) value of the gift will remain the figure that is cumulated with subsequent gifts for establishing the amount of nil rate band available to those later gifts.

#### *Example – Priti*

During her lifetime, Priti made the following gifts:

- 30 September 2012: Chargeable lifetime transfer (net of annual exemptions) of £264,000;
- 30 June 2018: Gift of quoted shares valued at £114,000 into a discretionary trust;
- 30 December 2019: Gift of £240,000 cash to her son.

On 22 January 2020, the trustees sold the quoted share for £84,000. Priti died on 1 May 2020, entitled to a single nil rate band (NRB) of £325,000. Let's look at the IHT payable from June 2018 onwards.

The gift of shares into the trust is a chargeable lifetime transfer (CLT) with inheritance payable during lifetime. The gift of cash to her son is a potentially exempt transfer with no tax payable at that time.

#### Gift in June 2018 (CLT)

	£
Value of shares	114,000
Less annual exemptions	
2018/19	(3,000)
2017/18 brought forward	<u>(3,000)</u>
	108,000
Less NRB remaining (325,000 – 264,000)	<u>(61,000)</u>
	<u>47,000</u>

The IHT payable during lifetime is £11,750 ( $47,000 \times 20/80$ )

The gross chargeable transfer is £119,750 ( $108,000 + 11,750$ )

When we move to calculate the IHT that is due on death, we need to consider CLTs and PETs that have occurred within seven years of death. In Priti's case that means we must look at both the gift to the trust in June 2018 as well as the cash gift to her son in December 2019.

#### Gift in June 2018 (CLT)

The value chargeable is the £119,750 calculated above but, as the shares had been sold prior to death at a loss, we can adjust this amount to reflect their lower value at sale. The shares had fallen in value from £114,000 to £84,000 and so we reduce the IHT value for the death tax calculation by £30,000. The tax is calculated as follows:

	£
Gross chargeable value of shares	119,750
Less Fall in value relief	<u>(30,000)</u>
	89,750
Less NRB remaining ( $325,000 - 264,000$ )	<u>(61,000)</u>
	<u>28,750</u>
 IHT ( $28,750 \times 40\%$ )	 11,500
Less lifetime tax already paid	<u>(11,750)</u>
IHT due on death (£250 is not repayable)	<u>Nil</u>

#### Gift in December 2019

Moving on to calculate the IHT due on the £240,000 cash gift to the son:

	£
Cash gift to the son	240,000
Less 2019/20 annual exemption	<u>(3,000)</u>
	237,000
Less NRB remaining ( $325,000 - 119,750^*$ )	<u>(205,250)</u>
	<u>31,750</u>
 IHT ( $31,750 \times 40\%$ )	 12,700

When deciding how much of the £325,000 NRB has been used, firstly we ignore the chargeable lifetime transfer from September 2012 as this occurred more than seven years before the cash gift in December 2019. Moving on to the cash gift of shares in 2018, this is relevant as it occurred within seven years of the cash gift. However, legislation does not allow us to take account of fall in value of the shares and so £119,750 is used.

*Article created from an Online Tutors seminar produced by Kevin Reed*