

Geographical scope changes of IHT reliefs (Lecture P1404 – 11.29 minutes)

Agricultural relief

For IHT purposes, agricultural relief is available for transfers of agricultural property at rates of 100% or 50% under Ss115 – 124C IHTA 1984. Unlike business relief which operates on a worldwide basis, agricultural relief is restricted to farmland located in:

- the UK;
- the Channel Islands and the Isle of Man; and
- any state which is part of the EEA at the time of the transfer.

Woodlands relief

If any part of the value of a person's estate immediately before his death is attributable to the value of land in the UK or an EEA state on which trees or underwood are growing (but which is not agricultural property), an election can be made to exclude the value of the woodlands in determining the value transferred on the death.

In that case, IHT is chargeable on a later disposal of the trees or underwood.

These rules are found in Ss125 – 130 IHTA 1984.

The impact of FA 2009

In order to ensure compatibility with EU law, action was taken in FA 2009 to widen the scope of the agricultural and woodlands reliefs to include property located in the EEA.

FB 2024 changes

Now that the UK has left the EU, the Government has decided to reverse those earlier measures so that property located in the EEA will again be treated in the same way as property located in the rest of the world.

In addition, these proposals make a further change to remove the anachronistic expansion of agricultural relief in FA 1975 to farmland located in the Channel Islands and the Isle of Man.

The purpose of this 1975 provision was to reflect changes to the domicile legislation which had just been introduced and which meant that those moving from the UK to the Channel Islands or the Isle of Man were deemed to be domiciled in the UK.

As a result, their worldwide estate would fall within the scope of what was then CTT in the event of their death.

However, these deemed domicile provisions were removed from the statute book a decade later and so the estates of those who had relocated from the UK to the Channel Islands or the Isle of Man were no longer subject to this tax treatment.

Although it is somewhat late in the day, the extension of agricultural relief to farmland in the Channel Islands and the Isle of Man is therefore no longer needed.

FB 2024 will withdraw this relief and ensure that agricultural property is aligned in geographical scope with woodlands relief.

These changes take effect for transfers and other chargeable occasions falling on or after 6 April 2024.

Contributed by Robert Jamieson