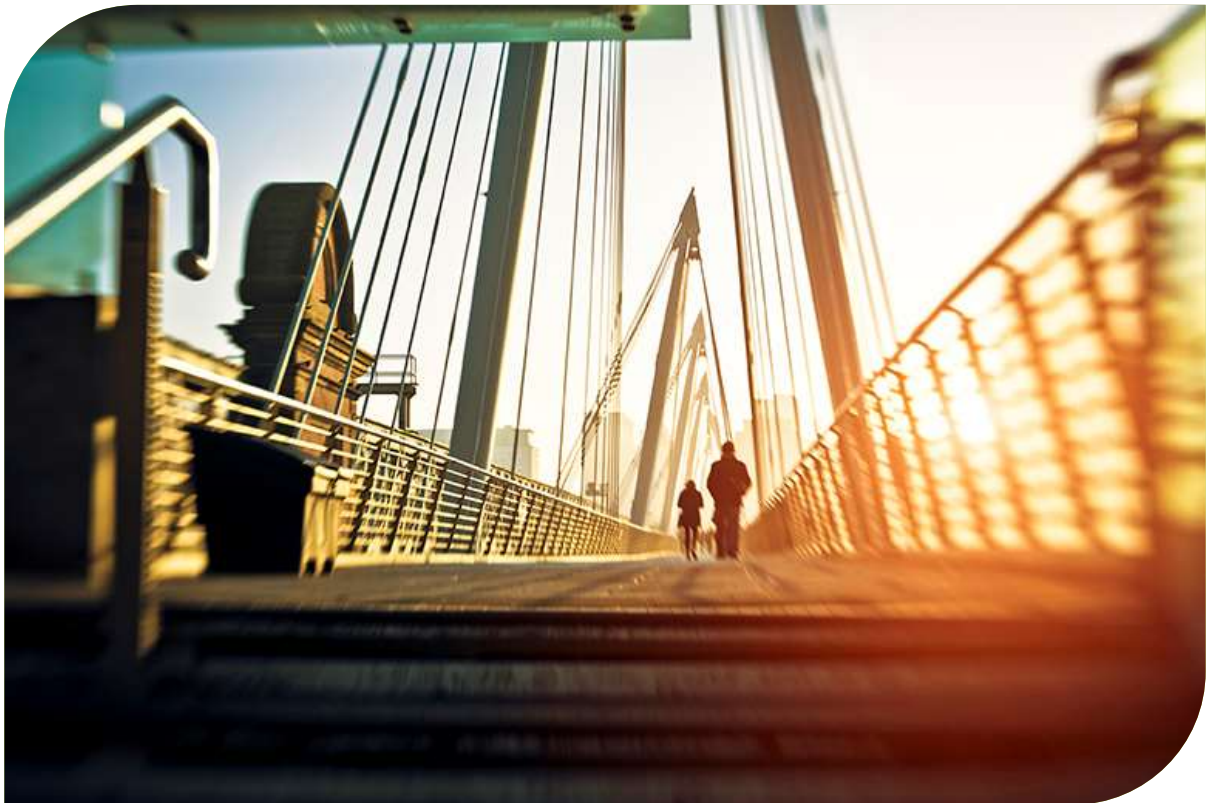


The influence of Inheritance Tax reliefs and exemptions on estate planning and inheritances

HMRC

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1 Executive Summary

Background and methodology

- 1.1 HMRC commissioned qualitative research to better understand the motivations, behaviours and attitudes underlying individuals' decision-making process on Inheritance Tax (IHT) matters and the use of reliefs and exemptions in that process. Specifically, the objectives were to understand the decisions made by testators¹ with agricultural or business assets when planning what to do with their estate, the influence of IHT reliefs², and what beneficiaries³ do, or intend to do with inherited assets.
- 1.2 A total of 80 interviews were conducted among testators and beneficiaries who owned agricultural or business assets, and agents (e.g. solicitors, accountants and tax advisors) who advised on agricultural property relief (APR) and/or business property relief (BPR)⁴. Between 28th November 2016 and 24th January 2017, 21 testators and 25 beneficiaries were recruited via an online panel and interviewed: where possible this was face-to-face. Agents were identified through online desk research, and 34 telephone interviews were conducted with this audience within the same timeframe.
- 1.3 The qualitative nature of the research means that findings in this report are not statistically representative of the wider population of the audiences interviewed. The views reported here are expressly those of the individuals interviewed – in some cases perceptions of IHT matters and reliefs and exemptions may be incorrect but have been reported as expressed during the interview.

Awareness of Inheritance Tax, reliefs and exemptions

- 1.4 Testators and beneficiaries had quite a limited understanding of IHT, although the latter were slightly more informed because of the inheritance process they had been through. Most testators and beneficiaries were aware of the basic principles of IHT (such as the threshold) and of spouse exemption, but few accurately relayed the details of these. Few were aware of APR/BPR.
- 1.5 Most agents felt clients with relevant assets were aware of APR/BPR, but comprehensive understanding was rare. Many of their clients held misconceptions about how the reliefs would apply to their estate. For example, many assumed that all agricultural/business assets qualify for 100% IHT relief; this was attributed to clients having learnt about the relief via 'word-of-mouth'. Agents reported that their clients usually had higher levels of awareness of APR

¹ For the purposes of this report, testators are individuals that own assets which are included in their estate. Due to the focus of this research, testators referred to throughout will own agricultural and/or business assets and may therefore qualify for Agricultural Property Relief and/or Business Property Relief.

² Such as Agricultural Property Relief (APR) and Business Property Relief (BPR), also other reliefs and exemptions such as spouse exemption and charity exemption, and any others respondents identified as relevant during discussions.

³ Individuals that have inherited assets from a deceased's estate. They can inherit either the whole estate or just certain assets per the will of the deceased or intestacy rules. For more detail, see the Glossary of Terms appended to this report.

⁴ For definitions of each relief, refer to the Glossary of Terms appended to this report.

compared to BPR; this was attributed to coverage of APR in farming publications and from farming bodies and conversations with members of the agricultural community.

Estate planning

- 1.6 Plans for estates as a whole and agricultural/business assets were typically aligned. Testators, beneficiaries (in the future) and agent's clients most commonly planned for their estate to be kept whole and be passed on to a family member(s) on death. Three factors - tradition, the succession of wealth and the preservation of a business – generally underpinned these objectives. Many said that reducing the IHT payable on their estate was a secondary consideration; usually in the context of supporting these objectives.
- 1.7 In some cases, individuals planned to sell their agricultural/business assets before they died. This plan was usually driven by the absence of a beneficiary that was willing or able to take on the assets and/or by the desire to convert the assets into cash to fund retirement.

Succession planning for agricultural assets

- 1.8 Agricultural assets were commonly steeped in tradition and sentiment (more so than other assets), and this usually influenced how testators and beneficiaries treated them. Testators were usually unwilling to part with them during their lifetime, and focused on successfully passing all assets onto the next generation. Beneficiaries were likely to take on the agricultural business once inherited.
- 1.9 For most agricultural asset owners, the objective of keeping the estate together was crucial. Agents explained that, because of the intensive nature of farming, farming businesses often became unsustainable if broken up.

Succession planning for business assets

- 1.10 As well as ensuring the succession of wealth to provide financial security for their family, business asset owners – especially those with large businesses – also felt an obligation to keep the business running beyond their death to financially support their staff.
- 1.11 That said, those with business assets usually had a lower sense of tradition than those with agricultural assets. Subsequently, it was less common for an interested beneficiary to continue the business (compared to agricultural businesses). Agents described how, in these instances, it was common for individuals to wind up their business and sell the accompanying assets because it is what the beneficiary would have done with them anyway, post-inheritance.

Use of reliefs and exemptions

- 1.12 Agent's advice on APR/BPR centred on restructuring estates to ensure that all relevant assets qualified and the relief was maximised. Where qualifying assets were purchased it was usually to strengthen or expand the business and when it made commercial sense. Agents felt the reliefs were crucial and that without them many businesses would have to be sold on death to pay the IHT bill.
- 1.13 It was the case for all three audiences interviewed - testators, beneficiaries and agents remarking on clients' behaviour - that assets were rarely purchased specifically to make use of APR/BPR.

- 1.14 Some individuals across all three audiences used trusts, usually to ensure assets were managed in a specific way after death and to provide an equal distribution of wealth amongst beneficiaries (either in terms of income or from the proceeds of a sale). In some cases, testators, beneficiaries and agents mentioned that trusts carried tax advantages. These tax advantages mainly related to CGT, but in a few cases, it was felt that trusts would reduce IHT exposure.

Use of APR and alternatives

- 1.15 For a small number of beneficiaries, APR had been applied to inherited agricultural assets and they expected to use APR for their succession. Agents' clients most commonly used APR, and it was a central focus of the advice provided.
- 1.16 In addition to APR, testators, beneficiaries and agent's clients made use of other methods and mechanisms (such as alternative reliefs, and the use of trusts) in their estate planning. BPR was used in instances where agricultural assets had been diversified for non-agricultural business practices. Individuals with agricultural assets commonly used trusts due to their ability to ensure assets were kept intact while providing equal distribution of wealth amongst beneficiaries.

Use of BPR and alternatives

- 1.17 No testators or beneficiaries were interviewed that had inherited assets where BPR had been applied. As with APR, use of BPR was much more common among agents' clients than the testators and beneficiaries interviewed.
- 1.18 Agents mentioned that some clients had purchased shares in the Alternative Investment Market (AIM) or in the Enterprise Investment Scheme (EIS) to reduce the IHT payable on their estate. However, many said that this was a risky investment and so would not typically be advised. Generally, such behaviour was uncommon among clients.
- 1.19 Some testators gifted business assets during their lifetime as a way of reducing IHT liabilities; this was usually in the context of low awareness and understanding of BPR. However, agents also explained that gifting business assets (as opposed to leaving them in the estate with BPR applied on death) was particularly prevalent in circumstances where a beneficiary was interested in keeping the business running, when testators wanted to retire and pass over the business.

2 Background and methodology

- 2.1 Typically, HMRC obtains information *after death* about the nature and value of assets in a person's estate and the tax reliefs and exemptions that apply. HMRC know relatively little about *what influences* people to acquire certain assets, or what they do with the assets in their estate, and what beneficiaries do with the assets they inherit.
- 2.2 HMRC commissioned qualitative research to understand the motivations, behaviours and attitudes underlying individuals' decision-making on Inheritance Tax (IHT) matters and the use of reliefs and exemptions in that process.

Research objectives

- 2.3 The main purpose of the research was to collect information on testators' and beneficiaries' awareness and understanding of IHT and the use of reliefs and exemptions, to help evaluate their effectiveness and use from a policy perspective. Specifically, the research objectives were to understand:
- Testators' decisions about how they manage their estates and arrange tax affairs;
 - Whether inheritance tax reliefs motivate the types of assets that are purchased prior to death; and
 - What beneficiaries do, or intend to do, with the assets that they inherit.

Methodology

- 2.4 A qualitative approach⁵ was used to explore testator and beneficiaries' awareness and understanding of IHT and reliefs and exemptions. Gathering tax agent's views was also considered helpful for providing insight into testators' decision-making process when thinking about IHT reliefs and exemptions. Furthermore, speaking to agents was considered important because agents could provide a broader view across their client base and were also able to provide information on testators with high value estates, comparative to the individual testators interviewed directly.

Sample

- 2.5 The testators and beneficiaries sample was identified via an online panel. This method was chosen as the most effective for independently identifying these specific audiences in the wider UK population within the time period of the study. For example, an alternative method could have been to identify relevant individuals via membership bodies – however this could have potentially introduced bias into the research as such individuals could be uncharacteristically proactive / engaged with the subject matter, and/or have vested interests in the reliefs.
- 2.6 A recruitment screener was then used to identify eligible participants, and to ensure a spread of key characteristics across testator and beneficiary samples – such as location, whether the assets were agricultural or business assets, the value of the assets, and the individuals' level of involvement in the estate. In addition, two beneficiaries were recruited via a specialist recruitment organisation.

⁵ The rationale for choosing a *qualitative* versus a *quantitative* approach is outlined in the appendix.

2.7 Some difficulties were encountered in recruiting testators and beneficiaries; these are detailed in the appendix.

2.8 The sample of agents was drawn using online desk research to ensure the sample achieved a wide spread of agents by type, the location in which they operate, specialism in IHT, APR or BPR, the number of employees, and the number of clients. This approach was used as it ensured an independent and objective sample was compiled to the study requirements. Once compiled, agents were phoned to identify their willingness and eligibility to participate using a recruitment screener.

Fieldwork

2.9 A total of 80 interviews were conducted across the three groups: 34 with agents, 25 with beneficiaries and 21 with testators. Of the 80 interviews - 27 were conducted face to face and 53 by telephone. Where possible, face to face interviews were conducted with testators and beneficiaries across London, Somerset, Devon, West Sussex, Gloucestershire, Cambridgeshire and Yorkshire. Telephone interviews were conducted with testators and beneficiaries where they indicated they would prefer this contact method or due to time limitations during fieldwork. All interviews with agents were conducted by telephone to ensure a wide spread of agents were included from across the UK, in a cost-effective and time efficient manner. Fieldwork was carried out between 28th November 2016 and 24th January 2017.

2.10 The following tables present a breakdown of the interviews achieved across each of the groups.

BENEFICIARIES & TESTATORS			
Beneficiaries	Inherited agricultural assets	Inherited business assets	Total
	9	16	25
Testators	Own agricultural assets	Own business assets	Total
	6	15	21
Total	15	31	46

AGENTS						
	0-9 employees	10 to 49 employees	50 + employees	Top 10	Unknown company size	Total
Solicitors	0	5	9	0	2	16
Accountants	0	3	4	0	-	7
Tax agents	2	2	3	3	-	10
Other			1		-	1
Total	2	10	17	3	2	34

About this report

- 2.11 The terms 'agents' clients' or 'clients of agents' are used to refer to clients of the agents interviewed who were testators or beneficiaries. It is important to note that in some cases the testators and beneficiaries we spoke to directly were currently or had at some point been represented by agents.
- 2.12 Unless otherwise specified by type of asset the term 'business' is used to refer to both agricultural and commercial types of businesses.
- 2.13 The qualitative nature of the research means that findings in this report are not statistically representative of the wider population of the three audiences interviewed. The views reported here are expressly those of the individuals interviewed – it is worth noting that in some cases perceptions of IHT matters and reliefs and exemptions may be incorrect but have been reported as expressed during the interview. The use of words such as 'most', 'many', 'some' and 'few' are illustrative of the data collected for this study and do not represent the views of the public.
- 2.14 The remainder of this report is structured as follows:

Chapter 3 presents general themes and findings from testators and beneficiaries with agricultural and/or business assets, and agents' views on clients with agricultural and/or business assets. The chapter focuses on cross-cutting themes and similarities in views across these groups, regardless of the type of asset owned/inherited.

Chapter 4 presents views specific and unique to those with agricultural assets.

Chapter 5 presents views specific and unique to those with business assets.

Chapter 6 provides a summary of the findings reported in previous chapters and addresses the research questions.

3 Knowledge and consideration of Inheritance Tax and reliefs

Sources of Inheritance Tax information

- 3.1 Only a few beneficiaries and testators had actively sought professional advice on IHT. Those who had sought advice had typically approached accountants and solicitors directly themselves. Testators and beneficiaries typically sought advice from their usual accountant, in one of their regular meetings when it was considered appropriate to discuss tax in relation to succession planning. Advice from solicitors was typically linked to the creation of a will or formal structure to aid with succession.

“My will was drawn up by a solicitor and we discussed Inheritance Tax as part of that. He advised what the current state of play was and what we should consider, and we went with his recommendations.”

Business asset testator, 55-64

- 3.2 A small number of beneficiaries also mentioned seeking advice from a financial advisor. This advice differed slightly from that sought and provided by other professionals; usually there was a comparatively specific focus on reducing IHT payable on an inherited estate, as opposed to a focus on succession planning in general.
- 3.3 Those who had not sought advice did not feel the need to start succession planning yet, or anticipated that their estate value would not reach the threshold for IHT, and therefore IHT planning was considered irrelevant. That said, some of these individuals did allude to advice being passively received during discussions with relevant professionals (such as colleagues from the finance department, or a paid professional in a meeting where IHT was not the focus but brought up by the agent).
- 3.4 For most testators and beneficiaries, in the absence of a perceived need for professional advice, their existing knowledge was attributed to information picked up through more informal or passive media including the news and online ‘research’ (including the HMRC website).

“I don’t really know anything [about IHT]. It’s just things I’ve picked up when I’ve been reading or browsing. It’s not something I find interesting.”

Business asset beneficiary, 34-45

- 3.5 Agents indicated that their clients typically use informal sources of information, often through friends and family (although the Internet and news were also cited). Many agents mentioned that information spread to clients via ‘word-of-mouth’ usually resulted in misconceptions on how reliefs and exemptions would apply to their estate. However, agents suggested that more accurate information was gathered through official industry materials, such as Farmer’s Weekly, and communications from membership bodies like the Country Land and Business Association (CLA).

Knowledge of Inheritance Tax

- 3.6 While knowledge varied, most testators and beneficiaries demonstrated only a basic awareness of IHT principles. Agents viewed their clients’ understanding of IHT matters similarly, commonly stating that they have some knowledge *‘but they are not experts’*.

- 3.7 Most testators and beneficiaries interviewed knew that there was a threshold for IHT and that this applied to an entire estate, rather than specific assets. However, the majority were unable to recall the precise threshold amount - usually underestimating this as being between £200,000 and £300,000. Equally they were less familiar with the term 'nil-rate band' (NRB) or the 40% tax rate above this. Those with a poor understanding had often not considered IHT implications for their estate, even though the estimated value of their assets varied greatly (from £20,000 to £1.4 million) and by type (agricultural vs. business).
- 3.8 Agents considered age a factor in clients' level of awareness of IHT, but had mixed views on how age affected knowledge. Some felt that their younger clients tended to have better awareness due to higher levels of exposure to up-to-date information through the Internet and social media, while others felt that their older clients were more likely to have had first-hand experience with IHT matters (through inheriting assets), and would therefore be starting to consider the topic more as it felt increasingly relevant to their age.

"The younger generation will generally be more up to date on things. With the Internet information available, they're picking it up fairly quickly and are much more aware than they were 30-40 years ago."

Solicitor, Wales

"The older [clients] are more [informed] because they start to have these conversations. On one level they have had more opportunity and are more interested in the subject and they are getting closer to the eventual day."

Tax Agent, National

- 3.9 Testators and beneficiaries who conveyed a deeper understanding of IHT were in the minority. These individuals tended to know the precise threshold for an individual and a couple, and be aware of the upcoming increases in threshold amounts. Among these testators and beneficiaries there were some commonalities:
- **Financial savviness** - because of a career or personal interest in the financial services sector. Such individuals tended to read financial papers or articles to keep up-to-date with the latest changes in the financial world. One tax agent stated that more 'switched-on' clients were often *"financially orientated, white collar clients"*.
 - **High levels of wealth and larger estates** – especially evident from speaking to agents: they indicated that clients had slightly higher knowledge. One solicitor indicated that those with larger, more complicated estates had a better grasp of IHT, reliefs and exemptions, along with caveats. Agents suggested that, as these clients had 'more to lose' from IHT, they were more proactive in learning how to protect their assets.
 - **Previous experiences of inheriting** – beneficiaries had slightly higher levels of understanding than testators, which they attributed to their experiences of inheriting, particularly if they had been involved in planning discussions with the testator/agent. Furthermore, agents commented that knowledge was slightly higher among clients who owned estates that had been passed down through the generations – again related to their prior experience of IHT matters.
 - **Received advice from (other) agents** – agents stated that among new clients or those asking for advice on IHT for the first time, individuals who had received advice previously from professionals had a good grasp of IHT matters. Relatedly, some testators and beneficiaries

credited the knowledge they had to conversations with agents. This was also in keeping with the finding that beneficiaries had comparatively better knowledge than testators, as, by default, they were more likely to have interacted with agents through the inheritance process.

- 3.10 Some agents reported sometimes having clients who would rather leave tax matters 'to the professionals', usually because they wanted to focus on running their business and not get 'caught up' in the detail. This often resulted in a lack of understanding among clients of their own situation and how IHT would affect them.

"There will be some who just aren't that interested [in IHT], because what they're more interested in is keeping the land intact. Provided they can do that without a punitive tax charge then they don't really mind what the numbers are quite so much, provided that the farm doesn't have to be broken up."

Solicitor, National

Awareness of Inheritance Tax reliefs and exemptions⁶

- 3.11 Overall, testators and beneficiaries had low awareness and understanding of IHT reliefs and exemptions. Most were aware of the more 'standard' exemptions (i.e. those which were non-asset type specific), particularly:

- **Spouse exemption** was mentioned by nearly all testators and beneficiaries, with most understanding this as a complete exemption that applied to all assets left to a spouse or civil partner. Many planned to make use of this for most of their estate, should their spouse or civil partner out-live them.
- **Gifting** was frequently mentioned by testators and beneficiaries, although not all were able to relay details such as the maximum amounts and the requirement to live 7 years beyond the gift for it to be free of tax. Many viewed gifting as a good way of minimising their IHT liabilities.
- **Charity exemption** was known and understood by some, although only one testator explicitly expressed plans to make use of this. This individual was not married, and had no children; they thought their best option would be to leave their business assets to charity (making use of the exemption) as opposed to a friend or more distant family member.

"I'm not married and I have no children...I'd imagine some would go to charity. My mum has Alzheimer's and the Alzheimer's Society do a lot of work so that would be one for that."

Business asset testator, aged 45 - 54

- 3.12 One beneficiary who did not have children of their own intended to use the charity exemption should their estate greatly increase in value (and be significantly over the NRB as a result). Generally, testators indicated take up of this exemption where they felt that they 'had nothing to lose' in doing so.
- 3.13 Beneficiaries lacking awareness of *any* reliefs or exemptions were likely to have inherited assets which fell below the threshold for IHT. Testators reported knowing near to nothing about reliefs and exemptions because they did not feel they needed to yet, although suggested they would gain a better understanding when the time came to plan for their succession. Indeed, those who actively increased their understanding often identified a 'trigger', such as poor health or retirement. For

⁶ Awareness and understanding of APR and BPR is explored in greater detail in Chapters 4 (see paragraphs 4.9 to 4.14) and 5 (see paragraphs 5.9 to 5.15) respectively.

example, one beneficiary had multiple sclerosis, and therefore felt that it was a good idea to get their succession firmly secured before their condition worsened.

- 3.14 Agents reflected similar reasons for client awareness, however their clients predominantly had higher awareness of agricultural/business relevant reliefs, but not necessarily higher working knowledge.

Estate planning

- 3.15 Generally, testators and agents' clients had clear intentions for what they wanted to happen to their estate. Future plans were typically rooted in the objective of not 'breaking up' the estate, keeping the estate within the family, and minimising the IHT payable.

Avoiding 'breaking up' the estate

- 3.16 Testators' priority was to avoid breaking up or losing any of the estate, particularly where it was predominantly made up of agricultural/business assets as opposed to assets that were not agricultural or business related. There was a sense that 'breaking up' the farm or agricultural land would make it harder to 'work' and would generate less income than if the estate was kept whole. Among agents' clients it was common to achieve this by leaving the agricultural/business assets to the eldest son or beneficiary most likely to continue running the business particularly for historical and landed estates.

"Certainly in the context of the more landed families, if you are the eldest son, you will probably end up inheriting most of the farming and business assets."

Solicitor, National

- 3.17 That said, agents acknowledged that many clients were moving away from the more traditional approach of passing estates onto the eldest son, towards an equal division among their children. In these instances, agents felt that trusts were an effective way to achieve this.

"They're desperately trying to find ways of being fair to the other two and yet leave one ... in the older established families it often takes care of itself because from a young age everyone would have known what was happening so you find two have gone and found themselves careers and the other one stayed on the farm and managed the estate."

Accountant, East of England

"They're trying to be fair to their children, that's always an over-riding thing, and that's not always possible with one farming son and one who is not farming; can each have a fair crack of the whip?"

Accountant, East of England

- 3.18 One agent mentioned that, in attempts to avoid expressing favouritism, some clients were reluctant to set up any structures for succession planning after death to the extent that they will not create any formal plans. Agents usually advised against this as it could (and often did) cause issues upon the client's death.

"For farmers there tends to be a reluctance to put down on paper something which favours one or two of the children against the others, so they decide to die intestate and it will be sorted out."

Probate & Trust Executive, Wales

Keeping the estate within the family

3.19 Testators' desire to keep the estate within the family was equally as important as keeping the estate together, regarding agricultural and business assets. For most, this was driven by two key considerations:

- **Succession of wealth** – Several agents reported that most of their clients' wealth was attributable to their agricultural or business assets. Because of this, testators typically wanted to bequeath these assets to future generations, as opposed to selling them prior to death.
- **Preservation of a business** – This was usually rooted in testators having deep sentimental ties with the business (due to longstanding family ownership or having founded the business) and a desire to pass wealth on to beneficiaries. Many wished to keep their business functioning as this is what had been done by the previous generation(s) and because it secured beneficiaries with a source of income in the future.

"[The main objective of clients is] trying to protect those assets to make sure the next generation can continue the line of farming... they want to make sure the generation have that wealth."

Solicitor, North West

3.20 To support this need, agents commented that clients often sought advice on how to protect the assets. For example, some sought advice on how to mitigate against the need to sell part of the estate, bankruptcy or the potential of divorce among their children.

Reducing the IHT payable

3.21 Few agents felt that reducing the IHT payable (by use of reliefs, exemptions and trusts) was a primary concern of their clients when seeking IHT advice. It was more often the case that doing so supported other, more important objectives already described.

"What they don't want is land having to be sold to pay a tax bill."

Accountant, East of England

"They want as much of that value to go to the children as possible and the tax man not to have anything!"

Tax agent, National

3.22 Agents felt quite strongly that it would be very hard for most of their clients to preserve estates for the next generation without the availability of IHT reliefs and exemptions, and the organisation of assets to utilise them in the best way.

"There the issue is 'can we get this to our heirs?'. Usually estates are asset rich and income poor and a question of can the family afford to hang onto this and if they don't have the reliefs, the answer is usually 'no we can't' so the social cohesion of having the same family with all their roots and so on is lost if they can't keep the relief."

Barrister, London

Treatment of different asset types

- 3.23 Individuals that intended to pass on their agricultural/business assets generally had the same plans for their other assets too - most intended to pass on their entire estate to a beneficiary/beneficiaries. This was potentially because, for most testators the majority of their wealth was concentrated in these assets.

Nature of plans

- 3.24 All testators had some idea about how they would like to leave their estate when they die, and most had committed to these plans through a legal document or structure (i.e. a will, trust). Solicitors were usually involved in drawing up wills, though in one case a testator had created their will online. This testator valued their estate at £20,000, and therefore felt they did not need to seek professional help.
- 3.25 Many testators who had formal wills acknowledged that these were likely to be amended in the future, given the changeable nature of family structures (e.g. the birth of a grandchild) and changes in their assets (e.g. if they decided to sell their business assets, or downsize their home). Some testators who had not formalised their estate plans yet also adopted this rationale. Others explained how, in the absence of an obvious beneficiary (i.e. no spouse or children), they had not felt a need to formalise a plan yet.
- 3.26 In keeping with the notion that even formal plans were changeable, agents reported that though clients would usually come to them with a will already in place, they were almost always open to adapting their wills to reflect the advice given. Indeed, most clients come to the agent with the intention of updating their will to address their succession and estate planning objectives as effectively as possible (including, though not prioritising, tax considerations).
- 3.27 Testators and beneficiaries usually planned to leave assets to the remaining spouse in the first instance (if married or in a civil partnership), then pass assets onto the next generation. In some cases, testators decided to leave particular assets to their children, even if their spouse survived them. For example, they planned to leave the business assets to the next generation, and their home and investments to their spouse. In the absence of children/offspring, the next generation was typically nieces or nephews.
- 3.28 One testator specifically said that they intended to utilise the charity exemption, and a few indicated that their plans included leaving some of their estate to charity. Testators' varied in the proportion of their estate they intended to leave, but only individuals with estates valued at £600,000 and above stated that they intended to leave some of their estate to charity.
- 3.29 Some testators had plans to pass on their assets while still alive through gifting. This was usually a tax-related decision: for example, some planned to gift cash to their children to pass on their wealth whilst still alive in the hope that they would survive for 7 years and so there would be no IHT implications.

Trusts⁷

- 3.30 Only a few testators intended to use a trust for the succession of their estate, and in such cases there was usually a formal plan wherein assets would transfer into a trust on death. Most testators were

⁷ Note that information in this section about the benefits of using trusts and the tax implications are the *perceptions* of people we spoke to, as opposed to fact.

unable to specify the type of trust they planned to use, but those who could, identified them as discretionary trusts. In most of these cases, the type of assets being transferred into a trust were both business and non-business assets. There was no clear relationship between the value of estate and intentions to use a trust – with the value of the estate varying from £20,000 to £1 million.

- 3.31 Two testators held business assets in a trust at the time of interview, and had done for at least 15 years. In both cases, their estates were worth upwards of £800,000 and trusts were set up following the advice of a professional. For one, their business assets had been transferred into a trust; this testator struggled to recall why they had originally been advised to do so, and outlined plans to dissolve the business (and therefore dispose of the trust). The second testator had been advised to transfer their business into a trust purely for tax purposes, as their overall estate was approaching the NRB following the purchase of a home and anticipation of a pension fund.
- 3.32 Two beneficiaries had inherited agricultural assets held in a trust. One inherited a very large, multi-use piece of land valued at over £20 million and intended to maintain this structure for their succession. The other inherited land valued at £100,000 which had been passed on through a trust and was in the process of selling it.
- 3.33 Testators, beneficiaries and agents commonly expressed the following motivations for making (future) use of or maintaining trust structures:
- **Protection of assets/wealth** against risks such as family disputes, divorce, squandering of assets by beneficiaries, and where beneficiaries were considered too young (and possibly irresponsible) to inherit assets directly.

“If they were uncertain of the beneficiary – either too young so not to get too much too young or the concern about divorce, bankruptcy or death and wanting to keep it – keep control from the grave.”

Solicitor, North West

- **Asset preservation**, even where there were multiple intended beneficiaries. Testators felt using trusts could help to maintain the integrity of the estate, whilst also benefitting beneficiaries. Testators with agricultural land, considered trusts a good way of transferring ownership to multiple people without breaking up the land. Testators with businesses felt that trusts could allow the beneficiary to draw an income even when they are not involved in the running of the business.
- **The perceived tax advantages**⁸ of using a trust outweighed the 20% entry charge, and subsequent 10-year anniversary charges and possible exit charge⁹. Agents raised the fact that the charge could be paid off by income generated by the agricultural assets and therefore considered this negligible (and less than IHT). Agents also mentioned that if the assets were in trust for a long time (decades or even periods of hundreds of years), again the exit charge was considered negligible/not relevant because there was no intention of removing the assets from the trust. In a lot of cases, agents' clients were using trusts as a tax efficient vehicle for achieving overall objectives, such as retaining the assets within the family.

⁸ This was the perception of some agents and may not necessarily be correct

⁹ Though any assets against which APR does apply could be put in trust, there would be a 20% entry charge on assets above the NRB, and 10-year anniversary charge of up to 6% and possibly an exit charge (pro-rata of the 6% charge, calculated by how long since the last 10-year anniversary).

“Children that don’t work in the business still can benefit from dividends and everything else but not theirs to pass on to the children or husbands and remains dynastic.”

Solicitor, London

- In some cases, agents related the tax advantage of trusts to Capital Gains Tax (CGT). Agents explained that when selling assets held in trusts, the CGT payable on the capital gain is considerably less than if the assets were not held in a trust.

“CGT exposure. It doesn’t reduce IHT exposure. It’s CGT that it reduces... An 18% advantage, 28 down to 10. So big bucks!”

Solicitor, West Midlands

Occurrence of tax planning

- 3.34 A few individuals felt strongly *against* the principles of IHT, arguing that it was ‘unjust’ to pay tax on assets that they had already paid tax on when acquiring. That said, testators and beneficiaries had no specific plans to avoid paying IHT altogether; most merely considered it ‘an annoyance’ that must be paid nonetheless.
- 3.35 Only a few testators and beneficiaries spoke of explicit planning in relation to IHT:
- One business owner had created a business to run during their retirement. They had gifted the business to their children shortly after it was established to minimise Capital Gains Tax implications for the business.
 - One business owner, following advice from an accountant, transferred their business into a trust to reduce their overall estate value to below the NRB.
 - One beneficiary who had inherited a substantial amount of (predominantly agricultural) land described reorganising these assets for their succession; *as they understood*, assets that were not eligible for APR were put into a trust to reduce IHT exposure.
- 3.36 Agents’ clients most commonly engaged in tax planning, potentially due to their comparatively higher levels of wealth and estate complexity. Agents’ advice¹⁰ almost always focused on how to organise assets to minimise IHT. However, this was usually in the context of trying to achieve a broader goal of preserving estate and smooth succession processes. In some cases, clients intended to convert cash assets into relief-qualifying assets (such as land or shares). Agents felt it was not their place to advise on ‘investments’, and tended to focus their advice on the assets already held in their estate.

¹⁰ Advice given by agents will be explored in greater detail later in the report.

4 Agricultural assets

Types of assets

Testators and beneficiaries

- 4.1 Testators' and beneficiaries' agricultural assets varied in terms of acreage, additional agricultural assets, value and use. Around half owned plots of up to five acres while those with more land typically owned between 10 and 20 acres. Those that could, estimated their agricultural assets to be worth from £22,000 to £20 million, with the majority of participants valuing their estate between £100,000 and £200,000.
- 4.2 In most cases, testators and beneficiaries owned land accompanied by other agricultural assets, with greater variety among the larger estates. These assets included:
- Residential buildings (e.g. farmhouses and cottages);
 - Agricultural buildings (e.g. barns, warehouses and stables);
 - Machinery (e.g. tractors); and
 - Stock (e.g. crops and livestock).
- 4.3 Testators and beneficiaries with larger plots of land were likely to use them as part of a business, including farming. These farms covered a variety of different agricultural practices, including dairy and cereal farming. Some used these plots for non-agricultural commercial ventures, such as tenanted businesses on the land. Smaller plots were typically used to house and graze animals, if used for agricultural purposes at all (in some cases, the land was vacant).

Agent's clients

- 4.4 Agents' clients tended to own assets of higher value than the testators and beneficiaries we interviewed - worth between £2 million and £10 million, and with 200 acres to 4,000 acres of land. Agents' clients also owned a range of agricultural assets, and used agricultural land for both farming¹¹ and non-agricultural purposes¹². Agents suggested agricultural assets were often diversified into non-agricultural applications because they were more profitable than farming. Unlike testators and beneficiaries, it was extremely rare for agents' clients to own agricultural assets with no commercial use.
- 4.5 Most agents' clients owned agricultural assets in partnership structures: typically, with family members, often spanning two or three generations within the same family. Many agents mentioned that some clients had agricultural assets in a trust. Most clients were involved with the day-to-day management of their agricultural business though this was less likely among wealthier clients,

¹¹ Examples provided included dairy farming, fruit farming and cereal cultivation

¹² Non-agricultural commercial ventures varied and included the conversion of worker cottages into holiday lets, development of agricultural buildings into commercial property, and repurposed agricultural land for leisure pursuits (e.g. campsites and water sports).

particularly those with landed estates. These individuals often employed people to manage the business but were involved in decision-making for the estate.

Succession planning for agricultural assets

4.6 Testators, beneficiaries and agents' client's considerations for succession planning of agricultural assets were largely in line with those outlined in Chapter 3¹³. That said, the following considerations were particularly important in relation to agricultural assets:

- Keeping all the constituent assets of the agricultural business together was deemed crucial. Agents explained that the intensive nature of farming meant farming businesses often become unsustainable if broken up.
- As agents' clients were typically '*asset rich but cash poor*', they felt strongly about the importance of passing agricultural assets on to family members to ensure financial security and succession of wealth.
- Those with agricultural assets also had a deeply ingrained sense of sentiment and 'continuing tradition'. The greater likelihood of assets being owned by families for several generations, meant individuals were typically unwilling to part with them during their lifetime and felt duty-bound to maintain the tradition of passing assets on to the next generation.

"They have that obligation to pass things on to the next generation, because it is very much that they do not want to be the person where it all collapsed around them and that they didn't leave the assets in good heart for their successive son or children."

Solicitor, South East

"Yes, there's not really pressure but an expectancy to keep hold of your heritage and stay loyal to your roots. It's not cost us anything so why sell something you don't need to, especially with the land values and farming going down, it makes sense on all sides to keep what you've got."

Agricultural asset beneficiary, 35-44

4.7 Related to this strong sense of tradition (and resulting tendency for beneficiaries to be involved in the agricultural business), agents felt it was rare for agricultural assets *in particular* to be sold prior to death. Where there was no successive generation, owners sometimes sold agricultural assets they no longer wanted or when they were unable to continue with farming in old age.

"They might be selling a family farm because there's no successive generation. Well, it does happen, but [rare]."

Accountant, Yorkshire and Humber

"Want to sell the whole thing and find themselves a nice house which isn't big and draughty. A lot of them downsize as they don't want to be out milking cows twice a day and they want to make their lives easier."

Tax agent, South West

¹³ Paragraphs 3.15-3.22

- 4.8 As mentioned in Chapter 3¹⁴, most testators tended to treat assets within their estate the same (whether they were business related or not). That said, some agents gave examples of clients that had different plans for their agricultural and non-agricultural assets because of the presence of multiple beneficiaries. In these circumstances, testators normally left agricultural assets to the one beneficiary with the most interest and involvement in the agricultural assets, and non-agricultural assets to beneficiaries that were unwilling or unable to manage the agricultural assets. Agents said that this practice was typical in cases where there was more than one beneficiary because splitting up agricultural assets would have a detrimental impact upon the overall value of the assets. Agents reported that dividing assets in an agricultural business would mean that the business would not generate enough income to keep running.

“Most estate owners first and foremost want to keep the estate intact because, by and large, they know that as soon as you start whittling away at it and dividing it up or losing bits off it, it can no longer sustain itself as a business.”

Tax agent, South East & South West

Awareness and understanding of APR

- 4.9 No testators and few beneficiaries were aware of APR. The handful of beneficiaries that knew of APR had often become aware of the relief through experience of it being applied to agricultural assets they had inherited. Although aware of APR, these beneficiaries had a limited understanding of the relief. They knew APR reduced the IHT payable on agricultural assets, but none knew the specific types of assets that qualified nor were they aware of the existence of two rates of relief.
- 4.10 In contrast, most agents' clients were aware of APR. Agents said that clients became aware of the relief through a variety of different channels. These included prior experience of APR being applied, coverage of APR in farming publications and from farming bodies and conversations with members of the agricultural community. Many agents felt that client awareness of APR was due to the efforts and successful dissemination of information by farming bodies and associations within the agricultural community.
- 4.11 Despite clients' awareness of APR, most agents reported that they had only a rudimentary understanding of the relief. Most knew the basic principle of APR but were unaware of the details, such as the asset types that qualified or the existence of two rates of relief. Furthermore, agents mentioned that clients often had incorrect assumptions about APR, most commonly that all their agricultural assets will qualify for 100% IHT relief by virtue of owning agricultural assets. A few agents attributed these misconceptions to clients learning about the relief via word-of-mouth. Occasionally, agents had clients with a comprehensive understanding of APR. These clients were typically those with large landed estates that had been passed down through many generations. In a few cases the clients with a comprehensive understanding of APR worked in the financial sector.

Use of APR

- 4.12 One beneficiary interviewed was aware of APR and planned to use the relief. This individual had experienced the application of APR through inheriting agricultural assets and was motivated to use the relief when leaving the assets, to pass on as much wealth as possible to their beneficiary.

¹⁴ Paragraph 3.23

4.13 Beneficiaries who had decided not to use APR:

- Did not consider the application of a relief to be necessary as they thought that the value of their estate was under the NRB; or
- Planned to sell the assets, usually because there was no successor.

4.14 In comparison, agents' clients were much more likely to use APR to reduce the IHT payable on their estate, possibly due to a higher level of wealth than those interviewed and because of agents' advice. Having an agent is likely to have a bearing on the use of reliefs and exemptions as these individuals are employed by clients to ensure their estate management and estate planning is done in the most tax efficient manner.

4.15 The agents interviewed were supportive of APR being used where appropriate/relevant. Agents said they typically advise agricultural clients to use APR to achieve their estate planning objectives and as a means of reducing their estate's IHT exposure. This relief is applicable to many clients as it is common for clients to have diversified assets; using some, and in some cases, all, of their agricultural assets for non-agricultural business ventures.

4.16 Agents' advice on APR generally centered on maximising the relief's coverage by ensuring that all relevant assets meet the conditions to qualify for APR. Most agents advised that clients achieve this by restructuring the agricultural assets owned or changing the way assets are used. For example, leasing the land to a tenant farmer or beginning to farm the land in-hand.

"The first thing we have to do is rationalise the ownership so that it conforms with what they want to do and the way they want to do it. I think that is, not every case but may be 50% of the cases when we get a brand new client for that sort of advice that we find ourselves reorganizing their existing holdings so that they are in the proper position to comply with or take up the reliefs."

Solicitor, West Midlands

"You can move them into relief and that happens quite a lot on farms where you have got buildings if used for agriculture will attract relief ... start using them for something."

Solicitor, National

4.17 Agents reported that clients rarely purchased assets that would qualify for APR for the sole purpose of reducing their IHT bill. For the most part, clients are solely interested in their existing agricultural assets. In instances where clients wanted to pass them on to a beneficiary, they typically wanted to do so in a way that minimised IHT exposure. Agents felt that the reduction of IHT was a key consideration for clients in their tax planning as it assisted them in achieving two widely held objectives: maximising the amount of wealth passed on to beneficiaries and helping beneficiaries keep the business running. Some agents explained that APR played a pivotal role in attaining these objectives. As the relief reduces IHT it helps to ensure that businesses do not need to be sold to cover an IHT bill, which was welcomed.

4.18 Some agents suggested that clients that purchased agricultural assets had done so to strengthen or expand the family business, for example purchasing machinery or adding more land to the farm. Only a handful of agents had witnessed clients purchasing assets (typically land) that qualified for APR, for the primary intention of reducing the IHT exposure.

"People buy things because it's right for their business, rather than because it's right for tax relief."

Solicitor, South East

Use of other reliefs, exemptions and trusts

4.19 As well as advising use of non-asset specific reliefs and exemptions (such as those explored in Chapter 2¹⁵) and APR, agents commonly advised clients with agricultural assets to use trusts. Moreover, many agents had clients that were trustees of a trust that had held agricultural assets for multiple generations. Agents identified the advantages of holding agricultural assets in trusts:

- Trusts support the key objective of keeping the assets intact (i.e. as part of one landed estate or farm). Agents considered this advantageous as it maintains the overall value of the assets and the potential for income from the assets.
- Holding agricultural assets in a trust can assist with the distribution of wealth to multiple beneficiaries, which is often difficult with agricultural estates. Beneficiaries can earn an income as a trustee without having any involvement.

Beneficiaries' management of inherited agricultural assets

4.20 Most beneficiaries of agricultural assets kept the assets and managed the accompanying business. Agents highlighted that beneficiaries keep the assets for similar reasons to those that influenced the testator's decision to leave the assets to them: a sense of tradition and an intention to keep the business running as a source of income.

4.21 It was uncommon for beneficiaries to sell the agricultural assets inherited. In instances where agricultural assets were sold it was generally because the beneficiary did not want to be involved with the farm or because the financial reward from sale of land outweighed the income from the business. For example, one beneficiary who had inherited a share of 10 acres of land had sold two acres of the land to developers and was seeking planning permission for the remainder.

"When [my parents] retired, they sold off the other 30 acres. Dad said, 'They'll be building on [the 10 acres kept] because it's prime for development'."

Agricultural asset beneficiary, 55-64

4.22 Another beneficiary had inherited a share of ownership of an 11-acre tenanted farm in Greece: they had not had any prior involvement in managing the business and intended to sell the land for financial gain.

¹⁵ Paragraphs 3.11 -3.14

5 Business assets

Types of assets

Beneficiaries and testators

- 5.1 Testators and beneficiaries owned a wide variety of different businesses - including professional services, retail businesses and residential rental properties – and business assets. These included entire businesses, shares, business premises and equipment, and retail property (but not the occupying business).
- 5.2 Similarly, there was a lot of variation in the estimated value of the business assets owned by testators and beneficiaries; ranging from no value to £1 million. Most testators and beneficiaries were the sole proprietors of their business assets. In a few cases, they owned a share of the business assets along with other individuals.
- 5.3 Most testators were heavily involved in the day-to-day management of their business assets. Those that were not tended to own residential rental properties. Beneficiaries had often been involved in the business before they inherited the assets, but usually not on a full-time basis. In cases where the business assets had been retained by beneficiaries, it was typical for their level of involvement to increase post-inheritance.

Agent's clients

- 5.4 As with testators and beneficiaries, agents reported that their clients owned an array of different business assets. The businesses owned by clients included construction companies, professional services, manufacturing companies and commercial property. Business assets owned by clients tended to be of higher worth than testators and beneficiaries interviewed: between £1 million and £3 million.
- 5.5 Agents explained that clients with business assets were typically the majority shareholders of private limited companies. However, other ownership structures were mentioned; including sole proprietorship and partnerships. Agents' clients were generally very involved in the management and day-to-day running of their business assets.

Succession planning for business assets

- 5.6 Testator and beneficiaries' succession planning for business assets were largely in line with plans and motivations outlined in Chapter 3¹⁶. In most cases, individuals planned to pass on their business assets to family members (e.g. spouses and children), to ensure the succession of wealth and the preservation of businesses.

“They want to provide for their surviving spouse and they want to pass on as much as possible to their children and that would be it really. If they have a family business and one of the children is working in the business, then they would be wanting to continue to provide that child with a livelihood.”

¹⁶ Paragraphs 3.15-3.22

Solicitor, North West

5.7 That said, there were some nuanced differences in the motivations and considerations of testators and beneficiaries with business assets compared to those with agricultural assets and estates:

- A desire among testators to keep the business running after their death to ensure security for individuals outside of the family - namely employees - as well as future generations of the family. This was particularly true for larger businesses.
- Business testators and beneficiaries had a lower sense of tradition and duty in relation to their assets compared to those with agricultural assets.
- Often beneficiaries of business assets were unlikely to continue the inherited business as they lacked interest or had pursued different careers. Some agents reported that in these instances clients wound up their business and sold the accompanying assets because it is what the beneficiaries would have done with them anyway, post-inheritance.

“Very few if any [decide to sell]. It would probably have been more BPR assets. If it's a business asset it would be a more specific business where they don't have the next generation coming in.”

Tax agent, Northern Ireland

5.8 This also goes some way in explaining the greater likelihood (as expressed by agents) of clients selling business assets and converting them to cash if it made commercial sense.

“The main reason they sell assets is because it's the right thing to do, so in the case of limited private trading companies it's because the market's right or the timing's right.”

Tax agent, National

Awareness and understanding of BPR

5.9 Most testators and beneficiaries with business assets were unaware of BPR. The few that were aware had heard about the relief from an agent, such as a solicitor or accountant. Despite their awareness, these individuals were not knowledgeable about BPR. They understood that BPR provided relief on their estates' IHT bill, but did not know which assets would qualify, or the rates of the relief available.

5.10 In contrast, agents said that their clients were normally aware of BPR. Agents attributed this to clients with business assets being financially astute. Although most clients were aware of BPR, agents reported that understanding of the relief was typically poor. Like the testators and beneficiaries interviewed, most clients knew nothing more than the premise of the relief.

5.11 The combination of a high level of awareness and a low level of understanding of BPR amongst clients was potentially the consequence of using an agent. Individuals with agents were usually made aware of the relief by their agents and therefore not required to understand the relief in detail as it is dealt with on their behalf.

Use of BPR

5.12 None of the testators and beneficiaries interviewed had plans to use BPR, for the following reasons:

- An estimation that the value of their estate was under the NRB and so the relief was not needed/relevant; and
- Assets not qualifying for BPR because of their nature/type (i.e. a holiday let or residential rental property).

5.13 In contrast, it was common for agents to have clients with business assets eligible for BPR. As with APR advice described in Chapter 4¹⁷, agents explained that the advice they provided on BPR typically focused on 'restructuring estates' to ensure they qualified for the relief and that the relief was maximised. This term was used by agents to cover a range of activities, such as moving assets (e.g. cash) outside of the business, or consolidating different types of assets and their usage to ensure they qualified for BPR.

"You could do things to restructure slightly and put some assets outside of the business which means the rest of the company qualifies... to get the company in the right state you might have an asset in the business that is non qualifying, like excess cash."

Tax agent, National

- 5.14 Similarly to APR, agents very rarely advised clients to acquire business assets to qualify for BPR and reduce IHT exposure in turn. Typically, clients were more concerned with estate planning decisions regarding their existing assets. The acquisition of new business assets was described as a process which was costly, time consuming and risky.
- 5.15 Some agents identified exceptional cases where clients had purchased business assets for tax advantages. In these circumstances, clients typically purchased shares in the Alternative Investment Market (AIM) or in the Enterprise Investment Scheme (EIS). These shares qualified for BPR if held for at least two years before death. Although the procurement of AIM and EIS shares was said to carry a potential tax advantage, some agents commented that these products were a risky investment and so they would not generally advise their use.

"Some of them have a business they are actually involved in and therefore would get BPR, more though have made investments into businesses that are AIM listed companies ... or EIS companies ... so they have made a conscious decision to invest in something to get the reliefs as opposed to already in a business that happens to get a relief."

Tax agent, National

"Buying qualifying assets in order to make use of the tax relief are relatively uncommon...The sort of advice that they may well be given is, 'Well, think about investing in a portfolio of AIM shares that will qualify for business property relief,' and thus also take quite a considerable commercial risk."

Solicitor, National

¹⁷ Paragraph 4.17

Use of other reliefs, exemptions and trusts

- 5.16 Agents most frequently mentioned trusts and gifting business assets as alternatives to BPR when advising clients on estate planning to reduce IHT exposure. These methods were used by some testators and beneficiaries interviewed, though more commonly amongst clients of agents.
- 5.17 Many agents identified asset protection and the ability to influence future estate management as the main advantages of holding business assets in a trust. When held in a trust, business assets can be managed in a way predetermined by the settlor which enables them to ensure the continuation of the business after their death.
- 5.18 Some agents mentioned that clients were advised to use trusts in the absence of a family member willing to inherit the management of a business. In these circumstances assets were put into a trust and the business was kept running. Trustees can receive an income from the business without any ownership or involvement.

“It’s a desire to let children and second generations enjoy the fruits of the assets without controlling them themselves.”

Tax agent, National

- 5.19 Another practice that agents advised clients to undertake was gifting. This was much more common in relation to business assets compared to agricultural assets. Agents felt that transferring assets to beneficiaries in life was particularly advantageous where the beneficiary was interested in keeping the business running. In these circumstances, agents said that the gifting of business assets enables testators to lessen their IHT exposure by reducing the overall value of the estate.

“Most clients want to pass down as much value as they can to their children as possible ... The easiest way to do that is to make gifts during your life time.”

Solicitor, South East

Beneficiaries’ management of inherited assets

- 5.20 Most of the beneficiaries interviewed had retained their inherited business assets. As with agricultural assets, many were motivated to do this because they held a sentimental attachment to the business.

“I think it’s more of an emotional aspect rather than a financial or profitable aspect.”

Business asset beneficiary, 25-34

- 5.21 Some beneficiaries kept the business assets because the testator had asked them to do so. In these cases, the wishes of the testator had made the beneficiaries feel obliged to keep them. A few beneficiaries were motivated to keep their business assets because of commercial reasons and the profitability of the business; the business assets could be utilised to earn an income or sold at a later date. Beneficiaries that had been fairly involved in running the business were typically more likely to want to keep the business (subject to it being profitable and practically feasible for the beneficiary). In some cases, the type of business asset was also a factor, for example rental properties which could be run by the beneficiary for profit and with minimal involvement.

“I had always intended to keep it because of the location and the value would continue to increase.”

Business asset beneficiary, 25-34

- 5.22 A few beneficiaries did not keep the business they had inherited. The most common cause of this was the belief that the business would be not be a profitable venture. Consequently, one beneficiary sold the business and the other dissolved it. The latter took this approach as there were no assets to sell; the property and the machinery used in the business had been rented.
- 5.23 Agents similarly reported that in most cases beneficiaries would keep the business assets and take on the management of the business, in line with their clients' expectations. Possibly this behaviour reflected the fact that most testators that pass on their business assets assume that the assets will be retained. In circumstances where it is assumed that the beneficiary will not keep business assets, testators are likely to sell the assets in life and 'cash in'.

6 Summary

Awareness of IHT, reliefs and exemptions

- 6.1 Overall, testators and beneficiaries interviewed had a limited comprehension of IHT. They were aware of elements such as the IHT threshold, spouse exemption and gifting, but few accurately relayed the details of these. Only a few were aware of APR/BPR. Beneficiaries were slightly more informed, linked to their experience of inheriting which often brought them into contact with agents, or discussions with the testator prior to their death about how the estate would be bequeathed.
- 6.2 Agents felt most clients were aware of APR/BPR (there was slightly lower awareness of BPR), but did not accurately understand how the reliefs work or might apply to their estate. Agents attributed misconceptions among clients to a tendency for information being picked up by 'word-of-mouth'.

Estate planning

- 6.3 Among testators, beneficiaries and clients of agents', the key objectives in estate planning were not breaking up the estate, keeping the estate within the family, and reducing the IHT payable. Minimising IHT liabilities was generally a secondary consideration in this context, though typically a greater concern among agents' clients than the testators and beneficiaries interviewed directly. APR/BPR were generally considered to be a way of supporting these objectives (i.e. helping to reduce the chance of assets being sold to pay IHT so helping to keep the estate together).

Use of APR and BPR

- 6.4 For the most part, APR/BPR enabled testators to achieve their most important objectives of keeping assets in the family and avoiding breaking them up, as well as providing a tax-effective way of passing on their assets to beneficiaries. Most instances of APR/BPR being applied to assets appeared to be genuine and in keeping with policy objectives.
- 6.5 Testators and beneficiaries who did not use the reliefs had commonly assumed that the estate value was below the relevant threshold; or intended to sell the assets. Some wanted to use alternative IHT reliefs and exemptions such as spouse exemption and gifting, or trusts.
- 6.6 Agent's advice typically focused on the organisation of assets to maximise these reliefs. Some stated that in exceptional cases clients may convert cash into agricultural assets to reduce IHT liabilities too.
- 6.7 Agents mentioned a few rare cases of clients purchasing additional assets with the intention of making use of the reliefs - such as purchasing AIM shares or more land. However, this was uncommon and generally against agents' advice. Agents more commonly advised clients to re-structure their assets to qualify for APR/BPR or to maximise the relief.
- 6.8 There were few mentions of APR/BPR being applied to assets which would then be sold by the beneficiary on inheritance. In most cases the reliefs were used as a tax efficient way to pass on businesses to individuals that would keep the businesses running as an on-going concern.

7 Appendix

Glossary of key terms

Agents. In the context of this report, agents are individuals that advise testators, personal representatives (and sometimes beneficiaries) on Inheritance Tax (IHT) and other tax matters. They generally advise on the use of exemptions and reliefs to minimise an estate's IHT liability, but depending on expertise and qualifications can also provide business advice, draw up wills, set up trusts, act as trustees, transfer property and act as executors of a will. These individuals will include solicitors, accountants and other tax advisers.

Agricultural property relief (APR). This is available on agricultural assets - such as farmland, farm buildings, farmhouses and other assets used for agricultural purposes. If the assets are occupied by the owner, a company they control or their spouse, the assets need to have been owned and used for agricultural purposes for at least 2 years before death or lifetime transfer to qualify for the relief. Or, if the assets are occupied by someone other than the owner, they need to have been let out for at least 7 years to be eligible. The relief is usually given at 100%, though in some circumstances it is 50%.

Beneficiaries. Individuals that have inherited assets from a deceased's estate. They can inherit either the whole estate or just certain assets per the will of the deceased or intestacy rules. In the context of this report, the inherited assets include agricultural assets and/or business assets, and possibly other assets.

Business property relief (BPR). This is available on certain types of businesses and business assets. The relief is given at 100% for a business (sole trading or partnership); and on unquoted/unlisted shares/securities in a company. The relief is due at 50% on quoted shares that give control of the business, or on land, buildings and machinery owned by a partner or controlling shareholder. The assets must be owned for at least 2 years before death or the lifetime transfer. The relief is not due if the business mainly deals in making or holding investments, is not carried on for gain or is being wound up or sold. It is also not due on quoted/listed shares that do not give control of the company (i.e. most quoted company shares that people own).

Capital Gains Tax (CGT). A tax on the 'gain' or increase in value when people sell (or 'dispose of') something (an 'asset'). It is the gain that is taxed, not the amount of money received on disposal of the asset.

Charity Exemption. Assets left or given to a registered charity are exempt from IHT, which means that they are not included in an estate or accounted for IHT purposes.

Discretionary trust. A trust is 'discretionary' if the trustees (owner of the assets in a trust) can decide how the trust assets and income are distributed. For example, this kind of trust could be set up for grandchildren, and trustees decide how to distribute the income and capital between the grandchildren. Trustees have the power to make investment decisions on behalf of the trust, although they manage the trust and act in accordance with the trust deed.

Estate. A person's estate includes all the assets that they own, and can also include assets that are deemed to be part of their estate for IHT purposes.

Executor. The executor of an estate is the person named in the will of the deceased as the person to administer the will and to ensure that their final wishes are respected. This can be a beneficiary, family member, or professional agent.

Gifting. Gifts made by an individual between 6 April to 5 April each year are exempt from IHT, as long as they do not exceed, in total, £3,000. This is known as the 'annual exemption'. People can carry any unused annual exemption forward to the next year - but only for one year. Other exempt gifts include the following:

- wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great-grandchild, £5,000 for a child);
- gifts out of surplus income if they can maintain their standard of living after making the gift; and
- payments to help with another person's living costs, such as an elderly relative or a child under 18.

Gifts which are not specifically exempt as above can become subject to IHT if they are made within 7 years of a donor's death. Any gifts made more than 7 years before the donor's death become completely exempt from IHT.

Inheritance Tax (IHT). A tax on the estate (the property, money and possessions) of someone who has died. It is due on the total value of assets in a deceased person's estate, above the nil rate band (currently £325,000). The standard Inheritance Tax rate is 40%.

Nil rate band (NRB). The amount up to which IHT is not due on an estate. The current NRB is £325,000, meaning estates valued below this amount will not pay IHT. Estates worth over £325,000 will pay IHT on the amount above this threshold. It is also known as the IHT threshold.

Personal representatives. When a person dies, their estate is administered by personal representatives (executors if there is a will; administrators if there is not). Personal representatives can be beneficiaries too and they can be family/friends or professional advisors. They will value the estate, complete the relevant IHT forms and returns, and pay any IHT due out of the assets in the estate.

Spouse exemption. Assets given or left to a spouse or civil partner are exempt from Inheritance Tax, provided both individuals are domiciled in the UK. This means an entire estate can be left to a spouse or civil partner without there being any Inheritance Tax due on death.

Testators. For the purposes of this report, testators are individuals that own assets which are included in their estate. Due to the focus of this research, testators referred to throughout will own agricultural and/or business assets and may therefore qualify for Agricultural Property Relief and/or Business Property Relief.

Trusts. A trust is a legal arrangement where people give cash, property or investments to someone else (a trustee) so they can look after them for the benefit of a third person (a beneficiary). Assets can be held in trust(s), and there are many different types. When assets are put into most types of trusts, there is an IHT charge at 20% on any transfer above the NRB. In addition, IHT charges are also due on the trust's 10th anniversary, when assets leave the trust and when the settlor dies (a 'top up' charge of up to 20%). However, the IHT treatment of some trusts is different – the trust assets can be exempt from some charges, or the assets can be included in a beneficiary's estate if they have a right to them. In addition, qualifying agricultural and business assets will attract APR/BPR when held in trusts, and when placed into/taken out of a trust.

Methodology

Rationale for choosing a *qualitative* versus a *quantitative* approach:

- Very little is known about the drivers behind testator and beneficiary behaviours regarding their assets – a qualitative method is therefore better suited to ‘deep dives’ into attitudes, decision-making and behaviours such as for this study.
- Without a representative sample source of testators and beneficiaries, it was not possible to conduct quantitative research and analysis on the prevalence of such behaviours.

Recruitment difficulties

Some difficulties were encountered in recruiting testators and beneficiaries related to:

- The incidence of these groups in the population is low, which reduces the potential ‘pool’ of people to draw from i.e. the population. This was especially relevant in the case of owners of agricultural assets/those who had inherited agricultural assets;
- These groups of people can be difficult to identify in the population. An alternative option to the online recruitment panel was to draw sample from industry membership groups. This option was not used to avoid introducing potential bias into the research as such individuals could be uncharacteristically proactive/engaged with the subject matter, and/or have vested interests in the reliefs;
- Trying to interview those who owned/had inherited assets above the IHT threshold posed a challenge because of the lower incidence of these individuals in the population and difficulties reaching them. Subsequently, most the sample held assets below the NRB threshold.

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IFF Research illuminates the world for organisations businesses and individuals helping them to make better-informed decisions.”

Our Values:

1. Impartiality and independence:

IFF is a research-led organisation which believes in letting the evidence do the talking. We don't undertake projects with a preconception of what “the answer” is, and we don't hide from the truths that research reveals. We are independent, in the research we conduct, of political flavour or dogma. We are open-minded, imaginative and intellectually rigorous.

2. Being human first:

Whether employer or employee, client or collaborator, we are all humans first and foremost. Recognising this essential humanity is central to how we conduct our business, and how we lead our lives. We respect and accommodate each individual's way of thinking, working and communicating, mindful of the fact that each has their own story and means of telling it.

3. Making a difference:

At IFF, we want to make a difference to the clients we work with, and we work with clients who share our ambition for positive change. We expect all IFF staff to take personal responsibility for everything they do at work, which should always be the best they can deliver.



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