

FROM: Head of Taxation
LOCATION: TAX/G4/441
EXTENSION: 5228
DATE: 23 April 2002
REFERENCE: TAX/DHC/RP/Y2776
SUBJECT: **INHERITANCE TAX - BUSINESS PROPERTY RELIEF**
ATTACHMENTS: Annex
ACTION POINTS: **Individual members and their advisers to note**
DEADLINE: **None**

Market bulletin Y2543 of 8 May 2001 confirmed that, where an individual member of Lloyd's provides a bank guarantee as part of Funds At Lloyd's, 100% business property relief is allowed up to the amount of the guarantee that is used or required as FAL.

The Inland Revenue has now confirmed that the amount of business property relief will no longer be restricted by reference to the nature of the underlying asset or assets. This used to be the case if assets backing the guarantee were not used wholly or mainly for the purpose of the Lloyd's business, for example if a guarantee was secured on a main residence.

The Inland Revenue will, however, treat the value of underlying assets as reduced by the amount of the guarantee for the purpose of giving any other reliefs or exemptions. This is illustrated in the examples in the annex to this bulletin.

This bulletin has been agreed with the Inland Revenue. It is being sent to members' agents, recognised auditors, personal accountants and members who deal with their own tax affairs. If you have any queries, please contact Richard Pester on 020 7327 6727.

David Clissitt
Head of Taxation

IHT: EXAMPLES OF BANK GUARANTEE**1. Mr Needham**

- 1.1 Mr Needham is an individual member of Lloyd's and a farmer. He has farmland (including property) worth £1 million and other assets valued at a net £1,250,000. The farmland qualifies for 100% agricultural property relief.
- 1.2 He has a bank guarantee of £400,000 which is used in his Funds At Lloyd's. The bank guarantee is secured on the other assets.
- 1.3 On his death, the inheritance tax calculation is as follows. The valuation of the Lloyd's interest, which is covered by 100% business property relief, is ignored for the purpose of this example. So are any other reliefs:

	£	
Farmland	1,000,000	
+ Other assets	<u>1,250,000</u>	
Subtotal	2,250,000	
less Business Property Relief	(400,000)	on bank guarantee
less Agricultural Property Relief	<u>(1,000,000)*</u>	on farmland
Net estate after reliefs	<u>850,000</u>	

* There is no reduction in the value of the farmland as the bank guarantee is not secured on it.

2 Mrs Oliphant

- 2.1 The facts are as for Mr Needham except that in Mrs Oliphant's case the £400,000 bank guarantee is secured on the farmland.
- 2.2 The inheritance tax calculation is as follows. Again, the valuation of the Lloyd's open years and all other reliefs are ignored.

	£	
Farmland	1,000,000	
+ Other assets	<u>1,250,000</u>	
Subtotal	2,250,000	
less Business Property Relief	(400,000)	on bank guarantee
less Agricultural Property Relief	<u>(600,000)*</u>	on farmland
Net estate after reliefs	<u>1,250,000</u>	

* In this case for the purpose of giving the 100% Agricultural Property Relief the value of the farmland is reduced by the value of the bank guarantee on which Business Property Relief is given. It is therefore (£1 million less £400,000) = £600,000.