

Your client, Eric, requires advice on the inheritance tax reliefs available in respect of assets in his estate at death.

Eric:

- Is UK resident and domiciled.
- Is a higher rate taxpayer.
- Is in ill health and is expected to die within the next few months.

Malaga plc shares:

- Malaga plc is a quoted trading company with 200,000 issued shares.
- 80% of Malaga plc's chargeable assets have always been chargeable business assets.
- Eric was given 12,000 shares in Malaga plc by his sister on 1 April 2010, when they were valued at £126,000.
- Eric's sister had purchased the shares for £96,000 on 1 March 2009.
- Gift relief was claimed in respect of the gift of the shares to Eric on 1 April 2010.
- Eric paid the inheritance tax arising in respect of this gift following his sister's death on 1 September 2011.
- Eric has never worked for Malaga plc.
- Eric sold 6,000 shares in Malaga plc on 1 March 2015.

Assets owned by Eric and a previous lifetime gift:

- Eric owns farmland in the UK, which has been leased to a tenant farmer for the last ten years.
- The farmland has a market value of £420,000 and an agricultural value of £340,000.
- Eric's other assets, excluding the remaining Malaga plc shares, are valued at £408,000.
- Eric has made only one previous lifetime gift, of £60,000 cash to his son Zak on 1 July 2009.

Required:

(b) (i) On the assumption that Eric dies on 31 March 2016, advise on the availability and effect (if any), of agricultural property relief, business property relief in respect of the farmland and the retained shares in Malaga plc.

(ii) Explain, with the aid of calculations, the impact on the inheritance tax liability arising on Eric's death if Eric does not die until 1 August 2016. (3 marks)

Note: You are not required to prepare calculations for this part of the question. (6 marks)