

Adam would like advice on the capital gains tax and inheritance tax implications of being given Eastwick Farm by his mother, Sabrina, and on recent changes in tax law which affect his investment planning.

Sabrina:

- Is UK resident and domiciled.
- Has made one previous lifetime gift of £350,000 into a discretionary trust for her grandchildren on 1 September 2017.
- Inherited Eastwick Farm from her husband, Sam, on his death on 1 July 2016.
- Has managed the farm since this date.

Sam:

- Owned and farmed Eastwick Farm for many years prior to his death on 1 July 2016.
- Had made lifetime gifts which used the whole of his nil rate band for inheritance tax purposes.

Sabrina – proposal to gift Eastwick Farm to Adam:

- Sabrina plans to retire from running the farm on 31 December 2017.
- She has been informed by a financial adviser that she could gift the farm to Adam when she retires without paying any capital gains tax or inheritance tax.
- She has decided to gift the farm to Adam on 1 January 2018.

Eastwick Farm – valuation of land and buildings:

	1 July 2016	1 January 2018 (estimated)
	£	£
Agricultural value	385,000	396,000
Market value	502,000	544,000

Adam:

- Is UK resident and domiciled.
- Is 42 years old.
- Is an additional rate taxpayer, with adjusted income (for the purpose of calculating Adam's annual allowance for pension contributions) of £200,000 per year, which he expects to continue for the foreseeable future.
- Uses his annual exempt amount for capital gains tax purposes each year.
- Is in full-time employment and will lease Eastwick Farm to a tenant farmer.

Adam – investments:

- Adam has regularly contributed £40,000 into a personal pension scheme to use his annual allowance.
- Adam has invested the maximum amount each year in an individual savings account (ISA).

Adam – thoughts on investments:

- 'I have been advised that my annual allowance for pension contributions was reduced to £15,000 for the tax year 2016/17, so I have incurred an additional tax charge. Please can you explain this reduction in my annual allowance?'
- 'Is there now any point in investing in either a cash or a stocks and shares ISA as savings income and dividends are now exempt from tax anyway up to £5,000 per year?'

Required:

(ii) Explain, with supporting calculations, Adam's potential capital gains tax liability on a future sale of Eastwick Farm and the inheritance tax implications for him of being gifted the farm by Sabrina on 1 January 2018 if, as he intends, he leases the farm to a tenant farmer, and Sabrina dies before 1 January 2025. (11 marks)