

Valuations for IHT

Synopsis: How assets are valued for inheritance tax.

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General rules

In valuing property on a chargeable lifetime transfer, or in valuing a deceased person's estate, the value of any property is, in general, taken to be the price it might reasonably be expected to fetch if sold in the open market at the time of the occasion by reference to which the charge to tax arises (s160 IHTA 1984). It is possible for executors to estimate property valuations and submit the estimates to HMRC before final valuations are available. Such estimates do, however, need to be in accordance with accepted valuation principles if they are not to be challenged by HMRC, and the executor penalised (*Robertson v Inland Revenue Commissioners* [2002] STC (SCD) 182).

In arriving at the value of any property the assumption is made that the price is not depressed by the whole of the property being on the market at one time – Section 160 IHTA 1984. It has also to be assumed that the property is sold either in one go or in whatever units or parcels would naturally be appropriate for that kind of property, on the footing that the sale is made so as to obtain the best price in the open market. In that context, regard must be had to any other property then comprised in the estate of the transferor, which if sold together with the property under consideration, would enhance its price, and also to any 'related property'.

In cases where a share of a property is transferred, for example a half share of a house left to a testator's children, the valuation will not be based on a mathematical half share (or whatever proportion of the property that is the subject of the gift). Instead, there will be a discount allowed. Following the decision in *IRC v Arkwright and Another* [2004] STC 1323, the only competent body to calculate a discount in any particular case is the Lands Tribunal.

The notes to IHT 400 – [Guide to Completing your Inheritance Tax account](#) include detailed guidance on how to value different types of assets.

In relation to land and buildings, HMRC strongly advises the use of a professional valuer. There is also further specific guidance on what should be taken into account.

For example, while the valuer is supposed to provide an open market value at the date of death, they should be asked to take into account the state of repair of the property (which may reduce its value) and any features that might make it attractive to a builder or developer, such as large gardens or access to other land that is suitable for development (which may increase its value).

Related property

The value of any property in a person's estate is found by taking related property into account, where by so doing a higher value for all or part of the property in the estate would be obtained - Section 161 IHTA 1984. Property is related to that in a person's estate if...

- it is in the estate of a spouse or civil partner; or
- it is, or has been within the preceding five years, the property of a charity, charitable trust or one of the political, national or public bodies or a registered housing association to which exempt transfers may be made, to the extent that it became so on an exempt transfer made after 15 April 1976 by the transferor or spouse/civil partner.

Where the related property rules apply the value of any property is the appropriate proportion of the combined value of that property and the related property.

Example 1

Lauren owns 40 of the 100 issued shares of X Ltd. Valued on its own the holding is worth £200 a share - that is £8,000. Their spouse/civil partner owns 30 of the remaining shares. The value of the combined holding of 70 shares is £28,000. The value of Lauren's holding for inheritance tax (IHT) purposes is not its value on its own, that is £8,000, but four-sevenths of £28,000, that is £16,000.

Valuation of an estate on death

Although the transfer of the estate on a person's death is treated as taking place immediately before death, two types of change in the value of the estate which occur on death are taken into account - Section 171 IHTA 1984.

One is an addition to the property comprised in the estate. For example, a death gratuity payable to the personal representatives under the Superannuation Act 1972.

The other is an increase or decrease in the value of any property in the estate, for example, a life insurance policy maturing on the death is included at the full amount of the policy moneys, or the death of a managing director who was the driving force in a company could bring about a fall in the value of its shares. But a decrease resulting from an alteration in a close company's unquoted share or loan capital, or rights attaching to it, is not taken into account, nor is the termination on death of any interest, nor the passing of an interest by survivorship.

Restriction on the freedom to dispose of property

The value of property may be reduced if the right to dispose of it has been excluded or restricted. For example, under the articles of a partnership an option may be given to the continuing partners to purchase the share of an outgoing partner at a specified price.

An exclusion or restriction imposed by a contract is left out of account for the purposes of valuation on the next occasion of charge after the agreement which created it, except so far as consideration in money or money's worth was given for it. If the contract itself was a transfer of value, then on the later occasion an allowance is given for the part of the value transferred by the original transfer of value that was attributable to the creation of the exclusion or restriction – Section 163 IHTA 1984.

Quoted investments

Shares and securities listed on a recognised stock exchange are valued at the lower closing price plus one-quarter of the difference between the lower and higher closing prices (the 'quarter-up' rule), or at a figure halfway between the highest and lowest of recorded bargains for the day of valuation, whichever is the lower. Units in an approved unit trust scheme are valued at the manager's buying price (the lower of the two prices published).

Unquoted investments

Unquoted shares and securities are valued at the price they would fetch in the open market on the assumption that the prospective purchasers had available to them all the information that a prudent purchaser might reasonably require if they were negotiating a sale by private treaty from a willing vendor at arm's length – Section 168 IHTA 1984. The price at which shares are valued is not necessarily any price laid down in the company's Articles of Association as the price at which they are to be transferred.

Creditors' rights

In valuing a right to receive a sum due to the transferor, such as a debt payable either on demand or at a future date, it is to be assumed that payment will be forthcoming in full at the appropriate time – Section 166 IHTA 1984. But that assumption can be displaced if and so far as it can be shown at the time of valuation...

- That recovery of the sum is impossible or not reasonably practicable, for example because attempts at legal recovery have failed or the debtor is known to be hopelessly insolvent, and...
- That the transferor has not contributed to the inability to recover the sum, for example by waiving a right of recovery or failing to take reasonable steps to recover it.

Life insurance policies

The value of a life policy or annuity contract is normally its open market value. But where the total of premiums or other consideration already paid, less any sum paid out under the policy, is greater than the open market value, the value of the life policy or annuity is taken to be that total. This special valuation rule does not apply to term assurances of three years or less or where, if the term exceeds three years, premiums are payable annually or more frequently for at least two thirds of the term and the premiums paid in any year are not more than twice that paid in any other year.

The market value of a term assurance will depend upon the state of health of the life assured and the term remaining under the policy. This rule does not apply where the transfer is on the death of any person, nor where the policy or contract does not cease to form part of the transferor's estate. In valuing life policies linked to unit-linked units, the value based on the premiums or other consideration paid is reduced by any depreciation in the value of the underlying units after they have been allocated to the policy – Section 167 IHTA 1984.

Example 2

Andy effects a conventional (i.e. non-unit-linked) whole of life policy on their life in 2019. In 2026, after eight annual premiums have been paid, they assign the policy into a settlement for the benefit of their children. Premiums paid are £1,000 p.a. The surrender value of the policy at the date of assignment is £7,000.

The transfer of value at the date of assignment will be whichever is the greater of total premiums paid and the market value of the policy. Normally, HMRC accepts the surrender value of the policy to be its market value. The transfer of value would therefore be £8,000 as premiums paid are greater than the market value of the policy.

For a unit-linked policy, if the value of units at the date of the transfer is less than the value of units at the date of allocation then the difference can be set against the amount of premiums to reduce the transfer of value (section 167(4)IHTA 1984).

Farm cottages

In valuing an agricultural estate which includes a farm cottage occupied by an agricultural worker on the estate, no account is taken of any additional value the cottage might have if it were to be occupied by someone not working on the estate, for example its value as a weekend cottage – Section 169 IHTA 1984.

Leases for life

A lease for life, which is not made for full value is treated as a settlement, and so a charge to tax can arise. Where consideration is given, the value of the leased property is divided into two parts, the 'lessor's interest' (which is the portion of the value at the time of the tax charge corresponding to the proportion which the

consideration bore to the value of a full consideration when the lease was granted) and the 'lessee's interest' (which is the full value less the lessor's interest) – Section 170 IHTA 1984. The lessee's interest is chargeable under the settlement provisions. The lessor's interest forms part of their estate and is taxed accordingly.

Deduction of liabilities - statutory restrictions

In general, liabilities enforceable against a transferor are taken into account in valuing their property if they were imposed by law or to the extent that they were incurred for money or money's worth – Section 5(5) IHTA 1984. However, a liability to make future payments under a voluntary covenant, is not deducted.

The deduction from a person's estate on death may be limited in certain circumstances by Section 103 Finance Act 1986 if the creditor has received property from the deceased at any time in their lifetime. These provisions apply to debts incurred or incumbrances created on or after 18 March 1986.

Example 3

Tanya gives Olivia £50,000. Olivia lends £50,000 back to Tanya. Tanya dies eight years later still owing the money. S103 IHTA 1984 operates to ensure that Tanya's debt to Olivia is not deductible in determining the value of Tanya's estate. If Tanya had repaid the debt to Olivia during their lifetime the repayment would be treated as a potentially exempt transfer. Any double tax charge arising out of Tanya's death within seven years of such a repayment should be relievable under the relevant double charging provisions.

A deduction is not allowed from a person's death estate for a liability arising under or in connection with any life insurance policy unless the whole of the sums assured under that policy form part of that estate. This applies where the policy has been made on or after 1 July 1986 – Section 103(7) Finance Act 1986.

Example 4

Tanya uses the £50,000 to effect a single premium bond which Tanya writes under trust for the benefit of their children. The trustees advance a loan of £50,000 to Tanya. Again, the amount of the loan is not deductible from Tanya's estate.

The amount deducted is the value of the liability at the time of the chargeable event. So, a liability which does not fall to be discharged until a future date is taken into account at its discounted value rather than at the amount eventually to be paid. This rule does not apply to the transferor's liability to IHT, which is taken into account at the full amount whenever due – Section 162 IHTA 1984.

Where the transferor has a right to reimbursement in respect of a liability, the liability is taken into account only to the extent that reimbursement cannot reasonably be expected. So, the amount allowed for a guarantee debt (cautionary obligation in Scotland) depends on the financial position of the principal debtor.

A liability, which is specifically charged on a particular property is, as far as possible, set against the value of that property. Where a liability is due to a person

resident outside the United Kingdom and is neither payable here nor charged on property here, it is used as far as possible to reduce the value of property outside the United Kingdom – Section 162(5) IHTA 1984.

Where a person dies with an outstanding liability to IHT in respect of an earlier event, the liability is deducted from the value of their estate only to the extent that the tax is actually paid out of the estate and not paid by someone else – Section 174(2) IHTA 1984.

Finance Act 2013

Legislation was introduced in Finance Act 2013 to amend the IHT provisions which allow a deduction from the value of an estate for liabilities owed by the deceased on death in response to avoidance schemes and arrangements which exploited the previous rules.

The Act introduced restrictions in the way in which a deduction for a liability is allowed in the following circumstances...

1. Liabilities not actually repaid on death or out of the deceased's estate...

Generally speaking, IHT is payable on the net value of a deceased's estate, after deducting any taxes, reliefs and outstanding liabilities.

Historically, there was no requirement for the amount of the liability to be actually repaid for the debt to be deductible.

However, the 2013 changes mean that a deduction for a liability will now only be allowed to the extent that it is actually re-paid to the creditor (or, to be precise and as stated in the Finance Act, "is discharged on or after death, out of the estate, in money or money's worth") – unless the legal personal representatives can show that there is a real commercial reason for not repaying the liability and that it is not part of an arrangement which has a purpose of securing a tax advantage, i.e. the reason for the non-repayment of the debt is not tax avoidance.

An 'arrangement' includes any scheme, transaction or series of transactions, agreement or understanding, whether or not legally enforceable and any associated operations. Securing a 'tax advantage' includes: relief from tax, repayment of tax, the avoidance, reduction or delay of a charge to tax and avoidance of a possible assessment in respect of tax. 'Tax' in this context includes income tax, capital gains tax and IHT.

2. Liabilities to finance the acquisition of excluded property...

A deduction for a liability will not be allowed to the extent that the liability was incurred – either directly or indirectly - to acquire or maintain or enhance or to discharge an otherwise non-deductible liability in connection with property which would be excluded property for the purposes of IHT. Although, where the acquired property has been disposed of or where the liability is greater than the value of the property, a deduction may be allowable in certain circumstances. An example of this includes, where the property has been disposed of for full consideration which

has been subject to tax - a deduction for the liability would be allowed provided the consideration forms part of the taxable estate and has not been used to acquire further excluded property.

3. Liabilities attributable to the financing of certain relievable property...

Where a liability has been incurred to acquire assets on which business relief (BPR), agricultural property relief (APR) or woodlands relief (WR) would be available, the liability will be taken to reduce the value of those assets which can qualify for relief - therefore reducing the amount on which relief will be available. This is because the deduction for the loan will be matched against the assets acquired and relief will be restricted to the net value of the assets, i.e. the value of the asset after deducting the debt. Historically, the debt would typically have been charged on and thus reduced other, non-relievable assets in the deceased's estate leaving the relievable property reduced in value by the relief available.

To the extent that there is any excess liability (i.e. in excess of the value of the relievable property) this will however be allowable as a deduction against the estate.

Example 5

Mike, a widower, invested in AIM (Alternative Investment Market) shares and took out a loan for £100,000 to purchase shares in companies which carry out a qualifying trade on 6 January 2022. Their shares qualified in full for BPR by 5 January 2024 as they had owned them for two years. They died in June 2026. The entire loan remained outstanding at this point.

Mike's taxable estate comprises their residential property, valued at £350,000, AIM shares of £120,000 and personal possessions and cash of £100,000 - a total of £570,000. Outstanding borrowing is unreduced at £100,000.

The previous position

Historically, Mike's personal representatives would have been able to deduct the full value of the loan from their assets, thereby reducing their estate to £470,000 (£570,000 less the loan of £100,000). Additionally, because the AIM shares were owned by Mike for over two years, they would qualify for 100% BPR which means their estate would further be reduced to £350,000 (£470,000 less the value of the shares of £120,000), meaning a total reduction in the estate of £220,000. This would have resulted in an overall IHT saving of £88,000.

The current position

Under the current rules, Mike's personal representatives will not be able to benefit from both a deduction in respect of the loan and BPR because, as explained above, the liability reduces the value of the assets qualifying for relief and not the other assets in the estate so that only the net value of the "otherwise BPR eligible" AIM shares would then qualify for 50% relief.

Therefore, in these circumstances the personal representatives must first deduct the value of the loan of £100,000 from the AIM shares, reducing the taxable estate to £470,000 (£570,000 less the loan of £100,000). However, relief on the AIM shares will be restricted to the net value of the assets being £20,000 (£120,000 less £100,000). In this case, the total reduction in the estate amounts to £110,000 (£100,000 in relation to the debt and £10,000 of BPR). This results in an IHT saving of £44,000, which is, self-evidently, considerably lower than the £88,000 reduction under the previous rules.

From 6 April 2026, there are new restrictions on the level of BPR and APR that can be claimed. A 100% rate of relief will continue to apply for the first £2.5 million of combined qualifying agricultural and business assets and, thereafter, relief will be at 50%. Also, for all qualifying unquoted shares that are traded on a recognised stock exchange, such as AIM shares, the rate of relief halved to 50% from 6 April 2026. The value of those shares will, however, not be taken into account in determining the extent to which the £2.5 million allowance has been used.

The value of other qualifying assets automatically receiving 50% relief (such as assets owned personally and used in the business of a qualifying trading company) will also not use up the £2.5 million allowance.) A full list of recognised stock exchanges can be found [here](#).

Holding a portfolio of unquoted shares listed on AIM has been a long-standing estate planning technique, particularly for older clients who are unable or unwilling to make gifts (perhaps due to access requirements) or who are concerned that they may not live the seven years required to make an inheritance tax saving. Such shares will now only benefit from 50% relief.

Capital gains tax

If a gift is also a disposal for the purposes of capital gains tax, the capital gains tax may be deferred in certain circumstances until a later disposal is made by the donee. At that time an allowance for any IHT paid on the gift (for example by reason of the death of the donor within seven years) is made in calculating the capital gains tax liability. If deferment is not available or claimed any capital gains tax borne by the donor is treated as neither increasing nor reducing the value transferred. But if the donee bears the capital gains tax it is allowed as a deduction from the value transferred – Section 165(1) IHTA 1984.

Incidental expenses

The expenses incurred by a transferor in making a transfer (excluding any liability to IHT) are ignored if they are borne by them but are deducted from the value transferred if they are borne by the recipient of the gift – Section 164 IHTA 1984.

Expenses and liabilities on death

A deduction from the value of an estate is made for reasonable funeral expenses – Section 172 IHTA 1984. An allowance for any additional expense incurred in administering or realising property outside the United Kingdom is made against the value of such property up to a maximum of 5% of its value - Section 173 IHTA 1984. Funeral expenses include the cost of a tombstone or gravestone.

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