Valuation Background Paper

Wealth Tax Commission

Valuation of agricultural property

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VALUATION OF AGRICULTURAL PROPERTY

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Introduction

The treatment of agricultural property under a net wealth tax is complex and is an issue which has potentially significant practical and political consequences. The principles of taxation design identified by Daly and Loutzenhiser (2020), such as certainty, horizontal equity and neutrality, are each evident within the agricultural taxation landscape, warranting significant, specific consideration. The purpose of this paper is to identify current approaches to the valuation of agricultural property within existing frameworks in the United Kingdom, and to assess how these approaches may be applied or developed within a proposed net wealth tax.

Section 1 of the paper provides an overview of the current agricultural landscape within the UK and current trends in ownership and value. Section 2 considers current valuation approaches to agricultural property for both tax and non-tax purposes. Notably, the legislative frameworks surrounding valuation are non-specific in approach, and both case law and professional guidelines have been crucial in developing a more robust and comprehensive understanding of appropriate valuation methodology. Section 3 considers the issue of liquidity in the particular context of agricultural property, identifying the ways in which liquidity solutions arising from sale of assets or payment through income are unlikely to be complete solutions for agricultural property holders. Finally, this paper considers how other OECD countries have treated agricultural property for wealth tax purposes and whether these provide alternative solutions which could be relevant in the UK.

1. Current agricultural statistics

It is useful to provide an overview of current agriculture statistics in the UK, in order to give a perspective on the likely impact of any net wealth tax proposals. The Office of National Statistics publishes the most comprehensive annual overview of statistics within the agricultural industry based on reporting from the Department of Environment, Food and Rural Affairs (DEFRA). While this is valuable, a small disclaimer is given concerning properties in England. Only 'commercial holdings' within England are included within the report, these being holdings which exceed the relevant size thresholds according to the EU Farm Structure Survey Regulation EC 1166/2008,[1] meaning the statistics do not include smaller holdings within England. No such disclaimer applies to holdings in Scotland, Northern Ireland or Wales (possibly because these will typically tend to be smaller anyway).

According to the most recent *Agriculture in the UK Report* (DEFRA, 2020a) at June 2019:

- The Utilised Agricultural Area (UAA) in the UK comprises 17.5 million hectares.
- The UAA comprises a total of 219,000 holdings, which have an average (mean) size of 81 hectares (about 200 acres).
    - The average size of holdings greater than or equal to 20 hectares is 147 hectares (about 360 acres)
- Within the agricultural workforce, there are 299,000 'farmers, business partners, directors or spouses'.
- The median age of holders is 60.

In England specifically, approximately two-thirds of commercial holdings constitute 'owned land', with the other third being rented land, predominantly on Full Agricultural Tenancies or Farm Business Tenancies (DEFRA 2019, p.9).

Market indicators also provide insight into the demographics of farm holders. According to Savills' annual overviews of the agricultural market, there has been a steady increase in the proportion of 'lifestyle buyers' and other non-farmer buyers,[2] where existing farmers had previously been the predominant purchasers. There are limited reliable statistics on foreign ownership of agricultural land, although it is estimated to be lower than foreign ownership in, for example, Australia and New Zealand, despite fewer barriers to foreign investment (Savills, 2020).

While valuation of agricultural land is complex and is discussed in depth below, Savills estimates an average value of £6,687 per acre, with a total of £216 billion total agricultural land asset value (Savills, 2020). This value has decreased overall since the 2016 Brexit Referendum. The total income from farming in the UK fluctuates, and was most recently reported as £5.3 billion (DEFRA, 2020b, p.5). Notably, there is poor correlation between the value of a property and its productivity. Land values are impacted by a number of factors unrelated to productivity,

[1] Currently this threshold stands at a) More than 5 hectares of agricultural land or 1 hectare of orchards or 0.5 hectares of vegetables or 0.1 hectares of protected crops or b) More than 10 cattle or 50 pigs or 20 sheep or 20 goats or 1,000 poultry.
[2] Including existing purchasers, Savills notes non-farm purchasers accounted for 53% of all transactions in which they acted during 2019.

including the rise of non-farmer purchasers, development opportunities and mineral exploration options (Savills, 2020).

In short, the agricultural community seems to be of a relatively older age, their profit returns relative to capital values are low and holdings are relatively small. The landscape of ownership has begun to change, however, to incorporate more lifestyle farmers and non-farmers as holders of agricultural assets.

2. Valuation of agricultural property

The issue of valuation is potentially troublesome for any net wealth tax. Valuation is likely to be the most challenging issue for agricultural property in the context of a wealth tax. However, there are numerous circumstances in which valuation of agricultural property is already required, and the frameworks developed in such a scenario may (subject to the later points about the difference in design of an annual tax) provide some models that could be adapted for a net wealth tax.

2.1 Approaches to valuation of agricultural property for tax purposes

Market value

Open market value (OMV) is the basis used for all other taxes where transfers are not at arm's length and valuations are therefore needed (Pentelow, 2020). *IRC v Gray [1994]*[3] is instructive in elaborating on how OMV is to be understood, identifying it as the value which would be reached in a hypothetical transaction between a vendor and purchasers, each acting reasonably and with suitable prudence. However, while this hypothetical framing is instructive in understanding the OMV, the legislation is silent on the technical valuation approach to adopt in reaching this, leaving taxpayers, experts and courts responsible for developing their own framework through which such a value may be identified. Indeed, the Royal Institute of Chartered Surveyors (RICS) Valuation – Global Standards 2017: UK national supplement (UK VPGA), which valuers are expected to consult in determining valuation, merely advises that valuation be done by the 'most appropriate method' (UK VPGA 15.3.1).

Understandably, this can lead to a variation in approaches and consequently significant disputes between taxpayers and HMRC. However, case law has now developed sufficiently to provide clear models to adopt on some key areas of dispute. At a most basic level, the 'most appropriate method' of determining market value predominantly favoured by experts and courts relies on comparison with sale of similar properties.[4] However, the particular characteristics of agricultural property particularly where owned in a family company with minority holdings (common in farming families) make this approach more challenging. Low market turnover, coupled with the diversity of farmland in terms of soil quality, location and topography, for example, limit the availability of meaningful comparisons, Consequently, more distant or older comparables must be relied upon in order to inform an assessment of market value.

Different taxes may also require different approaches to valuation, which may particularly affect the value of agricultural land. In Inheritance Tax (IHT) cases it is necessary to value the deceased's entire estate on death and the loss to the individual's estate on lifetime transfers. In contrast, Capital Gains Tax (CGT) cases generally only require valuation of the asset or assets that are included in the actual disposal. Hence in the context of CGT it is generally not appropriate to lot the asset, or assets, included in a disposal together with other assets that,

[3] [1994] STC 360. The main question in *IRC v Gray* was whether two items of property comprised in the deceased's estate had to be valued separately or whether they could be lotted together as one unit for valuation under what is now section 160 of the Inheritance Tax Act (IHTA) 1984 (OMV). It was held that two or more different assets comprised in an estate can be treated as a single unit of property if disposal as one unit was the course that a prudent hypothetical vendor would have adopted in order to obtain the most favourable price without undue expenditure of time and effort.
[4] See, for example, *Pissaridou (Inspector of Taxes v Rosser)* TMA/40/2005.

although part of the vendor's estate, were not included in the disposal, such as a tenancy with a share in the freehold.

More complex in assessing the market value is what role potential development opportunities should play, including instances where planning permission has not been obtained but there is still 'hope value' (described below). Case law has now consistently found that this hope value should be included in any assessment of market value, for both non-agricultural and agricultural assets (See *Palliser v HMRC* [2018] UKUT 71 (LC) and *Prosser v CIR* (2000, unreported: DET/1/2000 respectively). *Steel v Scottish Ministers* (2014), concerning land compensation, outlined a distinction between bottom-up and top-down approaches to incorporating hope value in an overall valuation:

> [134] The term "hope value" may be used in different ways by surveyors and valuers. There may be contexts where it is used to deal simply with the hope that at some stage in the future there may be a possibility of some development of the land giving it a value beyond its current use. In that situation a bottom up valuation might well be appropriate. However, such an approach would, in our view, be appropriate only where the purchaser had an interest in the existing use but was prepared to offer more on the view that in the long term there might be some development. The current use value would be the dominant factor. But, in the present case, we use the term "hope value" in the sense contemplated in the *Spirerose* case. Where the dominant contention is that the subjects have an ascertainable value for a specific development and the problem is one of assessing the chances of such development it is clear that a "top down" assessment is appropriate; that is, assessment by considering the potential full value and determining an appropriate discount."

For *taxation* purposes, a 'top-down' approach to hope value has been predominantly favoured within the case law, with *Foster v HMRC* [2019] providing a comprehensive examination of how such an approach should be administered, especially where there exists dispute about the likelihood of future planning permission. In this instance, taxpayer evidence sought to categorise the land as 'land that has not reached its development potential', while HMRC considered the land comparable with sales of other development sites, despite no planning permission being in place. The court favoured the approach of HMRC in determining the OMV of the property, while acknowledging that the final assessment of market value would also require appropriate discounts to acknowledge the risk that future planning permission would not be obtained, given a hypothetical buyer would undoubtedly be affected by consideration of such risk. In short, in assessing the hope value of a property for the purposes of taxation, a 'top-down' approach demands that the value be assessed as though relevant planning permission had been received, but then suitably reduced to reflect the relative likelihood of such an application being granted. We discuss later why this approach may not be necessary in relation to an annual wealth tax, which is not just imposed once in a generation.

There are some peculiarities about farming which make valuation particularly troublesome. One aspect relates to the prevalence of protected farm tenancies. *Baird's Executors v IRC* [1991] examined the valuation of agricultural tenancies with security of tenure for the purposes of Capital Transfer Tax. Until that case it was generally assumed that such tenancies had no value, being non-assignable and subject to a full rent which had to be reviewed every three years.

However, in that Scottish case, the Lands Tribunal held that a valuation should be made as though there was a hypothetical sale of the secure tenancy in the open market. On the basis that the tenancy was in fact non-assignable, the '*Crossman*' principle was held to apply. That is, the prohibition on assignment would be disregarded for the purposes of assuming that a hypothetical sale was possible but would be assumed to apply to the hypothetical purchaser when valuing the price. The taxpayer's argument that the tenancy was valueless was rejected and the Tribunal assumed a value based on the equal division of the vacant possession value between the landlord and the tenant. The vacant possession method adopted in *Baird* is still relevant in the IHT context to tenancies under English law where it can be demonstrated that there is a special purchaser.[5] Often there *is* a special purchaser in the context of farmland, as the landlord will be a family member able and willing to purchase. However, where no special purchaser exists the approach laid down in *Walton v IRC* [1996] is adopted – the protected tenancy is valued as a going concern.[6] In the leading judgment Peter Gibson LJ noted the statements of Hoffmann LJ in *Gray* that the 'valuation is thus a retrospective exercise in probabilities, wholly derived from the real world but rarely committed to the proposition that a sale to a particular purchaser would definitely have happened'. Questions of valuation of farm business tenancies (FBTs) under the Agricultural Tenancies Act 1995 rarely arise as here there is no security of tenure and inevitably the value of FBTs will be much lower than tenancies which benefit from security of tenure.

As a brief aside, the wide variance in good-faith valuations within these disputes recalls Sandford, Willis and Ironside's scepticism as to the efficacy of self-assessment as the preferred model of valuation in the 1974 Green Paper for a wealth tax (Sandford, Willis and Ironside, 1975, p.168). If self-assessment is to be relied upon in any proposed model of a net wealth tax, it is incumbent that the legislation is more prescriptive in the valuation approach particularly in relation to assets such as agricultural tenancies where very different approaches could be legitimately adopted. *Baird* illustrates that a valuation approach adopted by the Inland Revenue and taxpayers for some years was eventually held to be wrong.

Agricultural property relief /business property relief

An assessment of valuation of agricultural property in the context of taxation is incomplete without consideration of agricultural property relief (APR) in the context of IHT. This relief significantly reduces the tax burden by providing relief of 50% or 100% and thus removes the need in many cases for valuation arguments.[7] If the asset is 100% relieved there is no real need to argue over value. APR is backed up by business property relief (BPR) which can then relieve the non-agricultural value of the property from any IHT.

APR is set out in ss.115-124 of the Inheritance Tax Act 1984 (IHTA), with the *Valuation Office Agency Inheritance Tax Manual* providing further guidance on its application. Relief is available for either 50% or 100% of a property's **agricultural value**, with agricultural value being distinct from the OMV of any property. S115(3) provides:

> *'agricultural value of any agricultural property shall be taken to be the value which would be the value of the property if the property were subject to a perpetual covenant prohibiting its use otherwise than as agricultural property.'*

Conditions of ownership and use set out in s.117 must be satisfied in order to qualify for APR. Broadly either the land must be owned and farmed by the transferor for at least two years or owned by the transferor and farmed by another for at least seven years. APR is therefore

[5] A special purchaser is one for whom property has special value, and would therefore bid more than a hypothetical purchaser.
[6] See also *Greenbank v Pickles* [2001] 09 EG 230 where the Walton approach was followed.
[7] 100% relief will most commonly apply. 50% relief is only applicable for land on which vacant possession cannot be provided within 12 months, or 24 months for tenanted land, where the tenancy began before 1 September 1995.

unusual in that unlike any other IHT relief it grants 100% relief for let property. It is also unusual in providing exemption to cottages, farm buildings and farmhouses provided that they are of a character appropriate to the agricultural land they are occupied with. There has been much case law on both what is a farm house and whether it is of a character appropriate, evidenced in the related but distinct matters of, for example, *Antrobus 1* [2002] and *Antrobus 2* [2006].

In effect, disputes over valuation have been removed by 100% APR and BPR but instead there are continuing disputes over the availability and extent of each of these reliefs. In many ways these disputes can ultimately prove more difficult to manage than simply valuing the asset as they set a series of new tests which are hard to police.

There has been a plethora of cases on APR and BPR on farmland and farm houses, primarily centring on the occupation, use and meaning of farmland.[8] Thus for example in *Antrobus 2* the tribunal determined that a farmhouse must be occupied by a 'hands-on' farmer in order to meet the requirements of s.115(3) (*Antrobus 2* at [71]) thereby excluding from APR the 'lifestyle buyer' whose primary purpose in living in the farmhouse was its amenity. In doing so, the tribunal found that the hypothetical 'perpetual covenant' of s.115(3) should be conceived of as equivalent to the restrictions found within an agricultural occupancy condition (AOC) found in planning permissions. It should be noted that this restrictive application of APR has been the subject of some criticism (Baird, 2005) although HMRC maintain it remains applicable (Inheritance Tax Manual, 24150).

Role of expert witnesses

Unsurprisingly, case law indicates a heavy reliance on expert witnesses in valuation disputes. Noting the different roles a practicing surveyor may have, the RICS has issued a Practice Statement, 'Surveyors acting as expert witnesses' in order to clearly distinguish between the roles of adviser, advocate, expert witness and single joint expert (Holder et al., 2014). Most significantly, an expert witness is expected to be impartial and objective, maintaining an overriding duty to the tribunal. Consequently, it is conceived of as a near impossibility that a surveyor could enjoy a dual role of advocate and expert witness without given rise to an insurmountable conflict of interest (Holder et al., p.42).

2.2 Valuation for non-tax purposes

While valuation for taxation purposes are clearly relevant for a net wealth tax, instances of valuation for non-tax purposes can also provide some guidance in future modelling. This is particularly true of financial reporting, which, much as a hypothetical net wealth tax, requires recurring valuation, rather than one-off instances.

[8] A consideration of the case law in this area reveals the fraught nature of litigation and the extent to which APR and BPR gives rise to disputes. See, for example, *Starke v. Inland Revenue Commissioners* [1994] STC 295 Times, May 29, 1995; *Williams v. Revenue and Customs Commissioners* [2005] S.T.C. (S.C.D.) 782; *Arnander v. Revenue and Customs Commissioners* [2007] R.V.R. 208; *Hanson v. Revenue and Customs Commissioners* [2012] UKFTT 95 (TC); *Rosser v. Inland Revenue Commissioners* [2003] S.T.C. (S.C.D.) 311; *McCall v. Revenue and Customs Commissioners* [2009] NICA 12 Agricultural; *Harrold v. Inland Revenue Commissioners* [1996] S.T.C. (S.C.D.) 195; *Dixon v. Inland Revenue Commissioners* [2002] S.T.C. (S.C.D.) 53; *Higginson's Executors v. Inland Revenue Commissioners* [2002] S.T.C. (S.C.D.) 483; *Golding v. Revenue and Customs Commissioners* [2011] UKFTT 232 (TC); *Inland Revenue Commissioners v. Forsyth Grant* 1943 S.C. 528; *Mitchell v. IRC* UnReported; *Wheatley's Executors v. IRC* UnReported; *Atkinson (Executors of Atkinson Deceased) v RCC* [2010] UKFTT T.C. 108; reversed [2011] UKUT 506 (TCC). *Charnley v HMRC* [2019].

Financial reporting

Guidance on the appropriate approach to valuation for financial reporting is primarily derived from the RICS Red Book and Financial Reporting Standards 102. Valuations for the purposes of financial reporting hold especial significance for farming partnerships, which remain the most common business structure for farms. Owner-occupied agricultural property, the most common form of ownership, is classified under 'Property, Plant and Equipment' for the purposes of financial reporting (UK VPGA 1.4.2). Generally, assets remain on the partnership balance sheet at book value so are rarely reflective of market value of the underlying asset in the normal sense. A particular problem is that farming partnership agreements often provide that only on dissolution of the partnership and sale of the whole farm can the partner receive market value. Otherwise on retirement or sale of a partnership interest the book cost is used and the outgoing partner may be entitled to nothing more than the return of his capital account at book value. Such provisions in the partnership agreement are often inserted to avoid having to split up the farm on an event such as death or divorce. The question then is whether this is the value of the partnership interest that should be taken for wealth tax.

Fair value is defined as 'the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction' (Financial Reporting Standard (FRS) 102, p.50). While similar in definition, it cannot be assumed that OMV and fair value are coterminous, given they are derived from differing sources (UK VPGA 1.3.2). Any subsequent valuation of owner-occupied property is based on fair value using a revaluation model, which is derived from market-based evidence (FRS 102, s.17).

Secured lending

Market value is the predominant valuation basis for secured lending purposes, with mortgage lending value being employed only rarely. Reliance on market value does create risk of over-valuation and inflated optimism, especially given the volatility of the agriculture industry, which has led to a suggested shift toward 'sustainable valuation.'

Compulsory purpose and statutory compensation

The valuation basis for land compensation is given as OMV by statute across all UK jurisdictions,[9] where the OMV is defined as 'the amount which the land if sold in the open market by a willing seller might be expected to realise'. This market value must be understood as distinct from open market valuation under, for example, Inheritance Tax law, given it stems from different statutory frameworks. However, there are multiple similarities in the approach the courts have taken to OMV in this context. In *TfL v Spirerose Limited* [2009] while prospective development could be taken into account in evaluating the OMV, it was determined that discounts had to be applied to account for risk, given planning permission had yet to be achieved, even where there was a high probability of such a permission being granted (Valuation Office Agency, 2018, 2.18).

2.3 A comment on speculative hope value

Evident throughout this discussion are the complexities of incorporating hope value in valuations across a variety of both tax and non-tax purposes. However, there is reasonable

[9] Land Compensation Act 1961, s.5(2); The Land Compensation (Scotland) Act 1963, s.12(2), The Land Compensation (Northern Ireland) Order 1982, Art. 6(1), Rule 2

question as to whether it is appropriate to incorporate such value to the same extent for the purposes of a wealth tax. As a recurring tax, an annual wealth tax is more capable of capturing changes in value as they occur, rather than incorporating potential changes in valuations, as when speculative hope value is assessed. In essence, any changes in value as a result of development permissions, exploration licences or other factors, can be factored into the overall value of the land for the purposes as it accrues, and wealth tax can be charged on that increased value in the relevant year. In contrast, other taxes reliant on OMV accrue on a much more infrequent basis, and it is therefore incumbent on valuations to incorporate hope value to ensure the valuation is an accurate reflection of the asset's potential.

It is important to note that a key risk of not incorporating hope value is the creation of distortions across asset classes, and the risk of 'lock-in'. Not incorporating hope value creates a difference between the value of the asset on which owners are taxed, and the likely sale value, so holding on to agricultural land reduces their tax liability relative to selling and using the money to purchase another asset.

3. Liquidity

3.1 Liquidity within the agricultural industry generally

Liquidity considerations have particular significance for agricultural property holders. As assessed by Loutzenhiser and Mann (2020, p.12), farmers tend to be overrepresented in low liquidity groups, constituting an archetypical class of 'asset rich, cash poor' taxpayers. This concern is particularly compounded by the variable nature of the farming business model, which reduces the predictability of future earnings and results in substantial variations in year-on-year income (Zayed, 2016, p.12). Furthermore, even where production does follow predictable patterns, this does not necessarily result in consistent annual incomes, given the variable length in crop cycles. For example, weather cycles, climate change, worldwide market trends in asset prices, state subsidies and protection of domestic farmers are all subject to significant variation and this greatly affects valuation. This again suggests that an annual wealth tax that can take account of such variations year on year may be a better model for capital taxation than IHT which taxes at one moment in time each generation.

A 2016 report commissioned by the Prince's Countryside Fund highlighted the ways in which this manifested itself for individual farms. Following a downward trend in the sector, the study found (Klaskova, 2016):

- 20% of farms were operating at a loss, without accounting for family labour and capital.
- 17% of farms did not have capacity to pay short term debts.
- There were major cash flow concerns affecting farms across the sector.
- Levels of borrowing nearly doubled between 2006–15, with a particular growth in borrowing for the purposes of covering short-term cash shortfalls.

3.2 Proposed solutions to liquidity

This paper does not purport to offer a clear solution to the issue of liquidity in agricultural property. Instead, we offer below a commentary on solutions posited by Loutzenhiser and Mann (2020) in the context of the agricultural industry to highlight factors which must be taken into account, when and if such solutions are to be proposed.

It is also worth noting that any proposed solution must consider the necessary distinctions between lifestyle farmers (those whose ownership of agricultural land is driven by factors other than agricultural business practices), bona fide farmers (those engaged in farming practices and for whom farming practices are the dominant source of income), those in partnership, and larger corporations. Each of these classes of agricultural landholders is likely to be impacted differently by issues of liquidity and therefore be more suitable for different classes of solution. Furthermore, while this is not a political science paper, it is valuable to note that each of these classes of agricultural property holder is likely to engender differing political reactions. For example, favourable tax treatment offered to sole proprietorship farmers is likely to be preferentially received when compared the same relief offered to lifestyle farmers.

Sale of assets or payment in specie

There are characteristics inherent to agricultural assets and the sector more broadly which make them particularly unsuited to liquidity solutions which anticipate the sale of assets or payment in specie. Maintaining a farming property in its entirety has been identified as a crucial priority for owners, most significantly in order to preserve its long-term economic viability, with the belief that breaking up a property would be detrimental to its economic sustainability (IFF Research, 2017, p.19). Research published by HMRC on the influence of the IHT on succession planning also indicated that tradition and a sense of duty to pass assets to successive generations can also lead agricultural property owners to resist breaking up agricultural property (IFF Research, 2017, p.19). In this way, agricultural assets were identified as being distinct from sentiment relating to business assets.[10]

The value in maintaining the integrity of the farm as a whole when addressing liquidity issues is evident in case law concerning divorce matters involving agricultural property. The approach of the family courts in these matters is indicative of the law's reluctance to break up a farm or indeed any family business when paying out one spouse.[11] The Family Court will try to find other sources of revenue first, including borrowing or other assets when reaching a divorce settlement.

Given this, it is unlikely that any solution for liquidity which relies on payment in specie or sale of assets will have broad viability for agricultural property, due to risks of disrupting the economic sustainability of the asset and, to a lesser extent, compromising traditional expectations about succession.

Implementation of tax ceilings linked with income levels

As noted by Loutzenhiser and Mann (2020), the implementation of a ceiling linked with income thresholds was considered a viable solution for agricultural property by Sandford, Willis and Ironside (1975, p.229), despite not being viewed favourably as an overall solution to liquidity concerns. In 2018–19, 21% of farms in the UK reported less than £0 in farm business income (FBI), and just under half reported an income less than £20,000 (Department for Environment, Food and Rural Affairs, 2020a, p.34). The average FBI per farm was £44,000. Given this, it is likely that a cap tied to income levels would significantly alleviate liquidity issues for low-income holdings. Implementing a cap could also account for variations in income levels year-on-year.

If such a cap were to be proposed, it would be necessary to consider whether it is suitable to differentiate between lifestyle farms and other agricultural assets on which farming is conducted as a business or livelihood.

Payment deferral

Deferral of payments could similarly provide a mechanism through which income variation may be addressed by providing for taxpayers to make payments towards wealth tax debt in years in which their income allows for this. However, such a solution presupposes the future capacity of an owner to make payments, which cannot be guaranteed. As a result, deferred payments may risk accumulating and only being realised on disposal of the asset entirely.

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[10] While business assets owners were identified as similarly concerned about maintaining the integrity of a business, this was motivated overwhelmingly by concern for the economic viability of the business, with a much lesser sense of duty or generational tradition (IFF Research, 2017, p.24).

[11] See, for example, *B v B* 2011 Fam LR 91

High exemption threshold

The high exemption threshold favoured by Zucman and Saez would address many liquidity concerns simply by rendering many agricultural properties exempt from the tax itself. Obviously, depending on where the threshold is set, this may not exempt all agricultural properties, but would be likely to have broad relevance across agricultural holdings.

4. OECD approaches

It is useful to consider how OECD countries which have, or have had, net wealth taxes, have approached agricultural property. While these approaches may not be directly transferable to the UK, similar considerations in relation to valuation and liquidity are relevant across jurisdictions. Broadly speaking, where concessions were made, this was either in terms of discounts on valuations for agricultural property, the provision of relief or exemptions, or both.

Norway's existing wealth tax, and France and Ireland's former wealth taxes, each adopted a model of valuation at market value, but with significant discounts or exemptions. In Norway, agricultural property is subject to a variable valuation discount, which currently stands at 25% (OECD, 2020). Ireland provided a deduction of 50% of market value or £100,000, whichever was the lesser (Sandford & Morrissey, 1985, p.22). Were such an approach to be adopted in the UK, these values would need to be set based on size and values of holdings in the UK. This exemption was only available to individuals, rather than corporate holders. While France exempted 75% of the value of long-term lease rural property (Tirard, 2020) this is unlikely to be a replicable model for the UK, given long-term lease holdings are relatively uncommon. Notably, France has now entirely exempted agricultural property from its current, more restricted wealth tax. The same was true of the former Indian wealth tax.

The alternative mechanism through which agricultural property may be afforded special treatment is through the application of more favourable valuation methods. Both the current Swiss wealth tax and the former German wealth tax adopt the capitalised earnings approach to valuation of agricultural property. In Switzerland 'this method gives values that are one-third to a quarter of the actual market value for land including buildings, in the case of land without buildings the value is only one tenth of the market value' (OECD, 2020). The application of alternative valuation methods to agricultural property is also evident in countries levying property taxes, but not net wealth taxes, including Austria, Denmark, Belgium and the US. Numerous countries similarly charge reduced property tax rates for rural farm land.

5. Conclusion

The valuation of agricultural property within a net wealth tax is undoubtedly a concern in any wealth tax design. However, existing frameworks in the context of divorce and tax can provide some useful pointers, although the nature of a net wealth tax lends itself to the development of a unique approach. Indeed, as noted above, it could be held that the incorporation of speculative hope value is less necessary in conducting valuation for an annual wealth tax, given that its recurring nature means future increases in value will be taxed when accrued. This makes valuation easier and also avoids some of the unfairness and uncertainty seen in the context of divorce and IHT when you necessarily have to value hope value at an arbitrary point in time. Matters of liquidity are a greater concern given the low incomes in the farming sector, although receive less consideration within existing case law and legislative frameworks. The solutions proposed by Loutzenhiser and Mann (2020) do offer prospect of relief for agricultural asset holders. However, for both equitable and political purposes, it will be necessary for such solutions to adequately delineate between different classes of property holders.

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