**CENTRAL ASSOCIATION OF AGRICULTURAL VALUERS**

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**CAAV EXAMINATIONS 2023**

**9TH NOVEMBER 2023**

**NATIONAL ORAL QUESTIONS**

**Each Group is to choose TWO questions from the six and then ask those same two questions of all the candidates in that Group.**

1. **Preliminaries before Undertaking Work and Fee Basis**
2. **Inheritance Tax**
3. **Letting a Dwelling**
4. **Stocktaking Valuation**
5. **Agricultural Holdings Act Rent Review**
* **England and Wales**
* **Scotland**
1. **Capital Gains Tax (Northen Ireland)**

**Question 1 – Preliminaries Before Undertaking Work and Fee Basis**

You are in a meeting with a potential new client who wishes you to provide a valuation of her small farm.

**a)** **What do you need to confirm before discussing the work requested?**

Confirm that there is no conflict of interest in accepting the work **(½ Mark)**

**b) Give a general example of where a conflict of interest may arise.**

* Acting for a party who you may have acted against in the past;
* Acting for a party when another member of your firm is acting for the other party;
* Acting where other members of your firm have acted for another party in relation to different work;
* Acting for a party who wishes to purchase or lease a property that your firm is marketing on behalf of another client;
* Acting as a single joint expert when you have acted for either party in the past.

 **(½** **Mark)**

**c) What further information do you need to establish before accepting the instruction?**

i) Who exactly is the client and who actually owns the property to be valued? Is it in sole ownership, jointly owned, owned by a company?

ii) What is the asset to be valued – location and extent of the property, legal interests in the property?

iii) What is the purpose of the valuation? Is it for an anticipated sale, divorce, secured lending purposes, inheritance tax? This information will determine the basis of valuation required and if it needs to comply with the requirements of the RICS Valuation – Global Standards (Red Book).

iv) What is the relevant valuation date? Is it the date of inspection, the date of death or some other historic date? **(2 Marks)**

**d) Give two examples of the basis of fee you might charge for professional work with a brief explanation of each and when you might choose it.**

**Time and expenses** – work charged on a pre-agreed hourly rate supported by a time recording system. Used for the majority of professional work, particularly when the extent and timescale for the work to be undertaken is not known at the outset.

Examples: Valuations, BPS, CPO, development/options, environmental schemes, expert witness, professional advice, planning consultancy, utility schemes.

**Fixed fee** – agreed total sum for the work specified. Used for lower value or routine work where the extent and timescale for the work is known. Exposes the valuer to risk if the work becomes more complex or time consuming than first anticipated.

 Examples: Stocktaking valuations, BPS.

 **Percentage** **Commission**– the fee relates to the value of the subject of the work.

 Examples: Sales of property, livestock, deadstock, purchase and letting of property, property management.

**Scale Fee** – Remains the preferred basis for some utilities which will utilise either their own scales, such as National Grid, or Ryde’s Scale which is usually subject to a percentage uplift. Beneficial for small schemes and claims but must be commercially viable.

 Examples**:** Utility schemes, CPO.

**Conditional Fee –** related to the outcome of the work. Fees can vary from ‘no win, no fee’ to a specified uplift in the fee if a particular outcome, such as a successful appeal, is achieved.

Examples: Planning work, development projects.

**(2 Marks)**

**Question 2 – Inheritance Tax**

Your client’s mother has died with assets of just over two million pounds, comprising a 4 bedroom dwelling and agricultural land. She wants to discuss what tax reliefs might be available.

**A What is the current Nil Rate Band for Inheritance Tax and what is the Inheritance Tax Rate for 2023-24.**

£325,000 and 40%

 **(1 Mark)**

**B Name the three other main reliefs that might be applicable.**

Agricultural Property Relief, Business Property Relief, Main Residence Nil Rate Band

 **(1½ Marks)**

**C What are the two rates that apply to Agricultural Property Relief and Business Property Relief?**

50% and 100%

 **(1 Mark)**

**D Explain what the Main Residence Nil Rate Band is.**

This applies to dwellings that are owned by the deceased and passed to direct descendants. The threshold is currently £175,000. If the gross estate is worth more than £2 million, then the £175,000 is tapered by £1 for every £2 the net value of the estate is worth more than the £2 million taper threshold

**(1½ Marks)**

**Question 3 – Managing a Let Property**

You manage a small estate which includes several cottages, one of which has been vacant for a number of months and is surplus to requirements. The owner wishes to let it on the open market.

**a) What is the most appropriate agreement for a residential letting of the cottage and under what legislation is it regulated?**

England & Wales: Assured Shorthold Tenancy under the Housing Act 1988 as amended by the Housing Act 1996

Scotland: Private Residential Tenancy under the Private Housing (Tenancies) (Scotland) Act 2016

Northern Ireland Private Tenancy under the Private Tenancies Order (Northern Ireland) 2006 as amended by the Private Tenancies Act 2022

 **(½ Mark)**

**b) Prior to marketing, what factors should you consider when undertaking an inspection of the property?**

* The general structure and state of repair;
* Any essential maintenance and repair which would be best undertaken whilst the property is vacant;
* The standard and condition of the fixtures and fittings, especially the kitchen and bathroom(s), together with any carpets and curtains or blinds;
* Internal and external decoration;
* State and condition of the heating system (age and service history of the boiler, do open fire chimneys require cleaning?);
* State and condition of other services – electric installation, water, drainage, septic tank, LPG tank, central heating oil tank;
* Condition of gardens, garage, outbuildings, external lighting, boundary treatments;
* Any health and safety issues such as trees or the presence of asbestos;
* Is access to the property, parking provisions and extent of the property clear?

 **(3 Marks)**

**c) Name two of the Government approved Tenancy Deposit Schemes.**

England & Wales: Tenancy Deposit Scheme

 Deposit Protection Scheme

 My Deposits

Scotland:[Letting Protection Service Scotland](https://www.lettingprotectionscotland.com/)

 Safe Deposits Scotland

 [My](https://www.mydepositsscotland.co.uk/) Deposits Scotland

 Northern Ireland Tenancy Deposit Scheme Northern Ireland

 My Deposits Northern Ireland

 **(½ Mark)**

**d) How can the owner terminate a fixed term Assured Shorthold Tenancy?**

England & Wales: By serving a Section 21 notice on a prescribed from at least 2 months before the end of the tenancy

Serving notice under one of the section 8 grounds of the Housing Act

 **How can the owner terminate a Private Residential Tenancy?**

Scotland: On one of the grounds set out in Schedule 3 of the 2016 Act including:

* Intention to sell
* Intention to refurbish
* Intention for landlord or family member to live in the property
* Non-residential use
* Religious purpose
* Tenant’s breach of agreement
* Rent arrears
* Criminal/anti-social behaviour

**How can the owner terminate a Private Tenancy?**

Northern Ireland By giving notice in the prescribed form for a statutory period according to the duration of the tenancy

 **How can the tenant terminate the tenancy?**

England & Wales: By serving a notice to quit in writing (no prescribed term or form). The minimum notice period is 4 weeks but common law requires the notice period to match the rental period

Scotland: By serving a notice in writing in accordance with the notice period set out in the agreement or at least 28 days notice

 Northern Ireland By serving written notice giving:

* 4 weeks notice if the tenancy has lasted 10 years or less
* 12 weeks notice if it has lasted longer.

 **(1 Mark)**

**Question 4 - Stocktaking Valuations**

You have been asked to prepare the annual stocktaking valuation for a mixed farmer.

1. **Under what guidance should valuations be carried out?**

***Answer***

RICS Valuation Standards

CAAV “Guidance Notes on Agricultural Stock Valuations for Tax Purposes”

HMRC Help Sheet HS232 “Farm Stock Valuation” (previously BEN 19)

The Statements of Standard Accounting Practice 9 (SSAP 9).

 **1 mark**

1. **On what bases should stocks be valued?**

***Answer***

At cost or, if lower, net realisable value.

Deemed Cost defined as 60% (cattle) or 75% (sheep, pigs, harvested crops) of Market Value.

 **1 mark**

1. **What steps would you take in recording and assessing all stocks for the valuation?**

***Answer***

Inspect all live and deadstock and record details.

Verify numbers and actual costs of all stock.

Assess market value of stock.

Record details of all cultivations and applications to growing crops.

Establish whether stocks are home bred/produced or purchased.

Establish which livestock are on Herd Basis.

 **3 marks**

**Question 5 – Agricultural Holdings Act Rent Review**

**Not for Northern Ireland (see Question 6)**

**England and Wales**

Your client is the Tenant of a farm who has security of tenure under the Agricultural Holdings Act 1986. He wishes to review the rent and has asked to meet with him to discuss the process.

**a) What is the minimum length of a rent review notice and under what section of the Agricultural Holdings Act 1986 is it served?**

Minimum notice period – 12 months expiring on the next termination date.

The notice is served under Section 12(1) & (4).

 **(1 Mark)**

**b) How often can a rent review be referred to arbitration under such a notice?**

Not less than 3 years from a rent change or an arbitration standstill.

 **(½ Mark)**

**c) How is the rent calculated?**

This is set out in Schedule 2 of the Agricultural Holdings Act 1986 which states:

“The rent properly payable in respect of a holding shall be the rent at which the holding might reasonably be expected to be let by a prudent and willing Landlord to a prudent and willing Tenant, taking into account all the relevant factors, including the terms of tenancy, the character and situation of the holding, the productive capacity of the holding and its related earning capacity, and the current level of rents for comparable holdings.”

**(2 Marks)**

(Provided that candidates cover all the key points, they do not need to know this verbatim)

**d) What is disregarded for the purposes of arriving at the appropriate rental value?**

Tenants’ improvements and fixed equipment (unless required under the tenancy agreement)

 Grant aid to Landlord’s Improvements

 “High Farming” – “a system of farming more beneficial to the holding …”

 Tenant’s occupation

 Tenant’s dilapidations

 Scarcity value in respect of the rent of comparable holdings.

 **(1½ Mark)**

 (Candidate to name three of the above to obtain the 1½ marks)

**Scotland**

Your client is the Tenant of a farm who has security of tenure under the Agricultural Holdings Act 1991. He wishes to review the rent and has asked to meet with him to discuss the process.

**a) What is the minimum length of a rent review notice and under what section of the Agricultural Holdings (Scotland) Act 1991 is it served?**

Minimum notice period – 12 months expiring on the next termination date.

The notice is served under Section 13.

 **(1 Mark)**

**b) How often can a rent review be referred to the Land Court under such a notice?**

Not less than 3 years from a rent change or a standstill awarded by the Land Court **(½ Mark)**

**c) How is the rent calculated?**

This is set out in section 13 of the Agricultural Holdings (Scotland) Act 1991 which states:

“the rent properly payable in respect of a holding shall normally be the rent at which, having regard to the terms of the tenancy (other than those relating to rent), the holding might reasonably be expected to be let in the open market by a willing landlord to a willing tenant,… “

The Land Court is to have regard to

“information about rents of other agricultural holdings (including when fixed) and any factors affecting those rents (or any of them) except any distortion due to a scarcity of lets; and the current economic conditions in the relevant sector of agriculture”

**(2 Marks)**

**d) What is disregarded for the purposes of arriving at the appropriate rental value?**

 Tenant’s occupation

Tenant’ Schedule 5 improvements so far as qualifying for compensation

 Landlord’s improvements

“High Farming” – “The continuous adoption by the tenant of a standard of farming or a system of farming more beneficial …”

 Tenant’s dilapidations

 Any reduction due to use for non-agricultural or conservation purpose

 Any distortion due to a scarcity of lets.

 **(1½ Mark)**

 (Candidate to name three of the above to obtain the 1½ marks)

**Question 6 – Capital Gains Tax**

**For Northern Ireland**

Your elderly client owns a 150 acre farm which he purchased in 1997. He is now to sell 50 acres but intends to continue farming the remainder of the farm.

 **a) What tax is he liable to pay on the sale of the land?**

Capital Gains Tax **(½ mark)**

 **b) How is it calculated and are there any allowances?**

On the gain in value - the difference between the cost of the land when he became the owner and the sale price of the land.

The allowances are the Annual Exempt Amount in the sum of £6,000 (£3,000 from next April), the expenses of the sale and any expenditure incurred to enhance the value of land or to or establish or preserve title to it.

 **(1½ marks)**

**c) What are the two main reliefs from Capital Gains Tax that might generally be considered on a sale of land by a farmer?**

 Rollover Relief and Business Asset Disposal Relief (formerly Entrepreneurs’ Relief). (**½ mark)**

 **Which one of the reliefs applies to your client and briefly explain how it works?**

Rollover Relief is available - provided he invests the full amount of the gain in a qualifying business asset (such as farmland) then there would be no Capital Gains Tax to pay at this point – it defers the tax liability.

*[NB As he is continuing in business on the remaining land, Business Asset Disposal Relief is not available.]*

 **(1 mark)**

**d) If he had purchased the land in 1980, what would be the date of valuation for the base cost?**

 31st March 1982 **(½ mark)**

 **e) What is the main rate of Capital Gains Tax?**

The main rate is 20% of the assessed gain

(10% so far as the taxpayer is within the Basic rate of Income Tax)

**What would the rate be if he was selling a dwelling rather than land?**

28% (18% so far as Basic rate payer) unless it was the house he lived in when Principal Private Residence Relief would ordinarily give full relief

**When is the tax due to be paid on the gain made on the sale of the land?**

The payment is due by the 31st January following the tax year of the disposal. (The rules are now tighter for dwellings – payment within 60 days.) **(1 mark)**