

**HMRC Chattels Valuation Fiscal Forum
Friday 21 March 2014 @ 1.00pm**

**The Auditorium
The Treasury
1 Horse Guards Road
London SW1A 2HQ**

Attendees:

Barry Roland	SAV (Chair)
Robert Dawes	SAV
Virginia D’Vaz	SAV
Dave Goulsbra	SAV
Sue Shuttleworth	SAV
Dee Atkin	SAV
John O’Toole	SAV
Dawn Summers	SAV
Marina Young	SAV
Ruth Cornett	Christies
Steven Denley Hill	NAVA
Andy Grainger	Christies
Jeremy Lamond	SOFAA
Mike Neill	Bonhams
Susan Orringe	RICS
Nick Parnell	Bonhams
Wendy Phillips	Sothebys
John Sibbald	Pall Mall Art Advisors
Clarissa Vallat	Sothebys
Geoff Whitefield	NAG & IRV

Apologies:

Michael Rawlinson	NAG
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Minutes

The meeting was held at the Auditorium, The Treasury, 1 Horse Guards Road, London and was chaired by Barry Roland.

Introductions and Apologies

Barry Roland welcomed all attendees and introduced Virginia D’Vaz who is taking over as new manager of HMRC Chattels Valuation Team from Robert Dawes.

Matters arising

No matters were raised from the previous minutes.

HMRC – An Update

An update on changes in HMRC since the last Chattels Valuation Fiscal Forum was provided.

Penalties

HMRC are in the process of bringing in simpler easier systems enabling the administration of our taxation systems to be more efficient; with the emphasis on tackling avoidance and evasion. There are already penalties on taxpayers for submission of inaccurate returns and SAV has secured penalties on a chattels valuation where the taxpayer initially failed to disclose a professional valuation and instead relied upon their own ill considered figure. Sch 38 FA 2012 also introduced penalties on agents for dishonest conduct and this could include those providing valuation advice. This is in an effort to address behaviours such as dishonesty, careless or deliberately concealing information.

Postal delays

HMRC are aware of the significant delays in our postal system. The e-mail system is one way HMRC are looking to address this problem.

Budget cuts

There are severe pressures on all expenditure and manpower cuts. Therefore the level of work and types of work are to be reviewed.

The Shares and Assets Valuation Process

The procedures followed in Shares & Assets Valuation were explained as follows.

SAV receives approximately 20,000 valuations per year

Chattels section received approx 600 valuations per year of which approx 70% are IHT and 30% CGT.

Approximately 65% of valuations considered by SAV are accepted on 1st tier risk assessment within a week of referral. The more information provided therefore the greater chance of the valuation being accepted on 1st tier risk assessment.

Where the proposed value cannot be accepted the valuation is prepared and forwarded to a valuer to take a more in depth look at the items. This may involve writing to the taxpayer or their agents.

Full use of the information powers in Sch 36 FA 2008 are used to progress cases quickly, usually giving 30 days in which to reply.

In the current tax year (2013-2014) 524 valuations have yielded £2,689,146 in tax.

Post Transaction Valuation checks (PTVC)

SAV also provides a service known as a PTVC or Post Transaction Valuation Check where a valuation can be checked before a self-assessment tax return is complete. The relevant form is CG34 available online. However, SAV can only do this:

- after there has been a disposal which is relevant to CGT; and
- before the date that the individual or trustees have to complete a Self Assessment tax return.

Customers dealt with by HNWUs, Trust Offices or PD1 should send their form CG34 to their appropriate office.

Other individuals, partnerships, and personal representatives should send the form direct to the Capital Gains Tax Team in Cardiff.

Valuations for Probate

Notes to the IHT400 state that you are strongly advised to get a professional valuation for items with a value of more than £500, a figure that has been in place since the IHT200. Parties present felt that this figure may now be unrealistically low. The IHT407 schedule also states that individual items of jewellery valued at over £500 should be listed at box 1. The guidance on the IHT407 in relation to jewellery was specifically introduced in relation to small personal items of jewellery to prevent family members from having to individually list low value items of jewellery with a sentimental value.

There is a project underway at the moment to create an online process for Inheritance Tax. As part of this project the paper IHT400 form and guidance notes are likely to be rewritten and there will be new online guidance to accompany the online process. The SAV Chattels Team have identified themselves to the project team as stakeholders in the chattels valuation process and guidance and parties present expressed an interest in taking part in discussions on these issues.

SAV still receive a number of valuation reports that say 'probate values' or 'fair value' which causes concern as SAV do not know if the values being proposed for probate purposes are open market values in accordance with S160 IHTA 1984 as at the date of death. Open market values are not dealers/insurance values, they are based on actual comparable sales whenever possible. Costs incurred and insurance values are not included in the open market value.

Hammer prices

It was suggested that comparisons might be more realistic if the buyer's premium was included. However, it was pointed out that different auction houses applied different premiums and that over time the premiums had changed. In the circumstances, it was

agreed that it would sometimes be difficult to find the appropriate premium and re-calculate the value.

Using a range of values as quoted in the auction catalogue was also mentioned. It was suggested that the lower value could be used. It was pointed out, however, that *Re Hayes Will Trust Pattinson and Another v. Hayes and Others* (1969 H. No. 13870) states the mid market price is acceptable.

After discussion it was agreed that because the historical reference to percentage premiums were difficult, the hammer price would be used.

Chattels Rental Rates

Everyone was reminded that HMRC expect the taxpayer to be able to demonstrate that the arrangement resulted from:

- a bargain negotiated at arm's length;
- by parties who were independently advised; and
- which followed the normal commercial criteria in force at the time it was negotiated.

SAV confirmed that approximately 1% of the capital value with the lessee paying the insurance costs and being responsible for the maintenance and security.

Challenges facing valuers in a fast moving and sometimes polarised art market

Sotheby's drew attention to the difficulties facing valuers in a fast moving environment. Chattels values can be significantly affected by a number of factors including changing fashions and political agendas. The best comparable sales may be those that have taken place directly after a disposal, but values must be considered taking into account the particular circumstances of each case (*IRC v Stenhouse's Trustees* (1992) STC 103).

Attribution

A number of valuations are received by HMRC as 'attributed to' and shortly after being sold as being by the specific artist. HMRC received a large number of valuations which do not state the basis of valuation i.e. 'value for probate purposes' - this is not sufficient and the full basis of valuation should be stated. Greater information provided initially would alleviate the need for SAV to raise questions at a later stage. Possible inclusion of photographs (preferably in colour) of higher value items should also be considered accordingly.

It is important to give as much information as possible at the outset including wording such as 'subject to further research' if possible where there is an element of doubt. Parties felt it was important that HMRC was aware of the time constraints placed upon them by acting agents.

HMRC asked that if an item is sold shortly after the event they should be notified.

Artist Retail Rights

There had been a few enquiries to SAV about the valuation of this asset. Whereas for IHT in most cases Business Relief would apply there are occasions both for IHT and CGT where this is an asset which falls to be valued. The valuation would, of course,

depend on the artist and taking a view on the future popularity as a valuation of the rights would be most often be arrived at by the capitalisation of the average annual royalties received over say the previous five years before the valuation date.

Remaining items

It has been found in a number of reports that a large number of small items of limited value have been placed together and listed under remaining items. On a number of occasions items worth a significant value have been listed. Parties explained that they were under severe time constraints by agents and were often not able to carry out a forensic level of valuation. It seems that people consider items under £500 are non taxable. All parties were aware that everything is taxable.

New regulations relating to chattels valuations from RICS

New mandatory procedures are to come into effect shortly - 'Valuer Regulation Scheme'. The scheme has been set up to help valuers follow a standard process with set criteria i.e. listed qualifications, conflict checks, RICS standards, full reference of itemised comparable and quality of reports.

RICS have set up two training days;
13 May 2014 London
5 June 2014 York

A similar scheme was introduced for property valuers a few years ago. The consensus was that this could only have a positive effect and some other professional bodies were looking to follow suit.

Next meeting

Those present considered that the meeting was useful and it was helpful to be able to meet all the SAV Chattels valuers. It was provisionally agreed that the next forum will be held in London in approximately 12 to 18 months' time. Bonhams offered their building in London as a possible venue. This was gratefully accepted by all parties.