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Probate valuations – the facts and figures

Having to think about the practical and financial aspects of dealing with an estate so soon after a family member or friend has passed is bound to seem unimportant, even trivial and an intrusion into what is a private time that should be reserved for quiet contemplation, memories and reminisces about your loved one.

Unfortunately, there will now be pressure on you to start the probate valuation process, particularly if the estate's value is likely to exceed Her Majesty's Revenue & Customs (HMRC's) tax thresholds. Valuing an estate for Inheritance Tax and reporting its value to HMRC is a part of applying for probate. You will need to value the money, property, and possessions ("estate") of the person who's died.

There are a few initial and important tasks that should be undertaken:

1. Make contact in writing with any organisation that might have a financial interest in the person's estate's assets and liabilities (debts). These can include, but are not restricted to:

    - their bank and/or building society. Ask if there are any standing orders and/or direct debits and that they be stopped (or transferred if they are in joint names). Also ask for a list of any share certificates or deeds they are holding for the person who died.
    - their pension provider (including state pensions via the Department for Works and Pensions (DWP)). Ask them if you need to include details of any private pensions when the estate is valued.
    - if they were employed write to their employer – they may be owed wages or salary, holiday pay, bonuses etc.
    - Sometimes overlooked are National Savings and Investments (NS&I) as there may be Premium Bonds (Every person over 18 is allowed to invest up to £50,000 in Premium Bonds). There is a free tracing service if you cannot locate any certificates, and a useful brochure available – see the links at the end of this page.
    - if they held share in any companies write detailing how many shares, the company details, and their share certificate number if these any of these are known.
    - if they have any mortgages on either their home or any investment properties write to the mortgage providers and ask if they require payments to continue while you apply for probate. If they say they do, you will need to make sure that funds are available for this. It may be that you have to pay these bills yourself then reclaim them from the estate once you've been granted probate. Alternatively check the persons paperwork to find out if they had a mortgage protection policy or life assurance to cover the payments. If neither option is viable make sure you discuss this with the mortgage providers, explaining the situation to them and ask for a payment holiday until you are able to re-commence payments – they would much prefer you speak to them so they can agree an arrangement rather that a mortgage going into default.

2. You will need to estimate the value of the estate to find out if there might be any Inheritance Tax to pay.

    The estate will not be liable for any tax providing one of the following applies:

    - it all passes to the civil partner or spouse of the person that died
    - it is all left to a community amateur sports club or a charity
    - it value is below the £325,000 threshold for Inheritance Tax

    There are exceptions if the estate if of a widowed person or the person is giving their home to their children, (which includes adopted, foster or stepchildren) or grandchildren then there may be a higher tax threshold of £500,000.

    If the deceased was married or in a civil partnership and their estate is worth less than their threshold, any unused threshold can be added to their partner's threshold. For example, supposing a person's estate is valued at £200,000, the balance of £125,000 will pass to their partner, increasing their threshold to £450,000.

To estimate the total value of the estate you will need to:

- total the value of the things the person owned (their assets).
- if they made any gifts such as cash or items of value in the seven years before they died these must also be totalled and included in the estate's value. There is a £3,000 annual exemption.
- also include the value of any trusts in which the person had a beneficial value.

Once you reach this stage you can estimate the estate's value after allowing for any liabilities such as mortgages, overdrafts, credit card bills, personal loans, christmas clubs etc. The estimate only needs to be accurate enough for you to believe the estate has a tax liability, but you'll need accurate valuations if the estate does owe any tax.

3. We have included a few summary guidelines below to help you understand estate valuations. Please bear in mind that although it will cost money to do so, using the services of an experienced qualified legal advisor will make sure that all allowances are made use of to reduce any Inheritance Tax liability.

Valuing the assets:

Start by listing the person's assets – things they owned that have a monetary value, these might include:

- their home
- any buildings, land, or other properties, including commercial buildings
- funds in building societies, banks, or ISA's plus any cash at their home including gold coins
- shares and stocks
- personal and household items including furniture, artwork, paintings, and jewellery but not clothes unless they are vintage (items such as autographed sports shirts, boxing gloves etc are similar to artwork so should be included)
- cars, caravans, boats, motorcycles, and other vehicles
- money they are owed such as wages/salary and refunds on household bills
- payments due upon death such as life insurance or lump sum "death benefit" from a pension
- overseas assets such as property, vehicles, personal possessions etc.

You should then be able to estimate of each of the above as of the date the person died. Personal items should be valued based on how much you would have got for them if you'd sold them on the open market as opposed to auction (usually lower, less costs and fees) or how much they would cost to buy "brand new" from a retail establishment.

Make sure you include all assets including those left to a civil partner, spouse, or charities, even though it is unlikely there will be any tax to be paid on them.

Provals have almost 60 years' experience of preparing probate valuations so will be able to help, advise and value in the vast majority of situations.

Valuing joint assets:

Find out what was owned with someone else, and what percentage they owned. Depending on certain criteria, the rules for joint assets on how they are owned are:

- "joint tenants" ("joint owners" in Scotland)
- "tenants in common" (In Scotland this is known as "common owners")

Joint tenants

Joint tenants automatically pass any assets to the other joint tenant if one of them dies.

If the asset such as land or property, was owned as a joint tenant with the person's civil partner or spouse the value of the asset should be divided in half.

If property or land was owned with other joint tenants, for example siblings or friends, you need to do both of the following to achieve a value:

- Divide the value by the number of owners
- Reduce the deceased's share by 10%, for example:

The deceased owned property with three other people as joint tenants. At the date of death the property is valued at £350,000 the deceased's share is £87,500 (£350,000 divided by four)

After 10% (£8,750) is deducted from their share, the value to report is £78,750.

The calculations are different in Scotland. Jointly owned land or property (excluding a civil partner or spouse) has £4,000 deducted from the value of the whole asset before calculating the deceased's share. For example:

The deceased owned a Scottish property with three others, and it was worth £350,000 on the date they died.

After taking away £4,000 the property is worth £346,000 (£350,000 - £4,000).

Dividing the remaining value of £346,000 by four means that the deceased's share is £86,500.

4. Debts:

Do not include the estate's debts when estimating its gross value. You will need to list these separately when you tell HMRC when you report the estate's value to them.

Try to find any records, paperwork etc about the value of any debts when the person died, these may include:

- Any mortgages, loans, credit cards, overdrafts etc.
- Any liabilities such as bills for goods or services not yet paid (i.e. builders, decorators, gardeners, accountants, pest control, vets, plumbers, maintenance operatives etc.) Also any household bill that are outstanding.

Conclusion:

We hope that this article helps you to start managing the estate. Although it seems like a complex and time consuming process we are able to assist at most stages including providing general guidance, pointing you towards additional sources of information, and primarily preparing a detailed probate valuation of the deceased's possessions. Provals are proud to have been selected to prepare probate valuations directly for members of HMRC's Probate Department and we always operate in compliance with their reporting requirements.

Please contact us if you have any questions or would like a quotation for a probate valuation.

Useful links. (Click the text below, this will open a new window on your computer)

NS&I Premium Bond tracing service https://www.nsandi.com/help/lost-touch-with-nsandi/track-lost-investments
NS&I Premium Bond tracing service brochure https://www.nsandi.com/files/asset/pdf/tracing-service-brochure-print-friendly.pdf

HMRC's rules on giving gifts are a whole subject on their own, and we discuss these on our website, go to https://www.provals.com/iht-rules-on-giving-gifts to review (this will open a new window on your computer)

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