

Acceptance in Lieu Guidance Notes

Would you like to make a contribution to the nation's heritage when paying inheritance tax?

The Acceptance in Lieu (AIL) scheme enables taxpayers to transfer works of art and important heritage objects into public ownership while paying tax. This note outlines the purpose and process of the scheme, identifying the benefits to potential offerors and receivers (museums, galleries, libraries and archives).

What kinds of object are relevant to the scheme?

HM Revenue & Customs may, with the approval of the appropriate Minister, accept works of art, manuscripts, heritage objects and historic documents in payment of inheritance tax (or its earlier forms: capital transfer tax or estate duty). Land and buildings can be accepted in lieu, but different rules apply.

These objects must be 'pre-eminent', in other words, of particular historic, artistic, scientific or local significance, either individually or collectively, or associated with a building in public ownership, such as a National Trust property, which will be expected to have open public access for at least 100 days each year.

Objects must be in acceptable condition.

How does the scheme work?

Offers in lieu are made to HM Revenue & Customs. They must be approved by the Secretary of State for Culture, Media and Sport (or the appropriate Minister in the devolved governments in Scotland and Wales) who is advised by Arts Council England's AIL Panel. The AIL Panel consists of independent experts who seek specialist advice on the object offered.

Guided by that advice, the AIL Panel recommends whether or not the object in question is pre-eminent and assesses its open market value. The AIL Panel's recommendations are made to the Secretary of State for Culture, Media and Sport (or the appropriate Minister outside England), who decides whether or not an object should be accepted.

Who can use the scheme?

Anyone who is liable for the payment of an existing inheritance tax bill can offer an object in part or whole payment of the tax. This is known as 'Acceptance in Lieu', hence the title of the scheme. All advice on pre-eminence, valuation, condition and allocation (except for the allocation of manuscripts) is managed by Arts Council England.

If you have an object which you would like to put forward, please write to HM Revenue & Customs, Inheritance Tax, Heritage Team, Ferrers House, PO

Box 38, Castle Meadow Road, Nottingham NG2 1BB. It would be helpful, although not essential, to send a copy to Anastasia Tennant, Senior Adviser, Collections and Cultural Property, Arts Council England, 21 Bloomsbury Street, LONDON WC1B 3HF

You should include the following:

- a valuation and justification of the valuation;
- an explanation of why the object is considered pre-eminent;
- a description of the object;
- at least three good quality colour photographs and a high resolution jpeg;
- details of where the object can be inspected and with whom inspection should be arranged;
- evidence that the offeror has good legal title to the object and details of its ownership between 1933-1945; and
- details of the occasion which gives rise to the payment of tax (send to HM Revenue & Customs only).

What happens next?

If your offer meets the basic criteria of the scheme, HM Revenue & Customs will formally refer it to the AIL Panel which, having regard to its annual threshold for AIL and gifts under the Cultural Gifts Scheme which is £40m and having consulted independent Expert Advisers, will make a recommendation to the Secretary of State. The Expert Advisers are generally museum or gallery curators, scholars or members of the art trade.

When assessing the valuation of an offer, the AIL Panel, guided by the advice, will take a view on whether it is acceptable, too high or too low.

Where will my object go?

All objects accepted under the scheme are allocated by the Secretary of State or appropriate Minister in the devolved governments to a public institution to ensure that public access is guaranteed to as many people as possible. You can make your offer conditional upon allocation to a specific institution. If the offer is made without a condition, institutions are invited to make an application for the object via advertisements on Arts Council England's website.

The AIL Panel takes into account any wishes which have been expressed before offering advice on appropriate locations.

Objects associated with a building

Often objects are offered which have a strong link with an historic building in public ownership, such as a National Trust property. These objects will be transferred to the owner of the building so that they can remain in, or return to, their historic setting, provided that there is sufficient public access.

Some objects are accepted for AIL because of their place in an important historic house in private ownership. Such objects have an additional significance from being seen within the context for which they were created or with which they are associated. In this case, the objects can remain *in situ* provided that conditions of security and public access are met. Ownership of the objects will pass to a public museum, but the objects will be lent back to the owner of the house where they will be displayed. It is the responsibility of the offeror to have identified and agreed such an arrangement in principle with a public museum before the offer is submitted.

Benefits for the offeror

In satisfying a tax liability, an offeror is able to apply a higher proportion of the value of an object if it is offered in lieu than if the same object is offered at auction. This is because of the 'special price' or 'douceur' which is available in these cases. For example, if, in order to settle a tax liability, an estate sells an object valued at £100,000 on the open market, inheritance tax is generally payable at a rate of 40%ⁱ and the estate receives £60,000. If the same object is offered in lieu, 25% of the tax that would have been payable is remitted to the estate, with the result that the object has a tax settlement value of £70,000. An object is, therefore, worth 17% more if it is offered in lieu of tax than if it is sold on the open market at the same price.

- HM Revenue & Customs cannot 'give change' if the 'special price' is higher than the tax you have to pay. But an institution may be prepared to pay you the difference if you make your offer conditional on the object being allocated to that institution.
- Interest on the amount of tax settled by the offer will normally stop running from the date of the offer.
- There is a reduction to the amount of tax payable on the estate and the object accepted is not brought into account in calculating the taxable estate.
- In certain cases the object can stay *in situ*, remaining an integral part of a collection, even though the ownership will have changed.

Benefits for the acquiring museum, gallery or library

- The primary benefit for a host/acquiring museum, gallery or library is that it receives an important object at no cost.
- Objects which may already have been on long-term loan can be acquired.
- In addition, objects of local interest can be retained, provided that they meet the criteria of the scheme.

What should I do next?

These guidance notes outline the main points of the scheme. Inevitably each case will be different. After reading this general guidance we suggest you contact us to find out more. Please contact:

Anastasia Tennant, Senior Adviser. Telephone: 020 7268 9553; e-mail: anastasia.tennant@arts council.org.uk or Catherine Higgs, Senior Manager, Cultural Property (AIL & CGS). Telephone: 020 7268 9567; e-mail: catherine.higgs@arts council.org.uk

Address: Collections and Cultural Property, Arts Council England, 21 Bloomsbury Street, LONDON WC1B 3HF.

We will undertake to deal with your query as quickly as possible and in any case to give you an initial response within 14 days.

If you are not satisfied with our level of service please contact the Head of Enquiries. If you want to do this in writing please address your letter to the Head of Enquiries, Arts Council England, 21 Bloomsbury Street, LONDON WC1B 3HF. The telephone number is 0845 300 6200, the telephone is 020 7973 6564 and the e-mail is enquiries@arts council.org.uk.

¹ From 6 April 2012 people who leave at least 10 per cent of their net estate to charity may be able to pay a reduced rate of Inheritance Tax of 36 per cent.