

Chancellor announces review of Inheritance Tax

In January 2018, it was announced that the Chancellor Philip Hammond has asked the Office for Tax Simplification (OTS) to look at ways of simplifying the inheritance tax (IHT) regime.

General Rule

Inheritance tax as we know it was introduced 1986, replacing the old Capital Transfer Tax regulations. The basic rule is that a deceased persons estate is subject to inheritance tax when the value of the estate at the date of death exceeds the £325,000 threshold (known as the 'nil rate band'). IHT is currently levied at 40%.

However, IHT is rather more complicated and, in effect, there are various different types of nil rate band allowances to factor in when considering whether a deceased persons estate may be subject to IHT. This makes the IHT regime particularly complicated.

Nil Rate Bands

For example, apart from ordinary nil rate band of £325,000, there is also the "transferrable nil rate band", the "residence nil rate band", the "transferrable residence nil rate band" not to mention the fiddly "downsizing" provisions. All of these different allowances and tax thresholds need to be considered when determining whether or not a deceased persons estate will pay IHT.

Gifts

In addition, there is a complicated set of rules related to lifetime gifting and IHT. The general rule is that the value of any gift made within 7 years of the date of death will be included as asset of the estate when calculating if and how much IHT is payable. However, there are various exemptions and allowances such as the annual gift exemption of £3,000, the small gift exemption of £250, and gifting out of surplus income. There are also rules about making gifts but continuing to retain a benefit from something given away. These exemptions and rules all need to be considered which can be complicated.

Review

As a result of the above and the obvious complexity, the OTS has been asked to review this in detail and a report is expected in Autumn 2018. The areas to be reviewed include issues such as the process around submitting IHT returns and paying any tax, gifting rules, reliefs and the wider IHT framework administrative as well as practical issues around routine estate planning, compliance and disclosure.

Further Advice

If you would like any more information or advice on IHT and/or related issues, please contact James Rousell on 01384 371622 or email j.rousell@wjclaw.co.uk