

The future of inheritance tax?

The annual political party conference “season” is well and truly upon us as the march towards the General Election in 2015 gathers pace. As ever, each of the main political parties will use the Conferences to set out their key election pledges with the hope of laying a solid foundation for the impending election campaign.

One issue which *may* be keenly debated is **inheritance tax** – that is the tax levied upon a person’s estate when they die.

Some may recall that it was the Conservative Party who initially muted a reform to the inheritance tax legislation in their 2010 Manifesto but, during the coalition negotiations, its pledge to raise the inheritance tax threshold for paying inheritance tax to £1million was scrapped.

Currently, inheritance tax is levied at a rate of 40% on estates valued at £325,000 for an individual and £650,000 for a married couple. So, for example, the estate of an individual worth £500,000 would be liable to an Inheritance tax liability of £70,000. If the same individual was worth £1million, then their estate’s tax liability would be £270,000.

A recent study has shown that Britain has one of the highest levels of inheritance tax in the world. Rising house prices, particularly in the south, have caused growing numbers of middle-income people to have the duty levied on their estates. This is no surprise if you consider that the average house price in the UK has reached £276,000 in England, and £499,000 in London (a rise of 19 per cent in a year in the capital).

It is predicted by the Office for Budget Responsibility that the number of estates paying Inheritance Tax is set to quadruple from just 2.6 per cent of those dying in 2009-10 to 10 per cent by the end of the decade. The consequence of this is that Treasury receipts from inheritance tax (IHT) are set to rise from £3.5billion in 2013-14 to £5.8billion in 2018-19.

There is a view, which seems to be gaining momentum, that that inheritance tax is an unjust or even “sneaky” tax. What was intended as a tax on the rich is now affecting normal hard working families proving yet another burden for those “squeezed”, hard-pressed middle classes, who have worked hard to build up assets to pass on to their families.

David Cameron has said he would “love” to fulfil his pledge on inheritance tax and earlier this year he indicated it would be revisited in the Tory 2015 manifesto. Reports also suggest that Nigel Farage’s Independence Party will call for inheritance tax to be abolished altogether; a pledge that will be included in their Election Manifesto.

Will Ed Miliband follow suit? This remains to be seen but he may have no choice if he continues to harbour ambitions of becoming Prime Minister.

It is perhaps optimistic but we could end up with a scenario where all of the main political parties support root and branch reform or even the complete abolition of inheritance tax. Wishful thinking? Maybe, but watch this space!

If you would like any advice on Inheritance Tax or related issues, contact James Rousell (j.rousell@wjclaw.co.uk)