WAY Investment Services Limited

# Where next for the future of Inheritance Tax?

Whatever we thought the future looked like at the beginning of the year, now we are over half-way through that view has changed substantially. Lockdown measures are easing, but the path may turn out to be anything but smooth. Meanwhile, the Government's pile of bills is looking simply enormous, and growing following the Chancellor's recent £30bn stimulus package.

At some point the process of paying back those bills needs to kick in. The Institute of Fiscal Studies says the economy will remain in a "support and recovery" phase for some time, but higher taxes are inevitable. The next Budget is now expected in the Autumn. The Government will need to consider what tax changes could increase revenue as quickly as practically possible, yet without too much political unease. It is undoubtedly a difficult balance. There have been indications that tax rises should be targeted at those most able to pay, but schemes that become too targeted could result in those affected making additional efforts to reduce their liabilities.

Those working in estate planning will be well aware that discussions of reform to inheritance tax (IHT) are not new. Prior to the pandemic, two major reviews took place. The Office of Tax Simplification (OTS) published its review in two halves – in November 2018 and July 2019 –suggesting a number of changes to the gifting rules. In January 2020, The All-Party Parliamentary Group for Inheritance & Intergenerational Fairness (APPG IIF) published its own report into reforms of IHT*, recommending a tax on lifetime and death transfers of wealth, with very few reliefs and a lower flat rate of between 10% and 20%. If enacted, such changes would have profound implications for estate planning.

Business Property Relief (BPR) also came under the spotlight in both reviews. Though the subject of much marketing spend, the long-term forecast for BPR is uncertain. Bill Dodwell, co-author of the OTS report, said to the FT: "We think Aim is the only market in the world where investors can receive an inheritance tax benefit… Supporting a market in this way is a different policy objective from supporting passing a business down the generations."** BPR is also somewhat out of step with other exemptions for IHT – although it is worth noting that such assets are not, in fact, outside the estate after they have been held for two years: they have only qualified for potential IHT exemption. Entitlement to claim IHT relief depends on HMRC's assessment of whether or not the company shares or assets still qualify for BPR on the demise of the investor, which may be decades after the original investment.

The sensitivities of inheritance tax have been recognised. Changes could take place over a transition period, allowing people time to adjust and even make changes to their Wills. It is also worth remembering that the record-breaking IHT receipts of £5.4 billion in 2018-19 accounted for less than 1% of total tax revenue. Clearly, even substantial changes to IHT are not going to fix the country's financial problems. But the Treasury is certainly going to have to look to multiple fronts to regain revenue, and every penny is going to count.

We cannot second-guess, with any level of certainty, what is coming next. In the meantime, the principles of well-researched financial advice remain as strong as ever. Advisers can only ever guide their clients through recommendations based on today's rules. But with tax changes almost inevitable, there is no time like the present to put plans into action.

* https://www.step.org/sites/default/files/media/files/2020-05/STEPReform_of_inheritance_tax_report_012020.pdf
** https://www.ft.com/content/d787b332-9e54-11e9-9c06-a4640c9feebb

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