

## Inheritance tax - potential reform or abolition?

Synopsis: The chances of IHT abolition or reform.

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Over the past few months there have been a few headlines indicating that the Government could be considering the abolition or reform of inheritance tax (IHT). Importantly, nobody representing the Government has made any “on the record” comment on the future of IHT and certainly not on any hard plans for its removal from the statute books.

IHT has also been conspicuously absent from any recent commentary on Labour’s taxation plans. Yes, the Shadow Chancellor has stated that Labour will be looking to reform the rules on non-dom taxation (which would almost certainly include some aspect of IHT reform) and has also said that they would not introduce a Wealth Tax, but nothing directly has been set out on IHT.

IHT was only relevant for around 4% of estates in 2020/21, a proportion which the Institute for Fiscal Studies [projects](#) will rise to 7% by 2032/33. Given that limited impact, it seems unlikely that abolition or even reform would be anywhere near the top of the “to do list” for the Labour Party.

And, for both Parties, there is the inescapable fact that, while IHT is currently **generating** only around £7.5bn p.a., it is still £7.5bn that would have to be found somewhere else by a “financially responsible” Government, were the tax to be abolished. The state of the public finances and the growing demands on public services leave no real alternative.

Ahead of the election, self-evidently, only the Conservatives could *abolish* the tax.

Superficially this might look like a vote winner, as the tax regularly polls as the most hated. However, the potential beneficiaries of abolition may well be those who would vote for the Conservatives anyway and there would be the negative press around giving up £7.5bn of revenue to benefit such a small (and comparatively wealthy) part of the overall population.

The current Chancellor has also been relatively vocal about public finances and the need to act responsibly, meaning that now is not the time to be considering tax cuts. The current Autumn Statement rumours suggest its focus will be on generating growth and implementing spending efficiencies – without returning to (Lord Cameron’s) austerity.

So, whoever wins the election next year, in the near term, *abolition* looks unlikely. It may, however, be a long -term aspiration of the Conservatives.

So how about *reform*?

Well, plenty has been said (and many suggestions made) about potential reform

over the past five or six years. In 2019 and 2020 there were three lots of suggestions for IHT reform. In brief they came from...

- The Office of Tax Simplification (OTS) – a Treasury construct but no longer in existence.

Apart from some common sense administrative reforms, the two OTS reports (November 2020 and July 2021) contained nothing too radical. Notable proposals included the reduction of the seven year cumulation period to five years, abolition of taper relief, moving to a single “consolidated” annual gift exemption and scrapping tax free capital gains tax (CGT) revaluation on death.

None of these non-administrative reforms were adopted by or progressed by the Chancellor at the time, one Rishi Sunak.

- The All Party Parliamentary Group for Inheritance and Intergenerational Fairness (APPGIIF) - no longer in existence.

A report issued in January 2020 suggested the following...

Introducing a single annual gift exemption of £30,000, abolishing normal expenditure out of income relief, retaining the nil rate band, abolishing business and agricultural relief and dropping the IHT rate to 10%/20%.

None of these suggestions were adopted.

- The Institute for Public Policy Research (IPPR).

In a report published in September 2019, the IPPR proposed a single lifetime cumulative gift allowance of £125,000 and all capital receipts from transfers made during lifetime or one death to be taxed on the donee as income - effectively, the introduction of an income tax based donee basis of taxation. The Resolution Foundation has also recently made similar proposals.

None of these suggestions were adopted.

- The Institute for Fiscal Studies (IFS). In September this year they published a report proposing...
  - Business relief capped or abolished;
  - Agricultural relief capped or abolished;
  - Defined Contribution pension funds no longer IHT free;
  - Residence Nil Rate Band abolished.

With these changes (the business relief change on a capped as opposed to a fully abolished basis) the IFS projected that, to remain revenue neutral (i.e. no drop in the IHT yield) the Government could afford to...

- Increase the nil rate band to £525,000; or
- Reduce the IHT rate to 25%.

There has been no official comment on these suggestions.

So where does this leave us in relation to potential reform – as opposed to complete abolition?

Well, clearly there is no shortage of suggestions and options that could be considered and no one could rule out a future fundamental review of and consultation on capital taxation reform – including CGT - something that has had some support in the past.

However, given the current list of more urgent and important issues to address, it is difficult to imagine this being anywhere near the top of the “Tax Action” agenda of whichever Party wins the election.

Of course, we may (or may not) get a little more clarity on the respective proposed “directions of travel” when we see the Manifestos – and maybe even (at least in relation to longer term aspirations) within the Autumn Statement or Spring Budget.

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