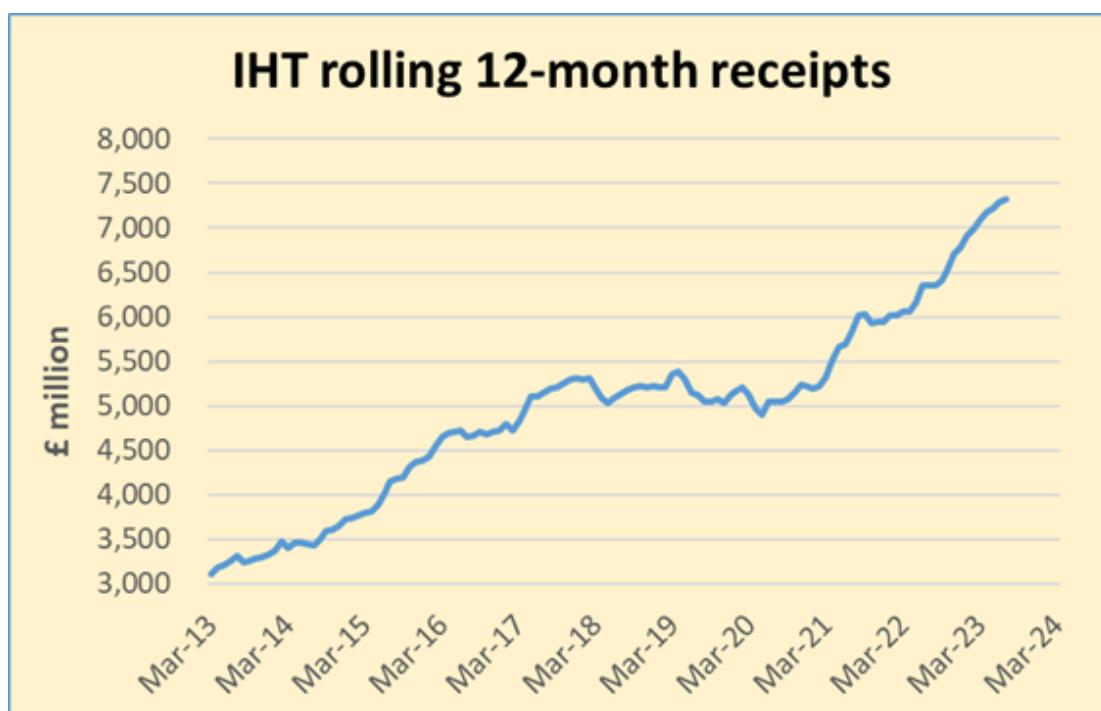


IHT receipts carry on increasing

Synopsis: Details of IHT receipts for July 2023 and statistics on the performance of IHT up to 2020/21 .

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According to HMRC's latest [statistics](#), inheritance tax (IHT) receipts for July 2023 were £603 million, which is considerably higher than July 2022's figure of £570 million. And receipts for the first four months of this tax year (April to July 2023) total just over £2 billion, which is more than £0.2 billion higher than in the same period a year earlier.



The above chart contains 12-month rolling receipts since March 2013. Receipts for the 12 months to July 2023 were £7.323 billion. That is considerably higher than the equivalent figure for the 12 months to July 2022, which was £6.347 billion.

The Office for Budget Responsibility (OBR)'s latest [Economic and fiscal outlook](#) – published on 15 March 2023 - forecast the following IHT receipts for the current tax year and future tax years: £7.2 billion for 2023/24 and the same again for 2024/25; £7.4 billion for 2025/26; £7.8 billion for 2026/27; and £8.4 billion for the following year, 2027/28.

Interestingly, the latest [statistics](#) published by HMRC on the performance of IHT, reveal that, while IHT receipts continued to rise to that point, the percentage of estates paying the tax remained relatively stable. Only 3.73% of deaths in 2020/21 resulted in the payment of any IHT.

The total value of IHT liabilities created in respect of deaths in 2020/21 increased by 16% to £5.76 billion compared to the previous year, but the number of deaths also rose by 18%, which was the first year of the coronavirus pandemic.

The payment of the IHT is lagged by at least six months from the creation point (normally date of death), so the tax paid in 2021/22 will reflect deaths in 2020/21. (Actual IHT receipts in 2020/21 were much lower, at £5.3 billion.)

The percentage of estates that are liable to pay IHT has remained relatively stable at around 3.75% for the three years to 2020/21, down from a peak of 5.96% in 2006/07 (please see [figure 2 of IHT statistics commentary](#)). This stability is likely to be due to the roll-out of the residence nil rate band (RNRB), which can shelter up to £175,000 of the value of a home left to direct descendants from IHT.

It is often said that the increase in property values drags more estates into IHT. That is likely to be true for estates valued up to £500,000, as around 60% of the assets in those estates are comprised of residential property (please see [figure 4 in IHT statistics](#)). Larger estates hold greater proportions of shares, cash and other assets. The value of those shares/other assets can also increase, of course, and drag more estates into IHT.

There are two main reasons why a deceased person's estate may not give rise to an IHT liability...

- The assets have been diminished during the person's lifetime due to care home fees, gifts (that have fallen out of account for IHT) or other spending (not on assets that would be included in the estate).
- The various IHT exemptions that apply.

The most widely used exemption is the transfer of value to a spouse or civil partner on death or during lifetime. These transfers are completely free of IHT if the recipient is UK-domiciled. In 2020/21, this exemption covered £15.7bn of assets transferred on death.

The basic IHT nil rate band (NRB) has been frozen at £325,000 since April 2009. However, any unused NRB can be transferred to the surviving spouse or civil partner, allowing the survivor to benefit from a NRB of up to £650,000 on their death. The RNRB reached its full planned value of £175,000 in 2020/21 and it is also transferable to the surviving spouse or civil partner, to the extent that it is not used on the first death.

The combination of the NRB and RNRB potentially means that married couples/civil partners, with a main residence worth at least £350,000, will be able to leave a total estate of £1m before any IHT is payable. (Although, note that the RNRB will generally only be available to the extent that a qualifying residential interest is inherited by direct descendants).

Business relief and agricultural relief are two valuable IHT exemptions covering assets used for business purposes. These two exemptions covered £4.2bn of assets

in 2020/21, which is a 51% increase compared to 2019/20. The Office for National Statistics stated that £1.3bn of this increase was due to business relief, while the value of agricultural relief increased only by £91m.

However, this may change next year as, for transfers from 6 April 2024, the exemptions under agricultural relief and woodlands relief will not apply where the land or farming business is situated outside of the UK.

Some 81% of IHT came from estates valued at £1m or more in 2020/21. However, only 27,000 estates had any IHT liability at all for 2020/21.

Nevertheless, the current, and predicted, high IHT receipts, which are considerably higher than the £5.326 billion received in 2020/21, should serve as another reminder of the importance of IHT planning and of making full use of any IHT exemptions and reliefs available. It has been calculated that the freeze in IHT thresholds is set to cost couples around £170,000 by 2028.

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