

IHT receipts still on the rise

Synopsis: IHT - new annual HMRC statistics published for 2021/22.

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HMRC's [publication](#) details a rise of inheritance tax (IHT) liabilities for the 2021/22 tax year of £0.23 billion (4%) compared to the previous year, resulting in an overall IHT take of £5.99 billion. This was the highest on record.

HMRC attributes this to a combination of higher volumes of wealth transfers following recent IHT-liable deaths, recent rises in asset values, and the previous Government's March 2021 and Autumn 2022 decisions to maintain the IHT tax free thresholds at their 2020/21 levels up to and including 2027/28.

Interestingly, the Office for Budget Responsibility (OBR)'s latest [Economic and fiscal outlook](#) – published in March 2024 - forecasts continuing growth in IHT receipts, with the predicted increases trending higher as follows: £7.5 billion for 2024/25 (£0.1 billion more than in March 2023's Economic and fiscal outlook) £7.7 billion for 2025/26 (£0.3 billion more than in March 2023); £8.2 billion for 2026/27 (£0.4 billion more than in March 2023); £9.0 billion for 2027/28 (£0.6 billion more than in March 2023) and £9.7 billion for the following year.

According to the latest statistics, in 2021/22, 4.39% of UK deaths resulted in an IHT charge, increasing by 0.66 percentage points since the previous tax year. This proportion is now at its highest level since the 2016/17 tax year. It's likely that the phased introduction of the Residence Nil Rate Band (RNRB) from 2017/18, increasing by £25,000 annually in each year to 2020/21, broadly offset the impact of rising asset prices, leaving the proportion of estates subject to an IHT charge broadly flat in recent years. However, the RNRB has since been maintained at that level up to and including the 2027/28 tax year, opening the potential for more deaths to be drawn into an IHT liability.

2021/22 was the first year after the RNRB reached its full amount of £175,000 and 25,800 estates used it, thereby sheltering £6.5 billion of chargeable estate value from an IHT charge. This was a rise of £0.4 billion and 600 estates compared to 2020/21.

By eliminating IHT liabilities that would otherwise have been due on smaller estates, the RNRB has also led to a marked increase in the overall average IHT bill, at £215,000, up by £40,000 since 2016/17.

Despite the headline marginal rate of IHT being 40%, the average effective tax rate (AETR) for 2021/22 was 13%, for all 27,800 taxpaying estates; around one-third of the headline rate. This is due to the combination of tax-free allowances, exemptions, and reliefs used by taxpaying estates to minimize the chargeable portion of their estate.

This showcases why Gordon Brown once called IHT a "voluntary tax" because of the numerous ways to avoid it. It also demonstrates how the very largest taxpaying

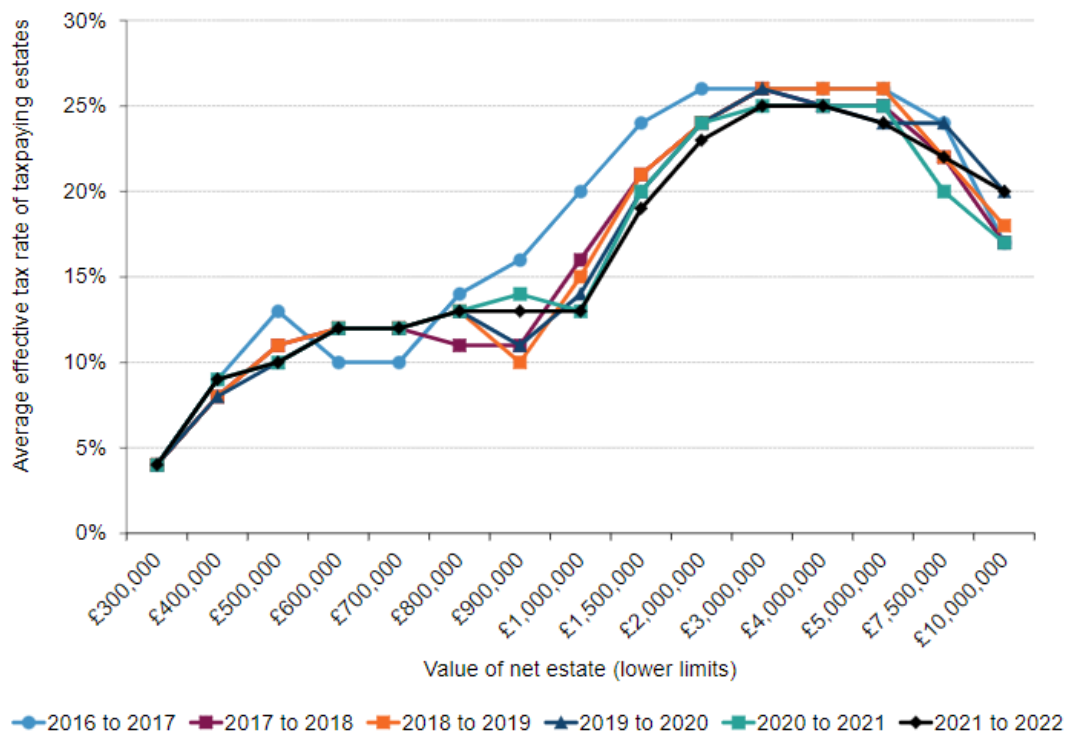
estates make proportionately greater use of the available exemptions and reliefs: Initially, AETR in 2021/22 was lower for smaller taxpaying estates, rising gradually as the value of the net estate rose, reaching 13% for estates valued at between £1 million and £1.5 million.

For estates valued at more than £1.5 million but less than £2 million, the AETR rose to 19%, likely as a result of these estates exhausting their available tax-free allowances, with a greater share of their estates being subject to tax than estates that are smaller. The tapering of the RNRB by £1 for every £2 that the estate exceeds £2 million in value, is one reason why the AETR for taxpaying estates valued at between £2 million and £7.5 million was larger, at an average of 24% in the 2021/22 tax year.

However, the AETR for the largest taxpaying estates in 2021/22 was lower than for those estates valued at between £2 million and £7.5 million – at 22% and 20%. This is because such estates often make proportionately greater use of available exemptions and reliefs, such as business relief (BPR), than those estates that are smaller.

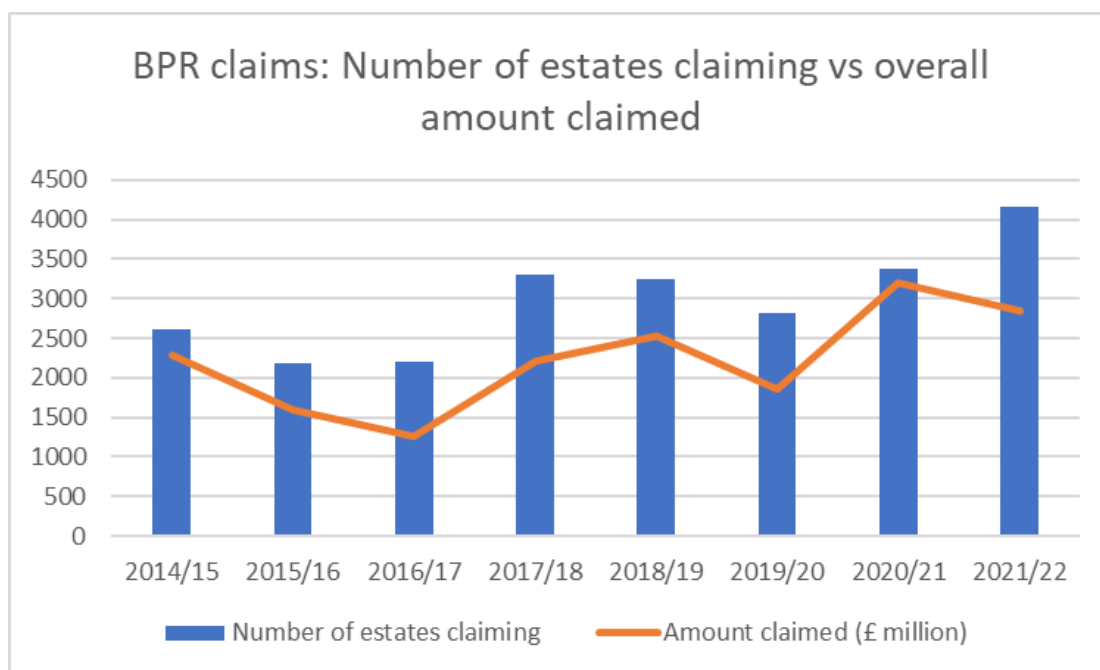
While there is some variation in the level of AETRs, depending on the tax year and from the impact of the RNRB, HMRC analysis of the tax years 2016/17 up to 2020/21 displays a similar trend.

Figure 3: Average effective tax rate (AETR) for taxpaying estates, tax years 2016 to 2017 up to and including 2021 to 2022



The largest exemption set against assets continues to be for transfers between spouses and civil partners, valued at £15.5 billion in 2021/22, a fall of £0.2 billion (1%) on 2020/21. This exemption was used by 21,800 (34%) estates above the nil-rate band (NRB) in 2021/22 and was worth 68% of the total value of reliefs and exemptions set against assets.

In 2021/22, the combined value of agricultural relief (APR) and BPR was £4.4 billion, an increase of £0.2 billion (5%) compared to 2020/21. While the value of BPR fell by £0.4 billion (11%), the number of estates claiming the relief rose from 3380 in 2020/21 to 4170 in 2021/22. While the number of estates claiming the relief has varied fairly over the last decade, there is not necessarily a consistent correlation between that number and the overall amount of relief claimed. However, the general overall trend of an increasing number of estates claiming suggests growing awareness and use of BPR.



Source: Table 12.2, HMRC annual IHT statistics for 2021/22 published July 2024

In 2021/22, the value of APR rose to more than offset the drop in value of BPR claimed, by £0.6 billion (54%).

IHT liabilities attached to trusts do not account for a significant proportion of IHT receipts for HMRC and the values have been dropping over the last three to five years:

The net chargeable value of taxable transfers into trusts has remained at around £60 million between the tax years 2009/10 and 2022/23. HMRC collects relatively small amounts in tax from entry charges - an average of less than £10 million a year over the period and only £2 million in 2020/21. The tax liability for trusts paying the ten-year anniversary charge in 2022/23 was £38 million and just £8 million was collected by HMRC in relation to the net chargeable value of taxable transfers out of trusts.

One reason for the reduction in these IHT liabilities is that the number of trusts and their value has fallen. This could be a consequence of the 2006 trust reforms to tackle tax avoidance using trusts. As part of this package, IHT charges were applied to some types of trust to counter the use of trusts as a means of sheltering wealth. The reduction in assets held in trust may reflect a number of older existing trusts coming to the end of their natural life and a lack of new ones being created.

Another consideration may be the growth in awareness and use of BPR, as BPR qualifying assets that are settled into trust are not subject to entry charges, ten-year anniversary charges, or exit charges provided the qualifying requirements are satisfied.

These statistics, along with the current, and predicted future, high IHT receipts should serve as another reminder of the importance of IHT planning and of making full use of any IHT exemptions and reliefs available.

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