Centre for Policy Studies

Pointmaker

HOW TO CUT INHERITANCE TAX

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SUMMARY

- Inheritance Tax is levied at 40% of the value of estates worth above £325,000 upon the death of an individual. 91 exemptions and reliefs, most notably for spouses, reduce the effective Inheritance Tax Rate.
- The UK faces one of the highest effective inheritance tax rates of any country in the developed world.
- It is also a burden which is set to grow: without a change in policy, 11.6% of all deaths will be subject to a 40% inheritance tax rate by 2020.
- The Government's proposal to exempt the family home through a higher threshold is a welcome recognition of the burden of the tax. However, it could add further distortions and complexity to the tax system.
- The system of 91 inheritance tax reliefs is highly complex and presents numerous opportunities for tax avoidance.
- Approximately 40% of estates valued at £1 million or more at death pay no inheritance tax.
- Between 1999/2000 and 2012/13, the cost of Agricultural Property Relief and Business Property Relief grew by 206% and 160% in real terms compared to a 10% increase in Inheritance Tax revenue.
- A better way to reform Inheritance Tax would be to cut the rate from 40% to 20% by ending these two reliefs. If implemented with the planned reduction in pension tax relief for higher earners, the effect would be cost neutral (on a static basis) to the Exchequer.
- The Government should also task the Office of Tax Simplification to review all remaining inheritance tax reliefs, with the aim of abolishing all those reliefs which merely add complexity and avoidance opportunities.

INTRODUCTION

Inheritance Tax is levied upon the death of an individual whose estate, including property, money and other possessions, is valued at more than £325,000. The tax should be paid by six months after death although this can be extended to ten years after death to allow time for the sale of items such as properties. The Inheritance Tax rate is set at 40% of the value of the estate above the threshold. If the estate is worth less than the £325,000 threshold, then upon death, the remaining threshold can be transferred to a spouse. This means that the value of the surviving spouse's estate can be as high as £650,000 before the inheritance tax is levied.

Under its previous incarnations of the Estate Duty and the Capital Transfer Tax, the Inheritance Tax threshold was initially set at £100 in 1914.[1] It remained at £100 until 1946 at which point it was raised to £2,000 and it increased periodically until it reached £50,000 in 1980. From 1980 onwards, the threshold was increased almost every year until it reached £325,000 in April 2009. The threshold has since then been frozen at that level and is expected to remain so until 2017/18.[2]

Inheritance Tax does not have to be paid on gifts which are given more than seven years before the death of the owner of the assets. Gifts which are given between three and seven years before death are subject to reduced rates of the tax if their value is greater than the £325,000 threshold. This is called the seven year rule.

1. REVENUE

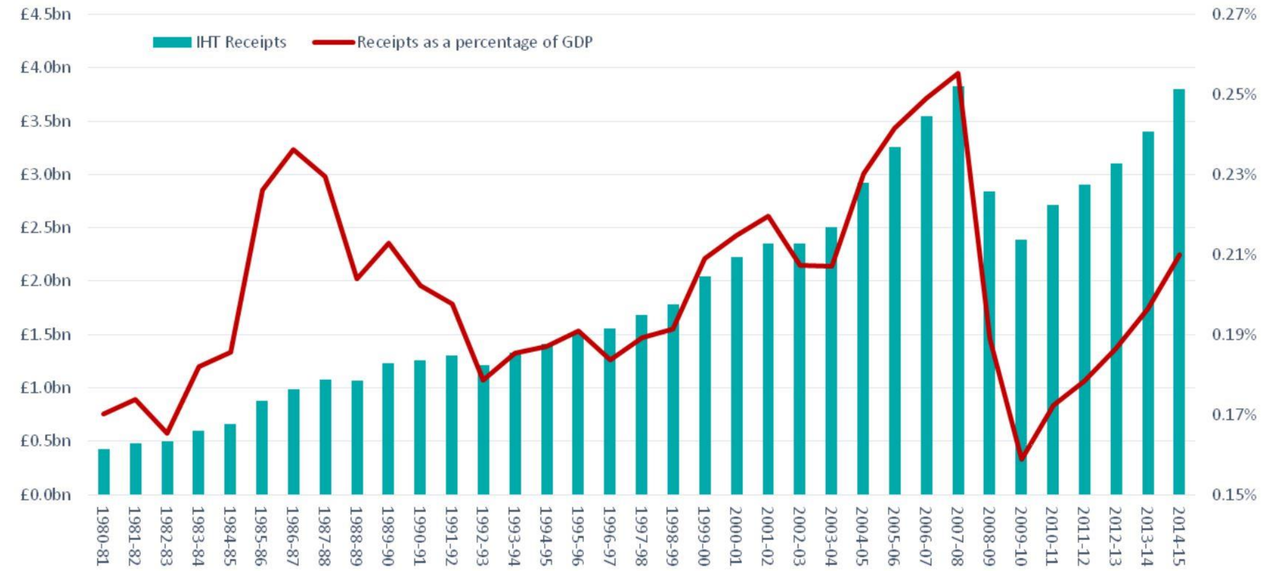
Inheritance Tax revenues have also proven to be cyclical[3] and grew consistently in nominal terms and as a percentage of GDP during the pre-crisis boom. In 1992/93 inheritance tax generated little more than £1 billion and 0.18% of GDP but by 2007/8 this had increased to £3.8 billion and above 0.25% of GDP. This was largely because of significant growth in asset prices such as residential property and equities over the period.

1 HMRC, *Inheritance Tax Thresholds*, April 2015.

2 The Telegraph, *When will the inheritance tax threshold rise?*, October 2014.

3 HMRC, *HMRC Tax & NIC Receipts: Monthly and annual historical record*, May 2015.

Figure 1: Inheritance Tax Receipts



Source: HMRC, *HMRC Tax & NIC Receipts: Monthly and annual historical record*; page 17, May 2015.

However, the tax receipts fell to £2.8 billion in 2008/9 and then again to £2.4 billion in 2009/10. This is because of the introduction of the Transferable Nil-Rate Band which allowed married couples and civil partners to share their tax thresholds as well as the fall in asset prices caused by the financial crisis.

Since 2009/10, revenues have recovered from £2.4 billion and approximately 0.16% of GDP to reach £3.8 billion and 0.21% of GDP in 2014/15. This is because of the freeze in the threshold as well as the growth in asset prices which have meant more households have become subject to the tax.

2. TAX RELIEFS

Alongside the inheritance tax free threshold and the exemption of transfers on death to surviving spouses, there are a number of tax reliefs which enable some assets to be exempt from the tax or have a reduced bill. As well as numerous minor reliefs, there are three major tax reliefs: Agricultural Property Relief (APR), Business Property Relief (BPR) and the exemption of transfers to charities. According to the Office of Tax Simplification (OTS),[4] there are 91 inheritance tax reliefs in total; although only 13 of those are significant enough to have cost data.[5]

APR enables people to pass on agricultural property such as land used for growing crops without paying inheritance tax or receiving a 50% discount on the bill. BPR allows for a reduction[6] in the value of a business or its assets of 100% or 50% when calculating the amount of inheritance tax which should be paid. This can include property and buildings, machinery as well as unlisted shares. The rationale for both tax reliefs is to support business continuity and the continuity of farming businesses in particular by making it less likely that properties need to be split to pay the inheritance tax. Nevertheless, as the National Audit Office (NAO)[7] points out, these tax reliefs are commonly cited by businesses offering tax planning services as relatively straightforward ways legally to reduce inheritance tax bills.

There are many other minor reliefs and exemptions which significantly add to the complexity of the tax. For example, Woodland Relief means that the value ascribed to the timber in woodlands is excluded from the calculations of the value of an estate. However, the person who inherits the woodland might have to pay inheritance tax when the timber is sold; unless of course it can qualify for APR or BPR. Heritage assets such as historic buildings and art can be exempt of inheritance tax if they are open for public viewing. Wedding gifts from parents of up to £5,000 each in value are exempt but gifts from grandparents are only exempt for values up to £2,500 and gifts from others exempt for values of up to £1,000. These limits have not changed since 1975.[8] It is clear that the inheritance tax relief system is in great need of updating and simplifying.

3. INTERNATIONAL COMPARISONS

The UK has one of the heaviest inheritance tax burdens across developed economies. By some estimates, the effective inheritance tax rate in the UK is more than three times the global average and more than double the EU average.[9] The main

4 OTS Blog, *Finance Act 2015 – new tax reliefs*, March 2015.

5 NAO, *Tax Reliefs*, April 2014.

6 Gov.uk, *Business Relief for Inheritance Tax*, February 2015.

7 NAO, *Tax Reliefs*, April 2014.

8 OTS, *Review of tax reliefs: Final report*, March 2011.

9 UHY Hacker Young, *UK and Ireland have the highest death duties of all major economies*, March 2014.

inheritance tax threshold in the US, is approximately ten times higher than it is in the UK and thus fewer families are subject to the tax. Elsewhere, countries such as Sweden and Australia have abolished the tax and countries such as China and India have never introduced it. Across the European Union, the UK also has one of the highest effective rates of inheritance tax.[10] It also seems that across the European Union, the effective taxation of inheritance is falling.

The UK does not compare well across the G7 economies when looking at the average inheritance tax rate. There are of course many reliefs, exemptions and discounts which alter the actual burden of inheritance tax. However, including the main tax free threshold or exemptions for children but ignoring other reliefs shows that at most estate values, the average inheritance tax rate is higher in the UK than every other G7 country apart from France. France has kept the main threshold frozen[11] and Japan has recently significantly cut the threshold and introduced a new[12] highest marginal rate of 55%. After converting the separate currencies into sterling, it is clear that the UK, France and Japan have higher average tax rates compared to Germany, the US and Italy. Canada has no inheritance tax.

With an estate worth £1 million, the average tax rate in the UK is 27% compared to approximately 22% in Japan, 8% in Germany, 1% in Italy and nothing in the US and Canada. Only France has a higher average inheritance tax rate of 32%. Of course, using different exemptions might give slightly different results but it is clear that the average inheritance tax rate is high compared to other developed economies.

Other research carried out by Nippon.com using data from the Japanese Ministry of Finance also shows that the effective inheritance tax rate in the UK is one of the highest in the G7. Converting Yen into Sterling and assuming that a spouse and two children inherit the estate shows that the UK has at times the highest effective rate.

4. THE BURDEN OF INHERITANCE TAX

Inheritance Tax is a complicated, unfair and at times arbitrary tax. It strikes at the basic human

10 EC Directorate General Taxation and Customs Union, *Study on Inheritance Taxes in EU Member States and Possible Mechanism to Resolve Problems of Double Inheritance Taxation in the EU*, May 2011.

11 Kentingtons, *French Tax Rates 2015*, December 2014.

12 Nippon.com, *The Burden of Inheritance: An Already High Tax Expands Its Reach*, January 2015.

Figure 2: G7 Average Inheritance Tax Rates

Estate Value	£100,000	£250,000	£500,000	£1,000,000	£2,000,000	£5,000,000
UK	0.00%	0.00%	14.00%	27.00%	33.50%	37.40%
US	0.00%	0.00%	0.00%	0.00%	0.00%	11.61%
Germany	0.00%	0.00%	4.09%	8.34%	13.67%	16.44%
France	3.97%	13.59%	17.20%	31.77%	34.61%	40.84%
Italy	0.00%	0.00%	0.00%	1.06%	2.53%	3.41%
Canada	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Japan	0.00%	1.16%	9.39%	22.18%	33.41%	45.00%

Source: *CPS Analysis.*

instinct to pass on our possessions to our loved ones and especially our children and close family members. Money which has already been taxed before as income and savings through income tax, dividend tax and capital gains tax, is subject to yet another round of tax. This is particularly galling after decades of hard work and it can force families to break up their homes and other assets simply to pay the taxman.

People work, save and invest not only to improve their own lives but also the lives of their children, grandchildren and others. Inheritance tax has a destructive influence on that natural process and hurts families that are at their most vulnerable when a family member has died. The tax damages the incentive to save and accumulate capital and can ultimately deter entrepreneurship[13] and economic growth. This is because it reduces the funds available to deliver for new business financing. Many businesses which are just starting up rely on a pool of private capital because of the expense and scarcity of bank lending and other formal external sources of finance. Inheritance tax shrinks this pool of available capital.

At the moment, the 40% marginal Inheritance Tax rate is paid by families who cannot simply be dismissed as being of the super-rich. In 2014/15, the number of deaths which were subject to inheritance tax had increased to approximately 35,100 deaths which accounted for 6.4% of all deaths. The proportion of estates which are subject to the tax is rising sharply as a result of higher house and asset prices and the freeze in the threshold. The Office for Budget Responsibility forecasts[14] that if the threshold remains at £325,000, then the number of people having to pay inheritance tax will almost double over the next five years to reach 64,100 and 11.6% of all deaths in 2019/20. Over the same period, inheritance tax receipts are forecast to rise from £3.8 billion to £6.4 billion.

There are several important points which must be drawn from this:

- First, an ever larger number of families will be dragged into inheritance tax for the first time in the absence of measures to raise the threshold.
- Second, these families are paying the tax through no fault of their own but largely because of rapid house price growth. Land Registry Data[15] shows the average house price across the country grew by 5.1% in the year to April 2015 to reach £180,000.
- Third, the burden of the tax is being most keenly felt in London and the South East which have seen house prices rise by 10.9% and 8.8% over the last year to reach average prices of £475,000 and £244,000 respectively.
- Fourth, the UK is becoming increasingly dependent on inheritance tax revenue to help reduce the budget deficit.
- Fifth, the current system distorts normal behaviour by encouraging people to avoid the tax through use of tax reliefs, exemptions and the seven year rule on gifts. Those who can afford to do so, spend time and money to game the system to reduce their tax bills. That is more likely to favour the "super-rich" rather than middle-class families.

13 Schäfer & Talavera, *Small-Scale Business Survival and Inheritance: Evidence from Germany*, September 2006.

14 OBR, *Economic and fiscal outlook*, March 2015.

15 Gov.uk, *Land Registry: House Price Index*, April 2015.

- Finally, this means that abolishing the tax entirely without replacing it with another tax would be increasingly difficult.

It should also be noted that Inheritance Tax is also deeply unpopular: a YouGov poll conducted at the time of the March 2015 Budget[16] found that supporters of the four main parties, including Labour supporters, consider inheritance tax the most unfair tax of those listed, see Figure 3.

5. GOVERNMENT PROPOSALS

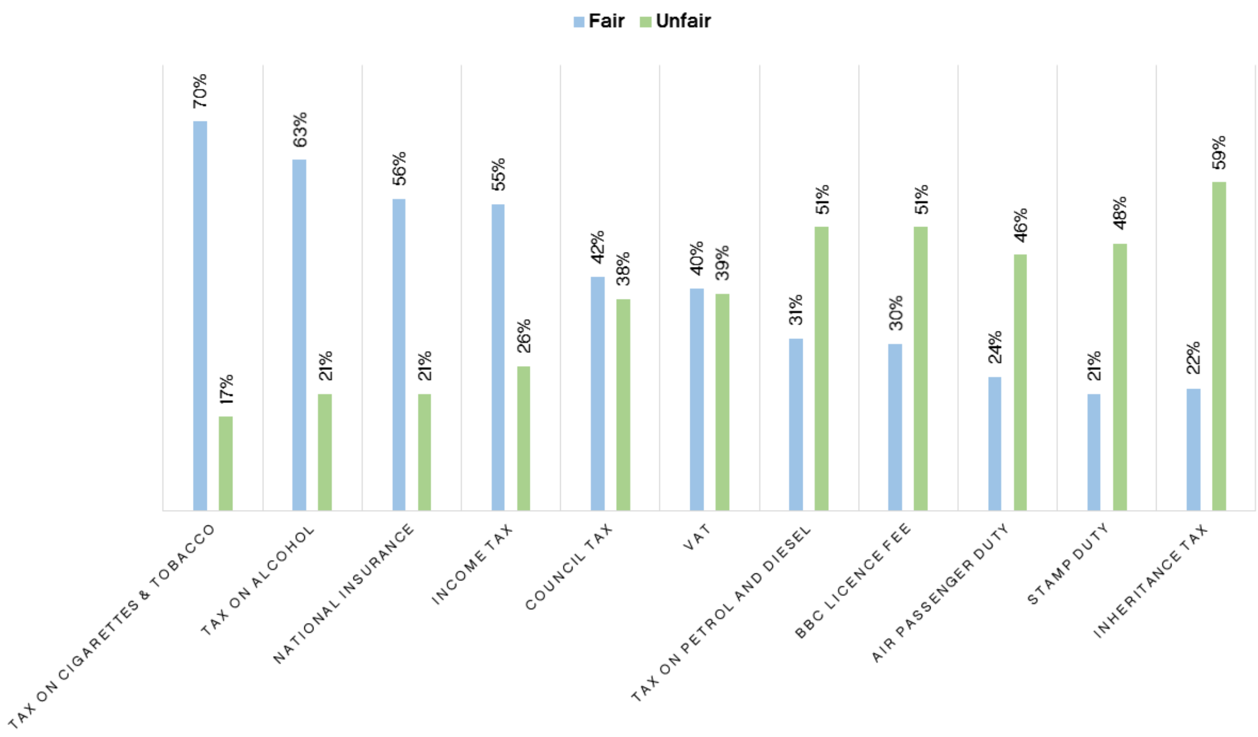
The seven year rule for gifts applies if somebody passes on their home to their children before dying. Yet, if somebody gives their family home as a gift but continues to live in it without paying rent for more than seven years before dying, then it will still be subject to inheritance tax. Money given to children from selling a home is also subject to the seven year rule. If a bereaved spouse owned the home as a joint tenant, then they automatically inherit the other share of the house.

In order to try to protect the family home from inheritance tax, the Government has proposed introducing a new £175,000 per person transferable allowance for an individual's main residence if it is passed on to children or grandchildren. This would give a total allowance of £1 million but will be tapered away between £2 million and £2.35 million. This is estimated to cost around £900 million a year by 2019/20 and is expected to be paid by reducing pension tax relief for higher earners.

This proposal is a step in the right direction because it recognises the need to reduce the burden of the tax on households especially for

16 YouGov, *Voters in all parties think inheritance tax unfair*, March 2015.

Figure 3: Tax fairness: % who say each of the following taxes are fair or unfair



Source: YouGov, *Voters in all parties think inheritance tax unfair*, March 2015.

those in London and the South East who have seen rampant house price inflation drag their families above the threshold. It will mean that fewer families will have to break up their homes to pay the tax and it is estimated that 20,000 families a year[17] will no longer have to pay the tax. The aim is to keep the proportion of estates subject to the tax closer to 6% rather than above 11% which is the current trajectory by 2019/20.

However, there are some problems with this proposal. There is a risk that by giving preference to residential property, it will lead to a misallocation of resources by encouraging people to concentrate their wealth in housing instead of more productive assets. This could contribute to a further growth in house prices which would make it more difficult for first time buyers. In addition, this proposal would inhibit the normal process of elderly households moving to a smaller property as they grow older. That might exacerbate structural housing problems. There is also the broader issue that the proposal would essentially treat estates of the same value differently.

6. BROADER BASE AND LOWER RATE

The Government should instead seek to simplify the existing inheritance tax system by eliminating reliefs and cutting the rate. This would represent a significant simplification of the inheritance tax system, reduce the burden for families who have to pay the tax and reduce opportunities for tax avoidance. This would also mean cutting inheritance tax without the problems that come with privileging one asset class over others.

There are currently a number of inheritance tax reliefs which can be eliminated to fund the reduction in the tax rate. Of these, the most important are APR and BPR. Unlike most other taxes, the amount of inheritance tax relief significantly exceeds the total revenue which is collected from the tax even if we ignore the tax free threshold. Cutting the tax rate significantly will reduce the incentive to spend time and money on tax planning and avoidance measures.

There are a number of compelling reasons to eliminate inheritance tax reliefs. Firstly, many of the very wealthiest individuals are able to minimise or even eradicate their inheritance tax bills because of their use of exemptions and reliefs. In 2015/16, the OBR forecasts that 40,000 deaths will be subject to inheritance tax which is 7.3% of people who die. These 40,000 people will not include some of the richest people who are holding their wealth in farmland or unlisted shares. The strong incentive to invest in agricultural property creates significant market distortions and pushes up land prices.

For example, in 2011/12, there were 34,588 people who had died whose estates were valued above the inheritance tax threshold[18] and were cumulatively worth £30.35 billion. However, of these estates, fewer than 16,000 were actually taxed because of the reliefs and exemptions; so more than half of the richest people to die did not pay inheritance tax. Whilst it is important to remember that surviving spouses explains much of this, other tax reliefs such as on unlisted shares and agricultural property have also contributed. Furthermore, 40% of estates valued at £1 million or more at death paid no inheritance tax[19] in 2011/12 and the average of such estates not paying the tax since 2006/2007 was 37%. In 2011/12, approximately 55% of estates valued at

[17] The Guardian, *Tories' £1m inheritance tax break aimed at wealthier households*, March 2015.

[18] ONS, *Inheritance Tax: Exemptions and reliefs*, June 2014.

[19] Gov.uk, *Inheritance Tax statistics*, July 2013.

£500,000 at death paid no inheritance tax with an average of 50% of such estates not paying the tax since 2006/07.

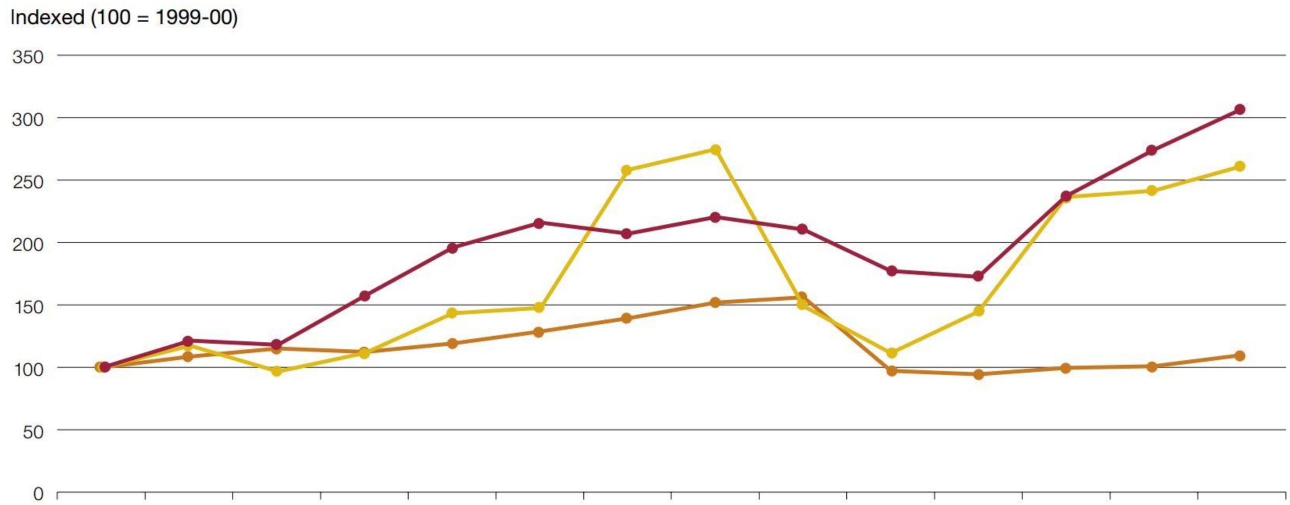
The combination of 91 inheritance tax reliefs also makes the system particularly complicated and difficult to understand for families without expertise in tax law. Simplification of the system will make it much easier for families to work out the tax they are due to pay and reduce the need to spend time and money hiring experts to navigate the system for them. A sufficiently large reduction in the number of tax reliefs could also deliver administrative savings for HMRC and taxpayers. According to the NAO,[20] in 2012/13 HMRC spent £110 million to administer specialist areas of personal tax where the use of reliefs is common including inheritance tax.

Furthermore, the costs of APR and BPR have risen much faster than total inheritance tax revenue. NAO analysis shows the indexed change in inheritance tax revenue compared with the cost of APR and BPR. Whilst overall inheritance tax revenue grew by 10% in real terms between 1999/00 and 2012/13, the cost of APR grew by 206% and of BPR by 160%. This shows a substantial growth in the use of these reliefs to reduce inheritance tax bills.

The justification for APR and BPR is that they provide continuity by ensuring that family businesses do not have to be sold at death to pay the tax. Nevertheless, the efficiency of these reliefs must be questioned because a complete exemption from the tax can be provided even if those receiving the asset decide to sell it immediately after death anyway. APR applies to agricultural landowners rather than just to working farmers. Moreover, BPR offers a full exemption to a firm which is a majority trading

[20] NAO, *Tax Reliefs*, April 2014.

Figure 4: Indexed change in inheritance tax revenue compared with the cost of APR and BPR



1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
100	121	118	157	196	215	207	220	210	177	172	237	273	306
100	117	97	112	143	148	258	274	149	111	145	236	241	260
100	109	115	112	119	129	139	152	156	97	95	100	101	110

● Agricultural property ● Business property ● Inheritance tax revenue

Source: NAO, *Tax Reliefs*; page 27, April 2014.

and minority investment property on death but no exemption at all for the other way round.

As the Mirrlees Review[21] shows, the evidence that these reliefs boost the economy by preventing business from being split up is also far from clear and indeed they might actually be reducing economic efficiency. Retaining some medium-size businesses within certain families might, through inferior management practices, in reality harm the economy (Bloom, 2006). Inheritance tax can be paid over ten years which makes payment much less onerous for those liable to pay the tax. If the two big tax reliefs, APR and BPR were eliminated, then the extended repayment period in combination with the much lower rate which would apply to everyone would resolve most of the difficulties which may arise.

Eliminating the main inheritance tax reliefs will lead to a significant increase in the revenue generated by the tax. This revenue can then be used to fund a halving of the rate of Inheritance Tax from 40% to 20%. The Mirrlees Review estimated that abolishing APR and BPR would raise £570 million per year. However, given the growth of these reliefs over recent years, it seems likely that the total amount will now be significantly higher.

Cutting the reliefs to pay for a cut in the rate of inheritance tax will amount to a substantial simplification of the current system and reduce the incentive to engage in tax planning and avoidance measures. A sharply lower rate will also reduce the incentive to gift estates to family members outside of the Seven Year Rule. Whilst difficult to quantify, it is likely that this will lead to an increase in the value of estates subject to a lower rate of inheritance tax. This may increase revenue over time.

7. MECHANISM

HMRC estimates that APR in 2014/15 will have cost £420 million and BPR will have cost £565 million.[22] HMRC also estimates that increasing the standard inheritance rate by 1 percentage point would raise £100 million in 2016/17.[23] The Government also plans to reduce pension tax relief for higher earners to save approximately £1 billion in order to pay for the family home transferrable allowance. Given the amount of pension tax relief which is given to higher earners,[24] a saving of £1 billion seems reasonable.

Eliminating APR and BPR, along with the planned £1 billion savings from restricting some pension tax relief would thereby raise approximately £2 billion in 2016/17. If the cost of APR and BPR rise between 2014/15 and 2016/17 as in previous years, then the amount which will be raised is likely to be even higher. If the relationship established by HMRC between the inheritance tax rate and its revenue holds and for lower rates too, then the reduction in tax relief could pay for a 20 percentage point cut in the standard rate. This would mean cutting the inheritance tax rate from 40% to 20% from 2016/17.

As the inheritance tax revenue grows over the coming years, the revenue lost from cutting the rate to 20% will rise. The amount saved by eliminating APR and BPR may also change due to the interactions between the two reliefs. However, given that the costs of APR and BPR

[21] Broadway, Chamberlain, and Emmerson, *Taxation of Wealth and Wealth Transfers;* in *Dimensions of Tax Design: the Mirrlees Review*, April 2010.

[22] *Gov.uk, Estimated costs of the principal tax expenditure and structural reliefs*, January 2015.

[23] HMRC, *Direct effects of illustrative tax changes*, March 2015.

[24] CPS, *Costly and Effective*, November 2012.

have grown much faster than inheritance tax revenue over recent years, it is reasonable to assume that the implied savings from eliminating APR and BPR will rise too. Whilst it will be difficult accurately to forecast the distributional effects of this policy, it is likely that it will entail a shift in the burden of inheritance tax away from middle-class households and towards the wealthiest. Whilst all liable estates will benefit from the lower rate, it is reasonable to expect that the loss of APR, BPR and pension tax relief for the highest earners will be felt by wealthier households.

Aside from spousal relief and the exemption of transfers to charities on death, there are four other reliefs for which HMRC estimates there is a non-negligible cost.[25] These are: successive charges relief, taper relief on transfer between three and seven years before death, double taxation relief and the conditional exemption for Heritage Property. HMRC estimates that in 2014/15, these reliefs will cumulatively have been worth £100 million.

In its review[26] of tax reliefs in 2011, the OTS did not examine inheritance reliefs in too much detail. It argued that "a more appropriate approach to the inheritance tax reliefs is to consider the scope and operation of inheritance tax with reference to the original and desired policy rationale" and it concluded that a full review of inheritance would be needed. The Government should ask the OTS to conduct a comprehensive review of all the remaining inheritance tax reliefs (see Appendix) and suggest eliminating all those reliefs which serve no purpose. Whilst some reliefs such as for spouses are desirable, it is clear that many others have negligible costs and just add complexity and further avoidance opportunities to the tax system.

8. CONCLUSION

Inheritance tax is a deeply unpopular tax which is needlessly complex and ultimately damaging to the economy. The Government is right to try to reduce the burden that it places on families. However, it should now take the opportunity to implement a radical simplification of the tax which broadens the base and lowers the rate. Eliminating many of the existing inefficient tax reliefs would fund a substantial cut in the inheritance tax rate from 40% to 20%.

25 Gov.uk, *Estimated cost of minor tax allowances and reliefs*, December 2014.

26 OTS, *Review of tax reliefs: Final report*, March 2011.

Figure 5: Estimated revenue effects of changes to taxes and reliefs 2016/2017

Revenue Raised		Revenue Lost	
Ending Agricultural Property Relief	£420m	Cutting Inheritance Tax Rate to 20%	£2bn
Ending Business Property Relief	£565m		
Reducing Pension Tax Relief	£1bn		
Total	**£1.99bn**	**Total**	**£2bn**

Appendix

The OTS has produced a list of 91 inheritance tax reliefs which were in place in March 2015. These reliefs should be subject to a comprehensive review.

Name of Relief	Description
A&M trusts, Bereaved Minor Trusts, 18-25 Trusts etc	Disapplies relevant property trust charges where trusts are one of the type listed.
Acceptance in Lieu	Pre-eminent works of art or land/buildings can be offered in settlement of IHT liabilities.
Agricultural property relief	Relief from IHT on a transfer of agricultural property.
Allowance for other tax liabilities	In calculating the value of a person's estate for IHT allowance may be given against certain other tax liabilities.
Alternatively secured pension funds - deferral of charge	Defers the charge to IHT that would otherwise apply to leftover ASP funds.
Annual exempt amount (£3,000)	Exempts gifts totalling less than £3,000 a year from IHT.
Armed forces - death in service	Estates of those whose deaths occur whilst serving, or as a result of injuries sustained during past service, in the armed forces are exempt from IHT.
Armed forces - medals and decorations for gallantry or valour	A decoration awarded for gallantry is excluded property for IHT.
Business property relief	Relief from IHT on the transfer of relevant business property.
Cash options under approved annuity schemes	Where a cash option under an annuity becomes payable on death under a registered pension scheme, a qualifying non-UK pension scheme or an approved pension scheme it will be excluded for IHT purposes.
Changes to the deceased's estate	Confirms that where statute treats an alteration to the distribution of an estate to be read back for IHT purposes, the alteration is not liable to IHT in its own right.
Charge on participators in close companies	Where a close company makes a transfer of value which is chargeable on the participators, small amounts (where the apportionment is 5% or less) are ignored.
Chevening Estate & Apsley House	IHT does not apply to Apsley House and Chevening Estate.
Commorientes (simultaneous deaths)	Beneficial IHT treatment where spouses die at the same instant.
Compensation paid to Nazi victims	Excludes from IHT compensation paid to victims of Nazi regime.

Conditional exemption	Transfers on death of land of cultural or scientific pre-eminence on condition of reasonable public access are exempt from IHT.
Conditional exemption and relevant property trusts	For IHT purposes, the ten-yearly charge does not apply on conditionally exempt property in a relevant property trust.
Corporation sole	There is no IHT charge on property to which a person is entitled as a corporation sole.
Dispositions allowable for income tax	A disposition is not a transfer of value if it is an allowable deduction for income tax/corporation tax purposes.
Dispositions for benefit of employees	Employers contributions by close companies to employee benefit trusts that meet certain conditions are not transfer of value for IHT.
Dispositions for maintenance of family	Dispositions made to provide for maintenance of spouses or civil partners, or for the maintenance education or training of children under 18 are outside IHT.
Dispositions in respect of pension benefits	Prevents certain dispositions regarding pension benefits being chargeable to IHT.
Dispositions in respect of pensions	Employers contributions to pension schemes are not a transfer of value for IHT purposes.
Dispositions not intended to provide gratuitous benefit	Dispositions by way of an arm's length transaction not intending to provide gratuitous benefit are not transfers of value and therefore outside IHT.
Double charges relief	Prevents a double IHT charge where charges arise under (1) anti-avoidance rules for 'Gifts With Reservations' and (2) PET rules, plus double charge that arises on unwinding a double trust scheme.
Double taxation agreements	Double tax relief provisions apply to IHT, and excludes IHT deemed domicile provisions when estate duty DTAs are in point.
Emergency service personnel	Exempts from IHT the estates of emergency service personnel who die in service.
Employee-ownership trusts	Exempts transfers of shares from a close company to an employee ownership trust.
Estate duty on gifts to the nation	Exempts gifts to the nation from estate duty.
Estate duty transitional	Estate duty transitional rules preserve surviving spouse relief; sale of reversionary interests, objects of national interest left out of account, exemption of national heritage property for deaths between 13 March 1975 and 6 April 1976.
Excluded property	Excludes from IHT property situated outside the UK where the person beneficially entitled to it is domiciled outside the UK or is comprised in settlement made by a person domiciled outside the UK.
Exclusion of benefit reserved by donor	In certain specified circumstances the "gift with reservation" provisions do not apply for IHT.

Expenses occurred abroad	For IHT purposes, when determining the value of an estate, allowance may be given for administering assets abroad.
Failed PETs gifted for national purposes	A failed Potentially Exempt Transfer will be exempt from IHT if it is disposed of to certain bodies.
Fall in value relief for transfers within 7 years of death	For IHT purposes this allows a fall in value of gifted property to be taken into account when charging tax on failed PETs.
Foreign armed forces pay and moveable property	For IHT purposes, emoluments received by foreign armed forces whilst on UK soil and any moveable property that is situated in the UK by reason of their military service is excluded property.
Foreign currency accounts	Foreign currency accounts owned by a person domiciled outside the UK and not resident/ordinarily resident at the time of death are not included in his estate.
Foreign-owned works of art	For IHT purposes, the ten-yearly charge does not apply to a foreign owned work of art that is settled property but is only in the UK for display, cleaning or restoration.
Funeral expenses	In calculating the value of a person's estate for IHT, allowance may be given against funeral expenses.
Gifts for national purposes	Exempts, from IHT, gifts to named bodies to preserve the national heritage, national institutions, universities, government departments, health service bodies, local authorities, and certain libraries.
Gifts of land to housing associations	Exempts, from IHT, gifts of land to UK housing associations and registered social landlords.
Gifts on marriage and civil partnership	Exempts from IHT, gifts on marriage / civil partnership of £5,000 by a parent, £2,500 by remoter relations and £1,000 in any other case.
Gifts to charities	Gifts to charities and property held on trust for charitable purposes are exempt from IHT.
Gifts to political parties	Gifts to major political parties are exempt from IHT.
Government savings of persons domiciled in the Channel Islands or the Isle of Man	For IHT purposes, certain Government savings products owned by a person domiciled in Channel Islands or Isle of Man are excluded property.
Government securities owned by non-United Kingdom domiciled persons	Certain Government securities are excluded from IHT, subject to the owner meeting specified conditions (usually if person is non-UK domiciled).
Grant of agricultural tenancy	An agricultural tenancy granted at an arm's length consideration is an exempt transfer for IHT.
Heritage maintenance funds	Exempts, from IHT, charges on trusts for property settled for the preservation of the national heritage.
Land in habitat schemes	Agricultural property relief is available on land placed in (DEFRA) environmental schemes.

Leftover alternatively secured pension funds paid to charity	Exempts the charge to IHT that would otherwise apply to left over ASP funds that are paid to charity.
Life tenant becoming entitled to settled property	There is no IHT charge on an interest in possession trust if the life tenant becomes entitled to the trust property.
Lloyd's premium trusts	Excludes IHT charge on Lloyd's premium trust funds.
Loss on sale relief (buildings)	If an interest in land in a person's estate is sold within three years of death at a lower value then a claim may be made, for IHT purposes, to revise the value at death to the lower value.
Loss on sale relief (shares)	If stocks and shares in a person's estate are sold within one year of death at a lower value then a claim may be made, for IHT purposes, to revise the value at death to the lower value.
Newspaper and employee trusts	IHT is not charged on certain payments out of Employee and Newspaper trusts.
Nil rate band for chargeable transfers not exceeding the threshold (£325,000)	IHT nil rate band for chargeable transfers not exceeding the threshold (£325,000).
No gratuitous benefit and grants of agricultural tenancy (temporary charitable trusts)	IHT is not charged on temporary charitable trusts where the disposition does not intend to confer a gratuitous benefit or it is agricultural property.
Normal gifts out of income	Exempts gifts (of any amount) from IHT where they are made out of a person's income and does not reduce their standard of living.
Open ended investment companies and authorised unit trusts	Holdings in open-ended investment companies & authorised unit trusts are exempt from IHT where the owner is non-UK domiciled.
Overseas pensions	Qualifying overseas pensions are excluded from a person's estate for IHT purposes.
Payment of income	No IHT charge will arise on a relevant property trust charge if the payment would be treated as income for the recipient.
Payment of income (temporary charitable trusts)	IHT is not charged on temporary charitable trusts for payment of income to a non-UK resident person.
Pension schemes	An interest in a registered pension scheme, a qualifying non-UK pension scheme or an approved pension scheme which comes to an end on the death of a person is not included in his estate for IHT purposes.
Potentially exempt transfers	Most lifetime gifts attract no charge to IHT when they are made and they become totally exempt from any charge to IHT if the donor survives for more than seven years after the gift is made.
Private treaty sales	Allows individuals to sell works of art to certain, listed UK institutions for a price net of IHT - buyer and seller share the saving.

Property held on trust for bereaved minors or person aged 18-25	There is no IHT charge on termination of an interest in possession trust if it is then held on trust for a bereaved minor or person aged 18-25.
Quick succession relief	The relief mitigates a second IHT charge arising on the same assets due to a death within a short period after a first charge.
Reduced rate of tax for relevant property charges	If property has not been the relevant property of a trust throughout the 10 year period then the charge is reduced.
Reduced rate of tax for temporary charitable trusts charges	IHT is not charged on temporary charitable trusts where the property was excluded property at the relevant time.
Registered pension schemes trust charges	IHT is not charged on a relevant property trust where the property is held by a registered pension scheme.
Reversionary interests	Certain reversionary interests are excluded from IHT.
Reverter to settlor	There is no IHT charge where, on the termination of settlement, the trust funds revert to the settlor.
Reverter to settlor's spouse	There is no IHT charge where on the termination of settlement the trust funds reverts to the settlor's spouse.
Scottish agricultural leases	Certain aspects of Scottish agricultural leases are exempt from IHT.
Small gifts exemption	Exempts from IHT, gifts of less than £250 to the same person in a year from IHT.
Spouse/civil partner relief	Transfer of any asset to a spouse/civil partner is exempt from IHT (a cap applies for gifts to a non-domicile).
Taper relief	IHT rate subject to a sliding scale reduction of between 80%-20% for transfers made between 3 and 7 years prior to death.
Trade or professional compensation funds	IHT is not charged on a relevant property trust where property is held for trade or professional compensation funds.
Transfer to employee trusts	For IHT purposes, transfers to employee trusts are exempt.
Transferable nil rate band	Any proportion of nil-rate band unused on the first death is to be added to the surviving spouse's/civil partner's own nil-rate band.
Trust property becomes excluded property	No IHT charge will arise where relevant property becomes excluded property.
Trust property distributed in first quarter of the year	IHT is not charged where property ceases to be relevant property within 3 months of becoming settled property or on a ten year anniversary.
Trustees costs and expenses	Payments (which are relevant property trust charges) for trustees costs or expenses will not result in an IHT charge.
Trustees costs and expenses (temporary charitable trusts)	IHT is not charged on temporary charitable trusts for payment of costs and expenses.

Trustees costs, payment of income, no gratuitous benefit etc	Disapplies certain trust charges.
Trusts with vulnerable benficiaries - annual limit	Allows trustees to apply income and capital up to an annual limit of £3,000 to people other than the vulnerable beneficiary.
Unilateral double taxation relief	This is a unilateral relief which provides a credit for equivalent charges levied in other countries, against IHT.
Voidable transfers	Where a gift is declared void a claim can be made for repayment of IHT.
Waiver of dividends	A waiver of dividend within 12 months before any right has accrued is not a transfer of value for IHT purposes.
Waiver of remuneration	A waiver of remuneration is not a transfer of value for IHT purposes.
Woodland relief	Election to defer IHT on the value of timber in woodlands until timber is sold.

THE AUTHOR

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