

OTS REPORT ON INHERITANCE TAX



The Office for Tax Simplification has released its second report on the simplification of Inheritance Tax. This is now a matter for the Government and Parliament to consider what if any steps they implement. If enacted these recommendations will represent a major change to the way assets are passed on in the UK.

The details can be found at the [attached link](#).

A brief summary of the recommendations is set out below:

Key area 1: Lifetime gifts

A- Gift exemptions package

- Replace the annual gift exemption and the exemption for gifts in consideration of marriage or civil partnership with an overall personal gifts allowance
- Consider the level of this allowance and reconsider the level of the small gifts exemption
- Reform the exemption for normal expenditure out of income or replace it with higher personal gift allowance

B- Gifting period and taper package

- Reduce the 7 year period to 5 years, so that gifts to individuals made more than 5 years before death are exempt from Inheritance Tax, and
- Abolish taper relief

C - Gifts outside seven years

The government should remove the need to take account of gifts made outside of the 7 year period 4 when calculating the Inheritance Tax due (under what is known as the '14 year rule').

D- Liability for payment and the nil rate band

The government should explore options for simplifying and clarifying the rules on liability for the payment of tax on lifetime gifts to individuals and the allocation of the nil rate band.

Key area 2: Interactions with Capital Gains Tax

Where a relief or exemption from Inheritance Tax applies, the government should consider removing the capital gains uplift and instead provide that the recipient is treated as acquiring the assets at the historic base cost of the person who has died.

Key area 3: Businesses and Farms APR/BPR

- Consider whether it continues to be appropriate for the level of trading activity for BPR to be set at a lower level than that for gift holdover relief or entrepreneur's relief
- Review the treatment of indirect non-controlling interests.
- Consider whether to align the Inheritance Tax treatment of furnished holiday lets with that of Income Tax and Capital Gains Tax, where they are treated as trading providing that certain conditions are met.

Other areas of Inheritance Tax

4 - The government should review the treatment of limited liability partnerships to ensure that they are treated appropriately for the purposes of the BPR trading requirement.

5 HMRC should review their current approach round the eligibility of farmhouses for APR in sensitive cases, such as where a farmer needs to leave the farmhouse for medical treatment or to go into care.

6 HMRC should be clearer in their guidance as to when a valuation of a business or farm is required and, if it is required, whether this needs to be a formal valuation or an estimate.

7 The government should consider ensuring that death benefit payments from term life insurance are Inheritance Tax free on the death of the life assured without the need for then to be written in trust.

8 The government should review the Pre Owned Assets Tax rules and their interaction with other Inheritance Tax anti-avoidance legislation to consider whether they function as intended and whether they are still necessary.

Whilst these are potentially major changes to Inheritance Tax, they are only recommendations, the Treasury need to respond to the OTS report, and if they government accept any of the recommendations it will take time for the prospects to become law.

No action should be taken at this point as a result of these recommendations.

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