



INSIGHTS

From Tractors to Long Tails – The Inheritance Tax Regime under the new Labour Government

The Autumn Budget 2024 brought several significant changes to the UK tax landscape.



4 DECEMBER 2024
WRITTEN BY
Emma Payne
+44 (0)161 974 3951
epayne@tridenttax.com

Whilst some predicted that UK Inheritance Tax (“IHT”) would be scrapped and replaced with a lifetime gift tax or a capital gains tax charge on death, what we are left with are a series of restrictions, freezes and a widened scope in a bid to increase the tax take on what is comparatively a small fundraiser for HMRC (estimated at 0.7% of all receipts for 2024/25).

IHT Overview

IHT is payable by an individual’s estate upon their death. It is charged on the value of all assets in their estate at a rate of 40%. Gifts made in the 7 years prior to death can also attract IHT albeit this can be at a lower rate and various exemptions apply including transfers to a spouse or civil partner, or transfers to charities.

NIL Rate Bands

The nil rate band, essentially an IHT free amount, has been set at £325,000 since 2009, with the government keen to point out that just over 4% of estates pay IHT. As such, they committed to **freezing the nil rate band** at current levels until at least 2030.



TRIDENT TAX



Rocketing house prices prompted the introduction of the main residence nil rate band in 2017, designed to counter the fact that the nil rate band has not increased in line with property prices and to try and limit the requirement to sell a family home to meet an IHT liability.

Broadly, a further £175,000 allowance applies in reference to a qualifying residential interest that is held at death, is passed to lineal descendants, and where the overall value of the estate is no more than £2m. There are also some complicated provisions where the individual down-sizes. Overall, it would be much more straightforward to simply increase the nil rate band in 2017 and lose the additional requirements, which appear to penalise estates where a niece, nephew or godchild is set to inherit, but Parliament do not seem interested in this alternative.

Despite the sharp increase in house prices in 2020, the government announced that the main residence nil rate band will also remain fixed at £175,000, as will the £2m limit for qualifying estates, **until 2030**.

Agricultural Property Relief ("APR") and Business Property Relief ("BPR")

Historically, farmland, trading businesses and assets used in qualifying businesses have benefitted from valuable reliefs, APR and BPR.

The effect of these reliefs being to exempt wholly or in part, dependent on the circumstances, the value of the assets concerned from IHT.

From **6 April 2026**, a new allowance of £1m will apply in respect of the combined value of any APR and BPR assets in an estate.



Where the necessary conditions are met, assets up to £1m will benefit from relief at 100%, with amounts in excess of the £1m limit benefitting from relief at 50%. Effectively, this means that the remaining value is taxable at 20% upon death.

The concern from most here, and rightly so, is how the IHT liability will be funded – if we have a family run business or farm, how does the recipient raise the cash to settle the IHT, whilst still being able to continue the family legacy?

The government has also halved the IHT relief for shares listed on London's junior AIM market, effectively introducing a 20% charge on death. It was anticipated that the relief would be fully abolished and therefore stocks on AIM market rose following the announcement.

We cover these new restrictions in more detail in our Insight article "*New Restrictions on APR and BPR – for business and farm owners*" – here we also include some of the options available to try and mitigate the tax charge on APR and BPR assets upon death.



Pensions

Most predicted that the government would reintroduce a lifetime allowance on pensions or scrap the 25% tax free lump sum. However, it was announced that from 6 April 2027, many unused pension funds and death benefits will fall into the IHT estate, with pension scheme administrators being liable for reporting and paying IHT due on pension funds straight over to HMRC. A consultation will take place as to how best implement the changes.

With the freeze of the nil rate band and main residence nil rate band, increasing house prices and government encouragement to increase pension savings over the years, this could bring many individuals within the charge to UK IHT, that would have previously not been subject to a charge.

In addition, wealthier individuals have taken advantage of the relief afforded by pension savings to build a substantial pot free from IHT, however they should now be looking at whether this is still suitable for their needs or otherwise what actions they might take.

The changes may lead to reduced pension savings, with individuals turning to tax efficient structures such as family investment companies as an alternative. These may still allow tax free roll up and reinvestment in respect of certain types of income and facilitate the tax efficient movement of wealth to the next generation whilst still retaining control.

Long-Term Residence and the Tail

What might be a welcome change for some individuals is the move to a residence-based system for UK IHT.

Historically, the position has been based on an individual's "domicile status" and so for those who have left the UK, there has been a focus on them being able to demonstrate that they have acquired a domicile elsewhere, which is notoriously difficult and often subject to challenge by HMRC.

By applying a residence-based system, the position becomes clearer cut with the Statutory Residence Test ("SRT") being applied to determine an individual's residence position for any given year.

Earlier in the year it was proposed that anybody that left the UK would remain subject to UK IHT in respect of worldwide assets for ten years following their departure from the UK - the **'ten-year long tail'**.

Whilst this will indeed apply to those who have been resident in the UK for 20 tax years or more upon departure, for those who have been here for less than that, the tail is tapered, dependent on the number of years of UK residence, to a minimum of 3 tax years where the individual has been resident between 10 and 13 tax years out of the last 20.



There are wider changes affecting trusts, as whilst these were previously outside the scope of IHT if established by a non-UK domiciled individual, they will now be brought within the scope of UK IHT if the settlor acquires long-term residence status, and this is one of the significant factors that is giving non-UK domiciled individuals cause to review their residency plans.



The key for anyone concerned about IHT will be taking advice as to the actions you may take before and/or once the new changes are in force to improve your personal position.

Want to know more?



Emma Payne
+44 (0)161 974 3951
+44 (0)7586 909 891
epayne@tridenttax.com



Edward Ullathorne
+44 (0)207 952 2921
+44 (0)7775 113 562
eullathorne@tridenttax.com