All Party Parliamentary Group for Inheritance and Intergenerational Fairness: FAQs

What is the APPG?
The All Party Parliamentary Group for Inheritance and Intergenerational Fairness is a cross party body of MPs chaired by John Stevenson set up to consider issues of inheritance and intergenerational fairness and possible reform options. The APPG held five evidence sessions between February and May 2019. The sessions looked at the history of IHT; the types of IHT reliefs available; examples of IHT systems in other countries; and potential future reforms. For more detail see https://www.step.org/appg, which contains the full and interim reports.

Who assisted?
Representatives from organisations including the Law Society of England and Wales, the Law Society of Scotland, Chartered Institute of Taxation (CIOT), Society of Trust and Estate Practitioners (STEP), The Resolution Foundation, Institute of Public Policy Research (IPPR), PricewaterhouseCoopers (PwC), Intergenerational Foundation and Association of Taxation Technicians (ATT) gave evidence as well as business. STEP provided secretarial support and Emma Chamberlain barrister assisted in the writing of the final report.

What were the main recommendations?
The APPG made two main recommendations.

The first recommendation was to replace the current IHT regime (which has a 40 per cent rate combined with lots of reliefs and exemptions) with an estate tax regime which would tax all lifetime and death transfers of wealth, at a low flat rate, likely between 10 per cent and 20 per cent. The CGT tax-free death uplift would be abolished. Most reliefs would be abolished.

Under the new regime there would be no need to keep a record of lifetime gifts and it would not matter whether you died within seven years of death. The rate of tax would be the same on all substantial lifetime gifts so a donor and donee each know exactly how much tax had to be paid at the time of the gift: it does not depend on the donor surviving three or seven years. The unfairness and complexity of the nil rate band, particularly where there are many donees of lifetime gifts in the last seven years of life, would disappear.

We suggest that a flat-rate gift tax at 10 per cent would operate immediately on all lifetime gifts, with an annual gifts exemption of £20-£30,000 per individual. This would exempt virtually all lifetime giving for the majority of households where evidence suggests average lifetime gifts are under £5,000 per annum. However, the 10 per cent rate would capture larger gifts of cash and property.

There would be a death allowance, which could be set at a similar level to the current nil rate band of £325,000, but unlike the current nil rate band would not be renewable every seven years and would not be available at all against lifetime gifts.

The second recommendation was for better information and reporting of lifetime gifts over £3,000 even if they are not immediately taxed and better collation of data that is already reported.

Why is your recommendation 1 better than the status quo?
Currently, the government takes about £5 billion a year in IHT—less than 1 per cent of the total tax take—while affecting less than 5 per cent of estates. There are 588,000 deaths each year, of which 275,500 are required to complete a complex IHT form; of these only 24,500 result in payment of tax.

Who bears IHT and when it is payable is not well understood by donors or donees, but there is a strong sense of injustice that comes through the responses—‘the rich get away with not
paying it’ and it is perceived as a tax on hard working savers. The flat-rate gift tax removes many of these complications by removing the boundaries around which so much tax avoidance operates.

A crucial aspect of our design is that the rate is low enough to ensure that incentives to plan around it are not worthwhile and the pressure to give reliefs reduces. Evidence to the APPG suggested that rates above 20 per cent start to incentivise planning. In short, the rate has to be of an altogether different order from the present IHT regime. The lowering of the rate leads to simplification of the regime: and that makes form filling much easier. No need to work out whether someone qualifies for a relief, how much nil rate band is left or check back on past lifetime gifts for seven or 14 years. The only requirement is to obtain a valuation of everything on death, deduct £325,000 and levy 10 per cent or 20 per cent (for estates of above £2 million).

Once the rate is reduced, all reliefs other than spouse or charity relief would be abolished. There would be no residential nil rate band, business property or agricultural property relief, normal expenditure out of income or marriage exemptions. Grossing up would also disappear.

How would the tax work?

All transfers of wealth would be taxed at the same rate, whether business, farms, houses or pensions. In the case of more illiquid assets such as farms, they would still have ten years over which to pay the tax (in many cases interest free). There are at least three good reasons for taxing all assets in the same way:

1. Horizontal fairness – people of similar means should end up with the same tax bill regardless of the form in which they choose to hold their wealth. Individuals should not be taxed differently because (for example) one has their savings in a pension while the other has reinvested their savings in their business.

2. Revenue – exemptions reduce revenue and this means the tax rate increases. This in turn increases the call for more exemptions. One person’s exemption is another person’s tax burden.

3. Avoidance – significant exemptions facilitate avoidance through shifting the types of asset that people own. This has been a common feature in wealth taxes among all European countries. Simpler really is better here!

Why have any tax on transfers of wealth – is this not double taxation?

A large proportion of wealth in the UK has been acquired as a result of asset price growth on main homes or in assets that have not been sold for a long time, and so have grown in value tax-free. Other wealth has been accumulated through forms of saving that are exempt from tax, such as pensions and ISAs. For most people, it is therefore a convenient myth to claim that they have already paid tax on their wealth. It is true that some people’s wealth may be accumulated out of income that has already been taxed when it was earned. However, this element of ‘double taxation’ is already an accepted feature of our tax system in the context of VAT, which applies to spending out of taxed income.

Why tax my pension on my death if I have not yet drawn on it when I was encouraged to save in it?

A pension is there to assist someone in retirement when they can no longer work and then help the deceased person’s spouse or partner. The very wealthy can choose not to draw on the pension so it can pass IHT free to descendants. This is not what the original tax relief for pensions was intended for.

How could I afford to pay 10 per cent on a lifetime gift?

If the gift was cash, then 10 per cent would be withheld by the donor. If the gift was of an illiquid asset, then the donor would have the option to pay over ten years in interest bearing instalments (although in the case of businesses and farms this could be interest-free instalments).
Would this proposal raise more revenue?

At present that is difficult to know because there is relatively little information on large lifetime gifts although the IFS have done some work on this. However, as gifts do not generally need to be reported if the donor survives seven years the extent to which wealth transfers take place untaxed is largely unknown.

What about foreign doms?

Domicile is abolished as a connecting factor for IHT and instead a person would pay tax on death or lifetime transfers if they are resident in the UK for a minimum period of time to be decided by the government. However, the rate is sufficiently low to make it much less of a disincentive for foreigners to leave before they die.

What about past gifts made before the change?

There would be transitional provisions: past lifetime gifts made prior to the date of announcement would be taxed under the old regime with some anti-forestalling measures if gifts were made in anticipation of a change. Gifts made after announcement but before the legislation would be taxed under the new regime.

How would trusts be taxed?

Trusts would be taxed in the same way as gifts to individuals with no nil rate band and immediate 10 per cent. On the death of the interest in possession beneficiary or where there was a termination of that interest in possession, tax would be levied at that point. Discretionary trusts would be taxed when payments were made to beneficiaries and periodically where assets were retained in trust.

What if people give away all their wealth but still benefit from it?

As lifetime gifts are being taxed immediately, albeit at a lower rate, there is no reason to retain the reservation of benefit rules or POAT regime. These rules could be abolished. If people want to give away their assets during their lifetime they can do so.

Why not just abolish all taxes on death?

There is strong evidence that wealth inequality is growing. Half of the total aggregate wealth in Great Britain is held by 12 per cent of households, yet total wealth and wealth-related taxes as a proportion of GDP have not increased since 1965. Moreover as the OTS pointed out, IHT is currently regressive for the larger estate over £6 million which pays at lower rates overall. Torsten Bell of the Resolution Foundation noted in September 2019 that young people with property-owning parents are now three times as likely to have homes of their own as those without such parents.

What about other options?

The APPG considered retaining IHT. The Government can continue to tinker around the edges of inheritance tax but the OTS reports illustrated how difficult it is in practice to simplify IHT without radical reform. The APPG also considered briefly abolishing IHT and instead having either wealth tax or CGT on death. The advantages and disadvantages of these options are considered in more detail in the final report.

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1 See ONS report in December 2019
2 Including property taxes, inheritance taxes, capital gains
3 See https://www.ukwealth.tax
The APPG also considered a tax on the donee, sometimes called the accessions tax. Instead of taxing the estate of the donor the donee would be taxed at increasing rates the more wealth they received. More consideration needs to be given as to how it interacts with CGT, for example whether the donor pays CGT on gains from the transfer of an asset, and whether the donee pays capital accessions tax. There are significant administrative and compliance costs in a donee-based system, particularly where the accessions tax operates over the whole lifetime of the donee but we suggested more work should be done on this model.

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