

Raise the inheritance tax threshold to £1 million

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Introduction

Inheritance tax is levied on the estate of someone who has died. It applies to the value of the estate above the £325,000 threshold currently in place, and is charged at a single rate of 40 per cent. Exemptions currently in place include transfers between spouses and civil partners, transfers to charity and exempted gifts. This includes the seven-year rule (which reduces liability if gifts are made more than three years before death) and £3,000 of gifts each tax year. Reliefs also exist for agricultural property and business assets.

Inheritance tax is distortionary and deeply unfair. Exemptions prompt people to buy and sell assets to avoid tax, sometimes to the exclusion of other objectives. In particular, the exemptions for lifetime gifts encourage premature transfer of assets. Saving on behalf of heirs is discouraged in favour of immediate consumption. The introduction of the residence nil-rate band in 2017 also further inflates house prices and reduces capital available for other uses.

This research estimates the number of estates which would not be subject to inheritance tax if the threshold was raised from £325,000 to £1 million. It then provides an overview of recent trends in net capital value of estates, what additional charges are still levied on the dead, and revenue changes if a higher threshold was in place. A higher threshold would also mean the elimination of the main residence nil-rate band.

Key findings

- This year (2019-20), a forecasted **39,409 estates will be subject to inheritance tax**. If the inheritance tax threshold was raised to **£1 million, 27,781** fewer estates would be subject to the levy, **leaving 11,628 (or 29.5 per cent of the current total)** with a bill to pay.
- Next year (2020-21), a forecasted **44,112 estates will be subject to inheritance tax**. If the inheritance tax threshold was raised to **£1 million, 30,854** fewer estates would be subject to the levy, **leaving 13,259 (or 30.1 per cent of the current total)** with a bill to pay.
- The **total net capital value of estates** subject to inheritance tax **in 2016-17 was £75.8 billion**; £17.8 billion was in estates worth more than £1 million. 36 per cent of the total net capital value of estates worth more than £1 million was in UK residential property.¹
- If inheritance tax was payable only on estates worth more than £1 million, the estimated revenue would be **£3.9 billion in 2019-20 and £4.0 billion in 2020-21**. This would mean receipts would be lower by **£1.4 billion in both 2019-20 and 2020-21**. The current overspend on the carrier strike programme (**£3.2 billion**) would more than offset the revenue decline.²
- Even with no inheritance tax liability, estates will still pay for probate and land registry fees, death certificates, VAT from funeral costs and doctor's fees for cremation could **still total up to £824**.^{3,4}

¹ HMRC, *Inheritance Tax statistics: Table 12.4 - assets in estates by range of net estate and tax due*, 19 September 2019, <https://www.gov.uk/government/statistics/inheritance-tax-statistics-table-124-assets-in-estates-by-range-of-net-estate-and-tax-due>, (accessed 22 October 2019).

² Hutton, J., *Cost overruns of major government projects*, TaxPayers' Alliance, 26 August 2019, https://www.taxpayersalliance.com/cost_overruns_of_major_government_projects, (accessed 24 October 2019).

³ This includes up to £110 for death certificates, £250 land registry fees for properties worth more than £1 million, £215 probate fee, £85.33 VAT for a coffin, and a doctor's fee of £164 if a body is cremated.

⁴ Simmonds, S., *The Cost of Death*, TaxPayers' Alliance, 5 August 2019, https://www.taxpayersalliance.com/the_cost_of_death, (accessed 23 October 2019).

Table 1: assets and liabilities of estates passing on death worth over £1 million, 2012-13 to 2016-17

Assets	2012-13	2013-14	2014-15	2015-16	2016-17
Securities (£m)	5,702	6,552	7,414	6,240	5,920
Cash (£m)	2,149	2,515	2,703	2,650	2,650
Insurance policies (£m)	380	392	447	401	394
UK residential buildings (£m)	4,408	5,500	6,002	5,570	6,490
Other buildings and land (£m)	1,626	1,730	2,065	1,643	1,527
Loans and other assets (£m)	1,620	1,759	2,062	2,042	1,589
Liabilities	2012-13	2013-14	2014-15	2015-16	2016-17
Mortgages (£m)	162	310	248	210	204
Other debts and funeral expenses (£m)	336	414	477	348	529
Total net capital value (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	15,387	17,724	19,969	18,010	17,830
UK residential buildings as share of total net capital value (%)	29	31	30	31	36
Average change in total net capital value (%)	n/a	15	13	-10	-1

Table 2: forecast total net capital value of estates passing on death worth over £1 million, 2017-18 to 2020-21

	2017-18	2018-19	2019-20	2020-21
Total net capital value (£m)	18,499	19,193	19,914	20,661

Table 3: forecast number of estates subject to inheritance tax, 2017-18 to 2020-21

Year	Forecast number of estates subject to IHT	Forecast estates below £1m	Forecast estates above £1m	Forecast estates above £1m (%)
2017-18	31,454	22,523	8,930	28.4
2018-19	35,207	25,014	10,193	29.0
2019-20	39,409	27,781	11,628	29.5
2020-21	44,112	30,854	13,259	30.1

Sources and methodology

Forecast changes in the total number of estates subject to inheritance tax if the threshold was increased to £1 million were based on applying the trend over the five years between 2012-13 and 2016-17 to the 2017-18 to 2020-21 forecast period.

Forecast changes in the total amount of tax due from estates worth more than £1 million were based on applying the trend over the five years between 2012-13 and 2016-17 to the 2017-18 to 2020-21 forecast period.

Forecast changes in net capital values for estates worth more than £1 million was also based on the same time period and then applied up to 2020-21.

For the years 2012-13 to 2016-17, the following publications were used:

HMRC, *Inheritance Tax statistics: Table 12.4 – assets in estates by range of net estate and tax due*, www.gov.uk/government/statistics/inheritance-tax-statistics-table-124-assets-in-estates-by-range-of-net-estate-and-tax-due, (accessed 22 October 2019).

HMRC, *Inheritance Tax statistics: Table 12.3 – estates notified to HMRC, numbers and tax due*, www.gov.uk/government/statistics/inheritance-tax-statistics-table-123-estates-notified-to-hmrc-numbers-and-tax-due, (accessed 22 October 2019).

Additional sources:

HMRC, *Inheritance tax statistics: Table 12.1 – analysis of receipts*, www.gov.uk/government/statistics/inheritance-tax-statistics-table-121-analysis-of-receipts, (accessed 22 October 2019).

Hutton, J., *Cost overruns of major government projects*, TaxPayers' Alliance, 26 August 2019, www.taxpayersalliance.com/cost_overruns_of_major_government_projects, (accessed 24 October 2019).

OBR, *Public finances databank – September 2019*, 30 September 2019, obr.uk/data/, (accessed 24 August 2019).

Simmonds, S., *The Cost of Death*, TaxPayers' Alliance, 5 August 2019, www.taxpayersalliance.com/the_cost_of_death, (accessed 23 October 2019).