

February 2018

## **OTS review**

### **IHT General Simplification Review**

Inheritance Tax (IHT) in its current form was introduced in 1986, replacing Capital Transfer Tax.

Since then, it has been subject to a continuous process of evolution and change. In addition, the economic and social landscape has changed. While fewer than 5% of estates are liable to IHT, there has been an increase in the number of people that think they may be within the scope of the tax. This is partly driven by increases in residential property prices, especially in London and the South East of England.

The Chancellor and the Financial Secretary to the Treasury have requested that the Office of Tax Simplification (OTS) carry out a review of a range of aspects of IHT and how it functions today, including its economic incidence, to identify simplification opportunities. The review will be consistent with the OTS's remit to provide advice on simplifying the tax system, with the Chancellor responsible for final decisions on tax policy.

The overall aim of the review will be to identify opportunities and develop recommendations for simplifying IHT from both a tax technical and an administrative standpoint. The OTS will work alongside HMRC's project on administrative changes for the vast majority of estates where there is no tax to pay.

The OTS will publish a report in the autumn of 2018 that:

- Provides an initial evaluation of aspects of the current IHT regime, and what they mean for taxpayers, HMRC and the Exchequer;
- Identifies opportunities for simplification of IHT supported by analysis and evidence; and
- Offers specific simplification recommendations for government to consider.

The OTS will provide a call for evidence early in 2018.

### ***Scope of Review***

The review will consider how key aspects of the current IHT system work and whether and how they might be simplified. This will include a combination of administrative and technical questions such as:

- The process around submitting IHT returns and paying any tax, including cases where it is clear from the outset that there will be no tax to pay;
- The various gifts rules including the annual threshold for gifts, small gifts and normal expenditure out of income as well as their interaction with each other and the wider IHT framework;
- Other administrative and practical issues around routine estate planning, compliance and disclosure, including relevant aspects of probate procedure, in particular in relation to situations which commonly arise;
- Complexities arising from the reliefs and their interaction with the wider tax framework;
- The scale and impact of any distortions to taxpayers' decisions, investments, asset prices or the timing of transactions because of the IHT rules, relevant aspects of the taxation of trusts, or interactions with other taxes such as capital gains tax; and
- The perception of the complexity of the IHT rules amongst taxpayers, practitioners and industry bodies.

### ***Further guidance for this review***

In carrying out its review and developing its recommendations, the OTS should:

- Research widely among all stakeholders;
- Engage with HMRC's Administrative Burdens Advisory Board;
- Consider whether devolution of tax powers within the UK has implications and especially whether the Scottish legal system impacts any recommendations;
- Take account of relevant international experience;
- Consider the likely Exchequer implications of recommendations; and
- Be consistent with the principles for a good tax system, including fairness and efficiency.

A Consultative Committee will provide support and challenge.