

Inheritance Tax Nil Rate Band: Switch to Consumer Prices Index

Who is likely to be affected?

Executors and personal representatives of people who have died, individuals and trustees.

General description of the measure

Legislation will be introduced in Finance Bill 2012 to provide for the inheritance tax (IHT) nil rate band (NRB) to rise in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from 6 April 2015. Automatic indexation of the NRB using the CPI will still be subject to override if Parliament determines a different amount should apply.

Policy objective

This measure reflects the Government's intention to move the underlying indexation assumption for direct taxes from RPI to CPI.

Background to the measure

In the June Budget 2010 the Government announced a review of how the "CPI can be used for the indexation of taxes and duties while protecting revenues."

This specific measure was announced at Budget 2011.

Detailed proposal

Operative date

Automatic indexation using CPI will begin from 2015-16, using the increase in the CPI for the year to September 2014. The NRB will remain frozen at its current level (£325,000) up to and including 2014-15.

Current law

IHT is payable on the value transferred by a chargeable transfer (any transfer of value which is not exempt by way of the Inheritance Tax Act 1984 or any other enactment) above the NRB.

The NRB is frozen at its current level for chargeable transfers on or before 5 April 2015. For any later transfers Section 8, Inheritance Tax Act 1984 provides that, unless Parliament determines otherwise, NRB will increase automatically each 6 April in line with any increase in RPI over the year to the previous September.

Proposed revisions

Legislation will be included in the Finance Bill 2012 so that for the year commencing 6 April 2015 and subsequent years the automatic increase in NRB will be based on changes in CPI over the year to the previous September. As now, the result of automatic calculation will be rounded up to the nearest £1,000.

Automatic indexation by reference to the CPI will start from 2015-16 (based on the increase in the CPI for the 12 months to September 2014).

Automatic indexation of the NRB may still be overridden for a tax year if Parliament sets a different figure. HM Treasury will still make an order setting out the NRB for the new tax year under automatic indexation.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	The figures were set out as part of a wider reform to direct taxes indexation in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget. This element of the reform is expected to increase receipts by approximately £20 million in 2015-16.				
Economic impact	The change has no significant economic impacts.				
Impact on individuals and households	This measure will impact upon individuals and households as increasing the NRB at a lower rate could lead to around 1,500 estates requiring completion of the full IHT400 form instead of the shortened IHT205 in 2015-16. Of these, it is expected that 900 more estates will have inheritance tax to pay and this number will increase over time. The estimated one off cost to those individuals completing the IHT400 instead of the IHT205 is £45-£55, there will be a negligible difference in cost depending on whether or not any tax is due to be paid.				
Equalities impacts	The gender split for those whose estates become liable to IHT is around 60 per cent female and 40 per cent male. In the main this is because, for married couples, IHT becomes due on the second death which is more likely to be the wife. The administrative impact of this measure is not on the person leaving the estate but rather those acting as a personal representative, or executor, of the estate. We do not expect a change in the NRB rate to have a disproportionate impact on any equality group.				
Impact on business including civil society organisations	The Government envisages no initial or ongoing impact on business and the Civil Society.				
Operational impact (£m) (HMRC or other)	Operational impact for HMRC will be negligible and fall within usual working practices.				
Other impacts	No other impacts have been identified with this measure.				

Monitoring and evaluation

The impact of this measure will be monitored through information collected from tax returns.

Further advice

If you have any questions about this change, please contact Craig Griffith on 020 7147 3395 (email: craig.griffith@hmrc.gsi.gov.uk).

1 Inheritance tax: indexation of rate bands

- (1) Section 8 of IHTA 1984 (indexation of rate bands) is amended as follows.
- (2) In subsection (1), for “retail prices index for the month of September in 1993 or any later year” substitute “consumer prices index for the month of September in any year”.
- (3) In subsection (2), for “retail prices index” substitute “consumer prices index”.
- (4) For subsection (3) substitute—
 - “(3) In this section, “consumer prices index” means the all items consumer prices index published by the Statistics Board.”
- (5) The amendments made by this section have effect for the purposes of chargeable transfers made on or after 6 April 2015.

FINANCE BILL

EXPLANATORY NOTE

INHERITANCE TAX: INDEXATION OF RATE BANDS

SUMMARY

1. This clause provides that the inheritance tax nil rate band (NRB) will rise in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from 2015-16. Automatic indexation of the NRB using the CPI will remain subject to override if Parliament determines a different amount should apply.

DETAILS OF THE CLAUSE

2. Subsection (2) amends section 8(1) of the Inheritance Tax Act (IHTA) 1984 so that the increase in the CPI from one September to the next is used to calculate the increase in the NRB for the following year.
3. Subsection (3) amends section 8(2) IHTA 1984 replacing references to “retail prices index” with “consumer prices index”.
4. Subsection (4) replaces the definition of “retail prices index” in section 8(3) IHTA 1984 with a definition of “consumer prices index”.
5. Subsection (5) provides that automatic indexation of the NRB in line with the CPI takes effect from the calculation of the NRB for 2015-16. This will apply for chargeable transfers made on or after 6 April 2015 and will also be applied, where appropriate, under paragraph 1A of Schedule 2 to IHTA 1984 for potentially exempt transfers made before that date which fail on or after 6 April 2015.

BACKGROUND NOTE

6. Currently, where the RPI for the month of September is higher than it was for the previous September, then, unless Parliament otherwise determines, the limit of the NRB increases from the 6 April of the following year by the same percentage as the percentage increase in the RPI.
7. Section 155(1)(b) and (4) of Finance Act 2006 provided for the limit of the NRB to be set at £325,000 for the tax year 2009-10.
8. Section 8 of Finance Act 2010 provided that indexation does not have effect by virtue of any difference between the RPI for the month of September in 2010, 2011, 2012 or 2013 and the previous September, thereby freezing the NRB up to and including 2014-15.
9. If you have any questions about this change, or comments on the legislation, please contact Craig Griffith on 020 7147 3395 (email: craig.griffith@hmrc.gsi.gov.uk).