



# Inheritance Tax: Simplifying Charges on Trusts – the next stage

**Consultation document**

Publication date: 31 May 2013

Closing date for comments: 23 August 2013

<b>Subject of this consultation:</b>	Simplifying the calculation of Inheritance Tax (IHT) charges on trusts at ten-yearly intervals ('periodic' charges) or when assets are transferred out of the trust ('exit' charges).
<b>Scope of this consultation:</b>	This consultation proposes changes to the way IHT trust charges are calculated. It sets out options on how IHT periodic and exit charges on trusts that hold or dispose of relevant property can be simplified. The consultation also seeks views on proposals to align payment and filing dates for these charges and examines the treatment of accumulated income.
<b>Who should read this:</b>	The consultation will be of interest to settlors and trustees, and to practitioners involved in setting up or administering trusts.
<b>Duration:</b>	31 May 2013 to 23 August 2013
<b>Lead official:</b>	Tony Zagara HM Revenue & Customs
<b>How to respond or enquire about this consultation:</b>	<p>Responses or enquiries should be made:</p> <ul style="list-style-type: none"> <li>• By post to: Tony Zagara, HMRC, Room G/48, 100 Parliament Street, London SW1A 2BQ</li> <li>• By e-mail to: <a href="mailto:ihandtrustsconsult.car@hmrc.gsi.gov.uk">ihandtrustsconsult.car@hmrc.gsi.gov.uk</a></li> </ul>
<b>Additional ways to be involved:</b>	HMRC will be inviting individuals, their representatives and other interested parties to meet with the policy team and discuss the issues raised in the consultation document.
<b>After the consultation:</b>	Following the period of consultation, HMRC will publish a summary of the responses to the consultation around the 2013 Autumn Statement. Legislation, if needed, is likely to be introduced in Finance Bill 2014.
<b>Getting to this stage:</b>	HMRC has previously consulted in this area: <i>Inheritance Tax: Simplifying Charges on Trusts</i> was published in July 2012. This current consultation responds to the comments received and develops HMRC's proposed policy.
<b>Previous engagement:</b>	HMRC have carried out initial meetings with representatives of a number of professional bodies to help identify potential areas of concern and imbalance.

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**On request this document can be produced in Welsh and alternate formats including large print, audio and Braille formats**

# 1. Introduction

1. This consultation builds on the *Inheritance Tax: Simplifying Charges on Trusts* consultation document published on 13 July 2012. It takes account of the comments and suggestions made by respondents as well as those made by representative bodies and other stakeholders during the course of meetings. HMRC is very grateful for all the time and thought that has been brought to the consultation process thus far. **Chapter 2** includes a summary of the responses to the consultation. A fuller and separate response document was published as *Inheritance Tax: Simplifying Charges on Trusts consultation response document* on 28 March 2013. The earlier consultation document and response document can be found by following the links at <http://www.hmrc.gov.uk/consultations/index.htm>.
2. HMRC believes that worthwhile improvements to the way Inheritance Tax (IHT) trust charges are calculated can be made without any significant impact on the rest of the regime and in keeping with the Government's objectives of delivering fairness while maintaining tax revenues. The purpose of this document is to propose possible options for ways in which simplification and alignment can be achieved.
3. Areas that have been identified for simplification or possible reform include:
  - Simplifying the calculation of IHT trust charges including the consideration of charges on certain death in service pension schemes;
  - Standardising the treatment of accumulated income; and
  - Aligning filing and payment dates for ten yearly and exit charges with the Self Assessment framework.

## ***Simplifying the IHT calculations***

4. Inheritance Tax (IHT) is primarily a charge on a person's estate on death and on certain lifetime transfers. There is a separate regime that charges tax on settled property.
5. Settled property where a beneficiary does not have a right to the assets or income from them (an interest in possession) is known as "relevant property". Trusts that include relevant property pay IHT on transfers of such property out of the trust and on the trust's ten year anniversaries.
6. Property in the following types of trust doesn't count as relevant property:
  - interest in possession trusts with assets that were put in before 22 March 2006;
  - an immediate post-death interest trust;
  - a transitional serial interest trust;
  - a disabled person's interest trust;
  - a trust for a bereaved minor; and
  - an age 18 to 25 trust.

7. The calculation of IHT charges under the relevant property regime is dependent on a number of factors which often result in complex and onerous computations.
8. The Government acknowledges that these calculations can be complicated, time consuming and for smaller trusts, disproportionate compared to the tax at stake. HMRC is therefore committed, where it is sensible to do so, to simplify these calculations and reduce unnecessary burdens for trustees and practitioners.
9. **Chapter 3** re-examines the calculation of IHT charges under the current relevant property regime and proposes various ways in which the calculations can be simplified and made less onerous. The chapter outlines proposals for ignoring historical information and non-relevant property to reduce the complexity involved in arriving at the tax due. HMRC proposes instead, splitting the nil-rate band (NRB) between the number of settlements created by the settlor and using a rate of 6% for periodic and exit charges. Examples between the existing regime and the proposed alternative method provide comparisons of how the proposals would affect smaller and larger trusts.
10. Splitting the nil-rate band is integral to the proposals to simplify the calculations. Without this provision, the scope for any changes to simplify the calculations would be limited due to the risk that it would lead to greater avoidance and the adverse impact to the Exchequer. Dividing the nil-rate band equally or apportioning it between the number of trusts in existence would ensure fairness in the system and protect IHT revenues.

### ***Treatment of accumulated income***

11. Income waiting to be distributed is not relevant property and is not subject to IHT. However, if income is accumulated by the trustees and is added to the trust capital, then it becomes relevant property from the date of accumulation and will be chargeable to IHT in the normal way.
12. Where the trustees have not formally accumulated income arising in the trust, but that income has been retained for a long period, it can sometimes be difficult to agree whether or not the income has been accumulated. **Chapter 4** proposes a way in which the rules can be clarified.

### ***Aligning filing and payment dates***

13. Many trustees and practitioners find IHT filing and payment dates confusing and inconsistent.
14. A common filing and payment date would ease the administrative burden on trustees and their advisers. Alignment would only apply to IHT periodic and exit charges. Aligning the reporting and payment dates with the Self Assessment regime may provide a suitable solution. **Chapter 5** looks at this in more detail.

## 2. Responses to previous consultation

### *Overview of the July 2012 consultation*

15. This chapter briefly summarises the consultation *Inheritance Tax: Simplifying Charges on Trusts* published in July 2012 and the responses received. This was an initial high level consultation intended to raise issues and ask questions, but not propose solutions. The consultation gave a basic outline of the IHT trust charges and provided examples of the complexity involved even for the most straightforward calculations. Potential areas for simplification or possible reform included:

- Data requirements;
- Minor modifications to existing provisions;
- Reducing burdens where liabilities are small;
- Treatment of Accumulated Income;
- Improvements to existing guidance and forms; and
- Provision of online calculators.

16. HMRC received over 30 formal responses from individuals, trustees, practitioners and professional bodies. HMRC also held meetings with key interest groups and representative bodies.

### *Summary of the responses*

#### *General*

17. Whilst most respondents welcomed HMRC's aim to reduce complexity in the tax system, some urged caution when considering adjustments to the relevant property regime. They commented that although the regime is complex to operate, it covers most scenarios and the legislation usually provides an answer.

#### *Simplifying computations*

18. Most respondents stated that obtaining the historical records of trusts quite often presented practical problems. The main reason being the fact that a large number of trusts which previously had no record keeping requirements fell within the relevant property regime after the changes made in Finance Act 2006.

19. Settlers are currently able to set up multiple settlements. But if they are not created on the same day they are not related settlements for IHT purposes and they each qualify for their own unrestricted NRB. In response to HMRC concerns that simplification could increase the risk of fragmentation of settlements, a third of respondents suggested that the IHT NRB could be shared between the number of trusts established by the same settlor. They added that dividing the NRB in this way could replace the burdensome requirement for historical information when calculating the IHT charges.

20. HMRC's proposals for simplifying the IHT calculations draw on this suggestion and are outlined in Chapter 3 with examples of how this could work in practice.

#### *Accumulated income*

21. There was a general view amongst stakeholders that this was an area that required clarification. Some went further saying that this was overdue and a practical solution was needed. But a minority were more cautious saying that HMRC should not disturb the current rules and guidance without justification.
22. Some respondents suggested that one way of clarifying the rules would be to treat income from discretionary trusts which is accumulated as deemed to be added to the capital for the purposes of the relevant property charge from a given date after the end of the tax year of receipt. At present there is a lot of uncertainty for practitioners and HMRC alike around when accumulated income should be converted to capital.

#### *Forms and guidance*

23. All those that commented said that any improvements to HMRC's IHT online forms and guidance would be welcomed. The forms were seen as complex and generic which meant that smaller trusts would often feel the need to seek professional advice even when there might not be any IHT charges due.
24. In response to this HMRC's view is that reform of IHT forms will be considered where it is possible to make worthwhile improvements and costs associated with the changes were affordable. Relevant IHT forms will be reviewed once any changes arising from this consultation are introduced.
25. Several respondents commented that IHT filing and payment dates are confusing and illogical. Under the current rules there may be situations where the due date for payment falls before the due date for delivering an account.
26. They suggested that the reporting and payment dates should be aligned with the Self Assessment regime. A common filing and payment date would ease the administration burden on trustees and their advisers.
27. The view of the majority of respondents was that an online calculator that could calculate the charges that are due would be helpful. Three respondents made the point however, that an online calculator would not be necessary if there was genuine simplification and improvements to guidance.

#### *'Accumulation & Maintenance' and 'Interest in Possession' Trusts*

28. Three respondents suggested a reversion to the rules before the Finance Act 2006 changes, and the removal of certain settlements from the relevant property regime. These primarily relate to former 'accumulation and maintenance' trusts (A&M) and 'interest in possession' trusts that were not within the relevant property regime under the former rules but are now as a result of the changes in 2006.

29. The Government does not propose taking this forward in view of the likely adverse impact on the Exchequer.

*Other issues*

30. Other areas mentioned by respondents where changes could be made to simplify the IHT trust charges included:

- Death in Service benefits;
- the way in which Business Property Relief (BPR) is applied;
- issues connected with initial interests of settlors or spouses/civil partners (section 80 IHTA 1984);
- property moving between settlements (section 81 IHTA 1984); and
- excluded property (section 82 IHTA 1984).

31. Death in service schemes are given some further consideration as part of this consultation at the end of chapter 3.

32. Changes to the way BPR is calculated will not be considered as part of the trust charges simplification but these views will be forwarded to the relevant teams within HMRC.

33. The remaining issues listed above will not be considered as part of the trust charges simplification.



### 3. Simplification of trust charges

34. It is widely acknowledged that the current regime for calculating trust charges can be complex and burdensome. For many trusts set up before 2006 there was no expectation that historical records had to be maintained for the calculation of the settlor's cumulative total of gifts at the time the trust was set up. For smaller trusts in particular the burdens and professional costs involved in collecting the information necessary to undertake these calculations, can often be disproportionately large compared to the tax at stake.
35. Before considering ways that the calculations might be simplified it is worth recapping on the various steps and information needed to calculate the periodic and exit charges.

#### *Periodic Charges*

36. A periodic charge is due on every tenth anniversary of the date on which property was first added to the trust if, broadly:
- the trust contains relevant property, and
  - the value of the relevant property contained in the trust is greater than the IHT nil-rate band available to the trust.
37. The IHT nil-rate band is £325,000 (for the tax year 2012/13) but this is reduced to take account of other chargeable transfers made by the settlor at or before the time the trust was set up. These adjustments are intended to reduce the scope for settlors to artificially reduce the IHT charges to which the trust assets would otherwise be liable.
38. Before trustees can begin to calculate the amount of any periodic charge they need to establish:
- the historic value (i.e. the value at the time of settlement) of any property in any other trusts (except wholly charitable trusts) that the settlor set up on the same date as the trust concerned, and
  - the historic value of any chargeable transfers that the settlor made in the seven years before this trust was set up.
39. The calculation of the periodic charge is further complicated by the need to take account of assets that have not been relevant property for the full ten years preceding the charge and of assets that are not themselves relevant property but which are held in the trust. So trustees also need to establish:
- the current value of the relevant property in the trust;
  - the value and dates of any transfers of relevant property out of the trust during the preceding ten years;
  - the value and dates of any additions of relevant property to the trust during the last preceding ten years; and

- the historic value of trust property that has not been relevant property at any time.

40. The work needed to establish these facts can be time consuming and difficult for trustees. Where all these various factors and values are required to calculate the periodic charge, the calculation itself is quite complex.

#### Example 1: Ten year anniversary charge

Samit sets up a trust on 18 April 2002. £350,000 is added to the trust and is held equally in two separate funds (one in which an interest in possession arises in favour of an aunt and one where the trustees have discretion over how to apply the trust income).

Samit had set up an earlier wholly discretionary trust in September 2000 and added £175,000 to that trust.

The periodic charge for this trust arose on 18 April 2012 when the value of the discretionary fund is £250,000. The calculation for the periodic charge is as follows:

Value of relevant property subject to tax		250,000
Historic value of non-relevant property		175,000
Value of settlor's cumulative total of gifts		175,000
<u>Assumed transfer</u>		
Relevant property	250,000	
Non-relevant property	<u>175,000</u>	
		425,000
<u>Less nil-rate band</u>		
Nil-rate band	325,000	
Settlor's cumulative total	-175,000	
		-150,000
Value to determine rate of tax		<u>275,000</u>
Tax at 20%		55,000
Initial rate of tax (55,000/425,000)		12.941%
Reduced to 3/10 <sup>ths</sup> <sup>1</sup>		3.882%
Tax payable £250,000 @ 3.882%		<u>£9,705</u>

<sup>1</sup> The rate for the ten yearly charge is 3/10ths of the rate which would be charged on an immediately chargeable lifetime transfer (as if the trust funds were hypothetically transferred at the TYA date). The lifetime charge is currently half the death rate; 20%.  
Therefore, 3/10 x 20% = 6% maximum

## Exit Charges

41. Exit charges are imposed on transactions or events that take place before the first ten-year anniversary of a trust, or between such anniversaries, to ensure that IHT cannot be avoided where relevant property is removed from a trust in advance of a periodic charge being imposed. An exit charge is a proportionate periodic charge with time-apportionment being calculated on a quarterly basis.
42. There are various reasons why relevant property may be removed from a trust. It may occur when:
- a trust comes to an end;
  - assets within the trust are distributed to beneficiaries;
  - a beneficiary becomes absolutely entitled to enjoy an asset;
  - an asset ceases to be 'relevant property' (for example by becoming part of a charitable trust or a trust for a qualifying disabled person); and
  - where the trustees enter into a non-commercial transaction that reduces the value of the trust.
43. As with the periodic charge, the calculation requires trustees to ascertain the following information:
- the historic value (at time of settlement) of trust assets;
  - the historic value (at time of settlement) of any property in any other trusts (except wholly charitable trusts) that the settlor set up on the same date as the trust; and
  - the historic value of any transfers subject to Inheritance Tax (whether into trusts or not) that the settlor made in the seven years before this trust was set up.
44. Once this information is available there will be a slightly different calculation depending on whether:
- the transfer out of the trust occurs during the first ten years of a trust's life
  - the transfer out occurs after the first ten years.

### Example 2: exit charge within first ten years

If the Trustees of Samit's trust in example 1 had instead made a distribution of capital - £100,000 – out of the relevant property on 6 June 2007 then the calculation would be as follows:

Historic value of relevant property		175,000
Historic value of non-relevant property		175,000
Value of settlor's cumulative total of gifts		175,000
<u>Assumed transfer</u>		
Relevant property	175,000	
Non-relevant property	<u>175,000</u>	
		350,000
<u>Less nil-rate band</u>		
Nil-rate band	300,000	
Settlor's cumulative total	-175,000	
		-125,000
Value to determine rate of tax		<u>225,000</u>
Tax at 20%		45,000
Effective rate of tax (45,000/350,000)		12.857%
Reduced to 3/10 <sup>ths</sup> <sup>2</sup>		3.857%
Tax payable £100,000 @ 3.857%		<u>£3,857</u>
Here, the exit charge fell in the 21st quarter after the date of settlement so it was relevant property for 20 complete quarters. So the tax is reduced to 20/40 x £3,857 or <b>£1,928.50</b> .		<b>£1,928.50</b>

The settled property has not been relevant property for a full 10 years so this is reflected by splitting the 10-year period into 40 quarter years and reducing the tax payable to the proportion that relates to the period that the property was relevant property.

<sup>2</sup> The calculation is based on 3/10 of the lifetime rate of inheritance tax (half death rates), currently 20%. So the maximum rate is 6% (as for TYA charges).

### Example 3: exit charge after Year 10

The method of calculating the rate of IHT for an exit charge after a periodic charge is different. The most significant difference is that the rate of tax on relevant property is based upon the value of the relevant property at the last ten year anniversary rather than its historic value.

So, following on from the preceding examples, if the trustees had instead made a distribution of £100,000 on 6 June 2017 and the nil-rate band had not been changed in the interim then the calculation would be as follows.

Relevant property at anniversary		250,000
Historic value of non-relevant property		175,000
Value of settlor's cumulative total of gifts		175,000
<u>Assumed transfer</u>		
Relevant property	250,000	
Non-relevant property	<u>175,000</u>	
		425,000
<u>Less nil-rate band</u>		
Nil-rate band	325,000	
Settlor's cumulative total	-175,000	
		-150,000
Value to determine rate of tax		<u>275,000</u>
Tax at 20%		55,000
Initial rate of tax (55,000/425,000)		12.941%
Reduced to 3/10 <sup>ths</sup>		3.882%
As the exit occurred in the 21st quarter after the anniversary, the tax payable is £100,000 x 3.882% = 3,882 x 20/40 = <b>£1,941.</b>		<b>£1,941.</b>

This is the same as the initial rate calculated for the periodic charge at example 1.

## Options for simplification

45. HMRC has considered all the responses to the July 2012 consultation and the variety of ideas and suggestions put forward for ways in which the calculations can be simplified. It was clear from the responses that stakeholders did not favour the introduction of an entirely new regime.
46. There was acknowledgement that in the main the current regime works well enough but by introducing some relaxations to the current provisions its practical operation could be improved.
47. HMRC believe that the following changes would remove a number of the practical difficulties involved in arriving at the tax due whilst at the same time keeping the trust charges regime relatively intact. Furthermore these changes will address concerns stakeholders have around administrative burdens and professional costs.
- It is proposed that the settlor's previous lifetime transfers should be ignored in determining the available nil-rate band for the purposes of calculating the hypothetical transfer on exit charges and ten year anniversary charges. This will avoid the problems and associated costs of having to obtain historic records and valuations.
  - Non-relevant property would also be ignored for the purposes of the calculation of periodic and exit charges as this relies on establishing the initial value and obtaining historical records. The advantage of these modifications would be that trustees would only be required to know information regarding exits from the trust and other trusts in the last ten years rather than potentially very old information.
  - The nil-rate band should be split by the number of relevant property settlements which the settlor has made. This will alleviate the risk that settlors might seek to fragment ownership of property across a number of trusts to maximise the availability of reliefs or exempt amounts.
  - HMRC proposes that a simple rate of 6% of the chargeable transfer is used in the calculation of periodic and exit charges, rather than the lengthy calculations of the effective rate and settlement rate. HMRC recognise that it is not uncommon for professional costs to exceed the amount of tax at stake. For example a transfer out of a trust of £10,000 after 4 years would have a maximum charge of £240 ( $10,000 \times 6\% / 40 \times 16$  quarters) but the costs associated with the computations and the preparation of the returns that need to be made under the current regime, are almost certainly going to exceed the tax payable at the maximum rate.
48. Using the same facts set out in the examples above, the following examples give an indication of how the suggested options for simplification may work in practice.

### Example 4: first 10 year charge

Trust 1 settled in 2000	£175,000
Trust 2 settled in 2002	£350,000
Trust 2 non relevant property settled in 2002	£175,000
Value of Trust 2 relevant property at ten year anniversary	£250,000

#### Current rules

<b>Trust 1:</b> value of relevant property (2010)		175,000
No previous transfers		
No related or non-relevant property		
Charge on trust 1		Nil
<b>Trust 2:</b> value of relevant property (2012)		250,000
Historic value of non relevant property		175,000
Value of settlor's cumulative total gifts		175,000
<u>Assumed transfer</u>		
Relevant property	250,000	
Non-relevant property	175,000	
		425,000
Less nil-rate band	325,000	
Settlor's cumulative total	-175,000	
		-150,000
Value to determine rate of tax		275,000
Tax at 20%		55,000
Initial rate of tax (55,000/425,000)		12.94%
Settlement rate		3.882%
Charge on trust 2 £250,000 @3.882%		<b>9,705</b>

#### Proposed alternative

<b>Trust 1:</b> value of relevant property (2010)	175,000
Less nil-rate band/2	162,500
Value subject to tax	12,500
Charge on trust 1 at 6%	<b>750</b>
Settlement rate (750/175,000)	0.428%
<b>Trust 2:</b> value of relevant property (2012)	250,000
Less nil-rate band/2	162,500
Value subject to tax	87,500
Charge on trust 2 at 6%	<b>5,250</b>
Settlement rate (5,250/250,000)	2.1%

## Example 5: exit charge from Trust 2 within first ten years

### Current rules

Exit of £100,000 after 5 years		100,000
Historic value of relevant property		175,000
Historic value of non relevant property		175,000
		350,000
Less nil-rate band (2007)	300,000	
Settlor's cumulative total	-175,000	
		-125,000
Value to determine rate of tax		225,000
Tax at 20%		45,000
Effective rate (45,000/350.000)		12.857%
Settlement rate (12.857% x 3/10)		3.857%
Charge on exit (100,000 * 3.857%) * 20/40		<b>1928.50</b>

### Proposed alternative

Exit of £100,000 after 5 years	100,000
Value of relevant property at date of settlement	175,000
Less nil-rate band (2007)/2	-150,000
Value to determine rate of tax	25,000
Charge at 6%	1,500
Settlement rate (1,500/175,000)	0.857%
Charge on exit (100,000 * .857%) * 20/40	<b>428.50</b>



### Example 6: exit charge from Trust 2 after Ten Year anniversary (TYA)

#### Current rules

Exit of £100,000 5 years after TYA	100,000
Settlement rate from 10 year anniversary	3.882%
Charge on exit (100,000 * 3.882%) * 20/40	<b>1,941</b>

#### Proposed alternative

Exit of £100,000 5 years after TYA	100,000
Settlement rate from 10 year anniversary	2.1%
Charge on exit (100,000 * 2.1%) * 20/40	<b>1,050</b>

The effective rate of the exit charge is based on the most recent periodic charge and adjusted for the number of quarters since the last periodic charge date. It would also reflect any changes in the nil-rate band since the TYA as set out in the existing legislation. Any additions of relevant property to the trust fund between the TYA and the exit charge would be taken into account as an addition to the value of the relevant property and the settlement rate recalculated to establish the rate to be applied to the exit charge.

## Example 7: 2<sup>nd</sup> periodic charge at year 20

### Current rules

<b>Trust 1:</b> value of relevant property (2020)	225,000
(No charge as below nil-rate band)	
<b>Trust :2</b> value of relevant property (2022)	225,000
Historic value of non-relevant property	175,000
	400,000
Less nil-rate band	325,000
Exit in past ten years	-100,000
Settlors cumulative total	-175,000
	-50,000
Value to determine rate of tax	350,000
Tax at 20%	70,000
Effective rate (70,000/400,000)	17.5%
Settlement rate (17.5% x 3/10)	5.25%
Charge on Trust 2 at 6%	<b>11,813</b>

### Proposed alternative

<b>Trust 1:</b> value of relevant property (2020)	225,000
Less nil-rate band/2	162,500
Value subject to tax	62,500
Charge on trust 1 at 6%	<b>3,750</b>
Settlement rate	<b>1.666%</b>
<b>Trust 2:</b> value of relevant property (2022)	225,000
Less nil-rate band/2	162,500
Exit in past ten years	-100,000
	-62,500
Value subject to tax	162,500
Charge on trust 2 at 6%	<b>9,750</b>
Settlement rate	4.333%

Tax paid over a lifetime for trusts 1 and 2 \*£23459      Tax paid over a lifetime for trusts 1 and 2 \*£20550

\*Totals based on exit charge after ten year anniversary

49. Looking at the examples in isolation would suggest that the proposed alternative method favours the taxpayer but over a period of time (20 years plus) the difference between the current rules and the simplified regime is less significant.

50. However, where larger trusts are concerned, the outcome using the proposed alternative method would suggest that the taxpayer is disadvantaged. But again, if the figures are examined over a 20 year period, the difference is relatively small and overall HMRC envisage that the benefits of simplification would outweigh any loss.

51. Examples 8 – 10 below illustrate how the simplified rules might affect larger trusts.

## Proposals applied to more valuable trusts

Trust 1 settled 2000	1,000,000
Trust 2 settled 2002	2,500,000
Non relevant property (IIP) settled 2002	3,000,000

Final exit charge assumed to take place on 20 year anniversary for trust 1 and trust 2 and funds then distributed to wind up the trusts.

### Assumed values for trust 1 and trust 2

Trust 1 2000	1,000,000
Trust 1 first periodic charge (2010)	1,000,000
Trust 1 second periodic charge and winding up (2020)	1,500,000
Trust 2 2002	2,500,000
Trust 2 first periodic charge (2012)	2,500,000
Trust 2 amount subject to exit charge (2017)	1,500,000
Trust 2 second periodic charge and winding up (2022)	1,250,000

### Example 8: first 10 year charge

#### Current rules

<b>Trust 1:</b> value of relevant property (2010)		1,000,000
Less nil-rate band	-325,000	
Value subject to tax		675,000
Charge on trust 1 at 6%		<b>40,500</b>
<b>Trust 2:</b>		
Assumed transfer (2012)		
Relevant property	2,500,000	
Non-relevant property	<u>3,000,000</u>	
		5,500,000
<u>Less nil-rate band</u>		
Nil-rate band	325,000	
Settlor's cumulative total	1,000,000	-
Value to determine rate of tax		5,500,000
Tax at 20%		1,100,000
Initial rate of tax (1,100,000/5,500,000)		20%
Settlement rate (20% x 3/10)		6%
Charge on trust 2 (2,500,000 * 6%)		<b>150,000</b>

#### proposed alternative

<b>Trust 1:</b> value of relevant property (2010)		1,000,000
Less nil-rate band/2		-162,500
Value to determine rate of tax		837,500
Charge on trust 1 at 6%		<b>50,250</b>
Settlement rate		5.025%
<b>Trust 2:</b> value of relevant property (2012)		
Less nil-rate band/2		-162,500
Value to determine rate of tax		2,337,500
Charge on trust 2 at 6%		<b>140,250</b>
Settlement rate		5.61%

### Example 9: exit charge at year 15 from Trust 2

#### Current rules

Exit of £1,500,000 5 years after TYA	1,500,000
Settlement rate from 10 year anniversary	6%
Charge on exit (1,500,000 *6%) * 20/40	<b>45,000</b>

#### Proposed alternative

Exit of £1,500,000 5 years after TYA	1,500,000
Settlement rate from 10 year anniversary	5.61%
Charge on exit (1,500,000 *5.61%) * 20/40	<b>42,000</b>

### Example 10: 2<sup>nd</sup> periodic charge at year 20 and winding up

#### Current rules

<b>Trust 1:</b> value of relevant property (2020)	1,500,000
Less nil-rate band	-325,000
Value subject to charge	1,175,000
<b>Charge on trust 1 at 6%</b>	<b>70,500</b>
<b>Trust 2:</b> value of relevant property (2022)	1,250,000
Historic value of non-relevant property	3,000,000
	4,250,000
Less nil-rate band	325,000
Exit in past ten years	1,500,000
Settlors cumulative total	1,000,000
	-
Value to determine rate of tax	4,250,000
Tax at 20%	850,000
Effective rate	20%
Settlement rate	6%
<b>Charge on Trust 2</b>	<b>75,000</b>

#### Proposed alternative

<b>Trust 1:</b> value of relevant property (2020)	1,500,000
Less nil-rate band/2	-162,500
Value subject to tax	1,337,500
<b>Charge on trust 1 at 6%</b>	<b>80,250</b>
<b>Trust 2:</b> value of relevant property (2022)	1,250,000
Less nil-rate band/2	162,500
Exit in past ten years	1,500,000
	-
Value subject to tax	1,250,000
Settlement rate	6%
<b>Charge on trust 2 at 6%</b>	<b>75,000</b>

Tax paid over a lifetime for trusts 1 and 2 **£381,000**

Tax paid over a lifetime for trusts 1 and 2 **£387,750**

**Question 1: Do these proposals meet the objective of reducing complexity and administrative burdens and in what way(s)?**

**Question 2: Does a single rate of 6% present any difficulties, particularly for smaller trusts?**

**Question 3: How much time would the simplified method save trustees and practitioners, on average per trust?**

**Question 4: Will there be significant costs to trustees and practitioners familiarising themselves with the new system and if so can you quantify these?**

### ***Nil-Rate Band***

52. The proposal to divide the nil-rate band by the number of settlements in existence would replace the burdensome requirement for historical information when calculating the IHT charges but it would also mean that it would no longer be advantageous for a settlor to create multiple trusts.
53. Settlers currently benefit from the use of multiple settlements because if they are not created on the same day they are not related settlements for IHT purposes. The current fragmentation rule aims to prevent a settlor reducing trust charges through the use of multiple trusts each with its own unrestricted nil-rate band. But the rule can be easily side-stepped by those setting up trusts during their lifetime by simply setting up a series of trusts, each on a different day enabling the settlor to avoid IHT trust charges.
54. A new rule which split the nil-rate band between settlements made by the same settlor would mean that the "related settlements" rule would no longer be necessary.
55. Under a more simplified regime, HMRC's proposal for the first ten year charge is that the nil-rate band is split between all relevant property settlements made by the settlor and in existence at any time between the date the trust concerned was set up and the time of the charge. This would include any settlements which had been wound up before the date of charge.
56. For subsequent 10 year charges it is proposed that the nil-rate band is split between all relevant property settlements made by the settlor and in existence at any time between the date of the previous 10 year anniversary and the date of the current charge.
57. For exits before the ten year anniversary, it is proposed that the nil-rate band is split between all relevant property settlements in existence at any time during the period the trust concerned commenced to the date of exit.
58. For exits after the ten year anniversary, it is proposed that the nil-rate band is split between all relevant property settlements taken into account for the

purposes of calculating the IHT charge at the last ten year anniversary plus any in existence since the ten year anniversary to the date of exit.

59. Dividing the nil-rate band equally or apportioning it between the number of trusts created by the settlor and in existence when the trust concerned was created or at any later time would ensure fairness in the system and balance the proposed removal of some of the steps currently necessary in arriving at the IHT charges.
60. The examples in the following pages set out the effects of splitting the nil-rate band.

### **Example 11**

Samit sets up a trust on 25 April 2005. £500,000 is added to the trust and held equally in two separate funds (one in which an interest in possession arises in favour of an aunt) and one which the trustees have discretion over how they apply the trust income. Earlier, Samit had set up two wholly discretionary trusts in September 2002 and September 2000 and added £175,000 to each of the trusts. We will assume that it is 2015 and the value of relevant property at the ten year anniversary for trust 3 is £400,000.

#### **Summary of the facts**

Trust 1 settled in 2000	£175,000
Trust 2 settled in 2002	£175,000
Trust 3 settled in 2005	£500,000
Non relevant property settled in 2005	£250,000
Value of Trust 3 relevant property at ten year anniversary	£400,000

**Example 11: 10 year charge based on number of settlements in existence at the time of calculating the charge.**

**Current rules**

<b>Trust 1:</b> value of relevant property (2010)		175,000
Less nil-rate band		-325,000
Charge on trust 1		-
<b>Trust 2:</b> Value of relevant property (2012)		175,000
Less nil-rate band £325,000	325,000	
Settlor's cumulative total	-175,000	
		-150,000
Value to determine rate of tax		25,000
Tax at 20%		5,000
Initial rate of tax (5,000/175,000)		2.857%
Settlement rate (2.857 x 3/10)		.857%
Charge on trust 2 £175,000 @ .857%		<b>1,499.75</b>
<b>Trust 3:</b> value of relevant property (2015)		400,000
Historic value of non relevant property		250,000
Value of settlor's cumulative total gifts		350,000
<u>Assumed transfer</u>		
Relevant property	400,000	
Non-relevant property	250,000	
		650,000
Less nil-rate band	325,000	
Settlor's cumulative total	-350,000	-
Value to determine rate of tax		650,000
Tax at 20%		130,000
Initial rate of tax (130,000/650,000)		20%
Settlement rate (20% x 3/10)		6%
Charge on trust 3 £400,000 @6%		<b>24,000</b>

**Possible alternative**

<b>Trust 1:</b> value of relevant property (2010)	175,000
Less nil-rate band/3	-108,333
Value subject to tax	66,667
Charge on trust 1 at 6%	<b>4,000</b>
Settlement rate (4,000 x 175,000)	2.286%
<b>Trust 2:</b> value of relevant property (2012)	175,000
Less nil-rate band/3	-108,333
Value subject to tax	66,667
Charge on trust 2 at 6%	<b>4,000</b>
Settlement rate	2.286%
<b>Trust 3:</b> value of relevant property (2015)	400,000
Less nil-rate band/3	-108,333
Value subject to tax	291,667
Charge on trust 3 at 6%	<b>17,500</b>
Settlement rate	4.375%

## **Example 12**

This example assumes that settlements Samit created in 2000 and 2002 have been wound up in 2007 (subject to the normal exit charges). The example shows the effect of basing the nil-rate band on the trusts in existence at the time of the ten year anniversary including any settlements which may have been wound up in the previous ten year period at the time of calculating the charge.

### **Summary of the facts**

Trust 1 settled in 2000	£175,000
Trust 2 settled in 2002	£175,000
Trust 3 settled in 2005	£500,000
Non relevant property settled in 2005	£250,000
Value of Trust 3 relevant property at ten year anniversary	£400,000
Trust 1 and trust 2 wound up in 2007	



**Example 12: 10 year charge for trust 3 based on number of settlements that existed at the time of the charge including any settlements which may have been wound up in the previous ten year period. Exit charges on those settlements wound up on the same basis.**

**Current rules**

<b>Trust 1:</b> value of relevant property on exit		175,000
Less nil-rate band		-325,000
Charge on trust 1		-
<b>Trust 2:</b> value of relevant property on exit		175,000
Less nil-rate band	325,000	
Settlor's cumulative total	-175,000	
		-150,000
Value to determine rate of tax		25,000
Tax at 20%		5,000
Initial rate of tax (5,000/175,000)		2.857%
Effective rate (2,857 x 3/10)		.857%
Charge on exit (175,000 x .857% x 20/40)		<b>749.87</b>
<b>Trust 3:</b> value of relevant property (2015)		400,000
Historic value of non relevant property		250,000
Value of settlor's cumulative total gifts		350,000
<u>Assumed transfer</u>		
Relevant property	400,000	
Non-relevant property	250,000	
		650,000
Less nil-rate band		325,000
Settlor's cumulative total		-
Value to determine rate of tax		650,000
Tax at 20%		130,000
Initial rate of tax (130,000/650,000)		20%
Settlement rate (20% x 3/10)		6%
Charge on trust 3 £400,000 @6%		<b>24,000</b>

**Possible alternative**

<b>Trust 1: (wound up 2007)</b>		
Value of relevant property at date of settlement		175,000
Less nil-rate band (300,000/3)		-100,000
Value to determine rate of tax		75,000
Tax at 6%		4,500
Settlement rate (4,500/175,000)		2.571%
Charge on exit (175,000 * 2.571%) * 28/40		<b>3149.47</b>
<b>Trust 2: (wound up 2007)</b>		
Value of relevant property at date of settlement		175,000
Less nil-rate band (300,000/3)		-100,000
Value to determine rate of tax		75,000
Tax at 6%		4,500
Settlement rate (4,500/175,000)		2.571%
Charge on exit (175,000 * 2.571%) * 20/40		<b>2249.62</b>
<b>Trust 3:</b>		
Value of relevant property (2015)		400,000
Less nil-rate band (325,000/3)		-108,333
Value subject to tax		291,667
<b>Charge on trust 3 at 6%</b>		<b>17,500</b>
<b>Settlement rate</b>		4.375%

### **Example 13**

This example assumes that the settlements Samit created in 2000 and 2002 were wound up in 2004 and covers a scenario where Samit set up a new discretionary trust in 2009 and added £250,000 to it. The nil-rate band in this example is based on the trusts in existence at the time the trust concerned was created plus those created in the ten year period.

#### **Summary of the facts**

Trust 1 settled in 2000	£175,000
Trust 2 settled in 2002	£175,000
Trust 3 settled in 2005	£500,000
Non relevant property settled in 2005	£250,000
Value of Trust 3 relevant property at ten year anniversary	£400,000
Trust 1 and trust 2 wound up in 2004	
Trust 4 created in 2009	£250,000

**Example 13: 10 year charge for trust 3 based on number of settlements that existed at the time the settlement concerned was made and including settlements made in the ten year period. Exit charges on those settlements wound up on the same basis.**

**Current rules**

<b>Trust 1: value of relevant property</b>		175,000
Less nil-rate band 325,000		
Charge on trust 1		-
<b>Trust 2: value of relevant property on exit</b>		175,000
Less nil-rate band	325,000	
Settlor's cumulative total	-175,000	
		-150,000
Value to determine rate of tax		25,000
Tax at 20%		5,000
Initial rate of tax (5,000/175,000)		2.857%
Effective rate (2,857 x 3/10)		.857%
Charge on exit (175,000 x .857% x 8/40)		<b>299.95</b>
<b>Trust 3: value of relevant property (2015)</b>		400,000
Historic value of non relevant property		250,000
Value of settlor's cumulative total gifts		350,000
<u>Assumed transfer</u>		
Relevant property	400,000	
Non-relevant property	250,000	
		650,000
Less nil-rate band	325,000	
Settlor's cumulative total	-350,000	-
Value to determine rate of tax		650,000
Tax at 20%		130,000
Initial rate of tax (130,000/650,000)		20%
Settlement rate (20% x 3/10)		6%
Charge on trust 3 £400,000 @6%		<b>24,000</b>

**Possible alternative**

<b>Trust 1: (wound up 2004)</b>		
Value of relevant property at date of settlement		175,000
Less nil-rate band £263,000/2		-131,500
Value to determine rate of tax		43,500
Tax at 6%		2,610
Settlement rate (2,610/175,000)		1.491%
Charge on exit (175,000 * 1.491%) * 16/40		<b>1043.70</b>
<b>Trust 2: (wound up 2004)</b>		
Value of relevant property at date of settlement		175,000
Less nil-rate band £263,000/2		-131,500
Value to determine rate of tax		43,500
Tax at 6%		2,610
Settlement rate (2,610/175,000)		1.491%
Charge on exit (175,000 * 1.491%) * 8/40		<b>521.85</b>
<b>Trust 3:</b>		
Value of relevant property (2015)		400,000
Less nil-rate band/2		-162,500
Value subject to tax		237,500
<b>Charge on trust 3 at 6%</b>		<b>14,250</b>
<b>Settlement rate</b>		<b>3.562%</b>

61. Examples 11–13 demonstrate that there are different ways in how the nil-rate can be divided to take account of the number of settlements that the settlor has created. The simplest way would be to divide it between the settlements existing at commencement of the trust concerned or the settlements existing at the date of the charge.
62. However, to achieve the most equitable solution, HMRC must balance the desire for simplification against the risk of manipulation. Taking account only the settlements in existence at the date of commencement or the date of the charge would mean that it would be very easy for settlors to re-arrange their affairs to escape the charge.
63. The examples are in line with HMRC’s proposals. They take into account the settlements that were in existence at any time during the period from commencement of the trust concerned to the date of the charge (including those that may have been wound up in the meantime).

**Question 5: Do HMRC’s proposals in paragraphs 54- 58 on the way in which the nil-rate band should be split for ten year and exit charges provide the right balance between fairness and the risk of manipulation?**

**Question 6: Are there any other ways that the nil-rate band could be split that would not risk a loss to the Exchequer?**

## ***Other issues***

### ***Commencement provisions***

64. The new simplified rules would apply to all existing trusts from a given date and any new trusts set up thereafter.

**Question 7: Would applying the new rules from a set date cause trustees and practitioners any difficulties?**

**Question 8: In what other way could the new rules be implemented?**

### ***Death in service schemes***

65. Some respondents to the July 2012 consultation pointed out what they considered to be an anomaly for trusts holding death in service benefits for employees of a company or groups of partners. It arises where a payout is crystallised on the death of an employee shortly before a periodic charge date but where it has not yet been possible to distribute the cash benefit to the beneficiary of the employee’s estate.
66. In such circumstances a periodic charge applies on the cash temporarily held whereas this would not be subject to the periodic charge if the payout crystallised shortly after the periodic charge.

67. Most pension schemes that pay death in service benefits are not treated as relevant property. Where pension death benefits in a registered (or equivalent) scheme are held on trust, the current legislation provides for certain reliefs and amongst them the provision that where the death benefits are payable at the discretion of the trustees, they are not relevant property. Upon the death of the employee/member that relief continues to apply for the period as set out in legislation.
68. This does not apply where the pension benefit is in an unregistered scheme. Such schemes choose not to satisfy the requirements of a registered scheme and HMRC is not convinced at this stage that any changes are needed in this area. But if stakeholders wish to make further representations providing typical scenarios of where difficulties arise, HMRC is willing to consider the matter further during the consultation period.

## 4. Income that may be accumulated

69. Many trusts have the ability to 'accumulate' undistributed trust income. At the point at which such income is accumulated it is treated as an addition to the trust's capital and will need to be taken into account in considering any periodic or exit charges.
70. Where income is regularly or formally accumulated there is little doubt about the correct treatment of the accumulations within the calculation of relevant property charges. But it can be different where income remains undistributed for long periods and the trustees have not made any formal accumulation. In such cases there can be uncertainty about how the calculations should be undertaken, resulting in questions to, or correspondence with, HMRC to establish an acceptable treatment.
71. Where there are discretionary trusts and the trustees have a duty to accumulate income without any power to distribute, income will be treated as accumulated as it arises. However it is more usual for discretionary trustees to have a power to accumulate income as well as a power to distribute it and in such cases the trust deed rarely stipulates a particular point at which accumulation must take place. Neither is there a statutory rule.
72. Relevant property trusts now include many non-discretionary trusts where the trustees will not have a power to accumulate so HMRC would not want any deeming rule to apply in these situations.
73. HMRC proposes to clarify the treatment of accumulated income by:
- Making express provision in the legislation to the effect that income which is accumulated and added to capital is relevant property for the purposes of the ten year and exit charge calculation from the date at which the accumulation takes place. This does not represent any change from the current treatment.
  - Deeming income arising to a trust where the trustees have a power to accumulate or a duty to accumulate coupled with a power to distribute, to be accumulated and added to capital if it remains undistributed from the start of the second tax year after the end of the tax year of receipt. The deeming provisions will not apply if the income has already been formally accumulated by the trustees or treated as accumulated under the terms of the trust instrument prior to that date. This will provide certainty in those cases where income is retained but there is doubt as to whether it could be said to have been accumulated.
74. So for example, income received on 30 April 2007 (2007/08) and not distributed would be deemed to be capital from 6 April 2010 if the trustees had a power of accumulation which had not been formally exercised prior to that date.

75. Where income is deemed to be capitalised, it will be treated as relevant property for the purpose of the ten year and exit charges calculation from that date. Retained income which has not been accumulated and which is not deemed to have been accumulated under the new provision will continue to be excluded from the calculation of 10 year and exit charges.

### **Example**

76. A discretionary trust was set up on 6 April 2007 where the trustees have a power to distribute or accumulate the income. The trust receives income each year which is not distributed and is not formally accumulated. At the ten year anniversary there will be 8 years that fall into the deemed capital category - the last year being 2014/15: If the income was £100,000 each year the total income accumulated for the purpose of the ten year charge would be £800,000. This would be added to the value of the relevant property in the trust and the charge would be calculated on that amount.

77. However, relief under s66 IHTA would be given for each quarter that each of the years in which the accumulated income had accumulated had not been treated as relevant property.

**Question 9: Are there any issues with using this method as a practical way of dealing with accumulations?**

**Question 10: Do you anticipate any additional administrative burden resulting from the proposed changes to the calculation of IHT on accumulated income? If so, what would you estimate to be the average cost per trust?**

## 5. Aligning filing and payment dates

### *The return and payment*

78. IHT payment and filing dates can appear confusing and illogical. The time limits for reporting a periodic or exit charge differ from the time limits for paying any IHT due.
79. The time limit for reporting details of a charge is twelve months from the end of the month in which the transfer is made, or if later, three months from the date when the accountable person first becomes liable for the tax.
80. The time limits for paying IHT charges are:
- For chargeable events after 5 April and before 1 October, IHT periodic and exit charges are due on 30 April in the following year.
  - For chargeable events after 30 September and before 6 April, IHT periodic and exit charges are due six months after the end of the month in which the chargeable event took place.
81. Under the current rules there may be situations where the due date for payment falls before the due date for delivering an account. For example taking an event in November 2012, the tax is due in May 2013 and the account is due in November 2013.
82. Unlike the death charge, trustees are not obliged to calculate the tax due when submitting returns and can ask HMRC to calculate the tax for them.
83. HMRC proposes to align filing and payment dates for IHT with those under the Self Assessment framework. The benefits that alignment would bring include simplification, an established and well known date by which the forms and payment were required by and it would greatly ease compliance.
84. The submission of IHT forms would be required by 31 October after the end of the tax year in which the charge arose. The IHT payment would be due by the following 31 January.
85. The table below illustrates the filing and payment dates under the current arrangements and the revised dates under HMRC's proposals for alignment.



<b>Date chargeable event occurred</b>	<b>Current Arrangement</b>	<b>Proposed Schedule</b>
Between 6 <sup>th</sup> April and 30 <sup>th</sup> Sept 2013 inclusive.	Return due twelve months from the end of the month in which the transfer is made, or if later, three months from the date when the accountable person first becomes liable for the tax.	Return filed by Oct 31 <sup>st</sup> 2014.
	Payment due on 30 <sup>th</sup> April 2014	Payment due by Jan 31 <sup>st</sup> 2015.
Between 1 <sup>st</sup> October 2013 and 5 <sup>th</sup> April 2014	Return due twelve months from the end of the month in which the transfer is made, or if later, three months from the date when the accountable person first becomes liable for the tax.	Return filed by Oct 31 <sup>st</sup> 2014.
	Payment due six months after end of month in which chargeable event took place i.e. 30 <sup>th</sup> April 2014 for Oct 2013 events and up to 31 <sup>st</sup> Oct 2014 for April 2014 events.	Payment due by Jan 31 <sup>st</sup> 2015.

86. By simplifying the regime, HMRC would require trustees to “self assess” the tax due. The IHT 100 form would be adapted to accommodate this with a “tax due” box at the end of the return. Responsibility to enter the amount due would rest entirely with the trustee and a charge for payment based on this amount would be issued by HMRC. The requirement for trustees to self calculate would be supported by toolkits and further guidance.

87. HMRC would, as now, check the accuracy of returns on a risk assessment basis. If an entry for the tax due is not made, the return would be considered incomplete and late filing penalties could follow. If the figure was found to be wrong, incorrect return penalties could apply.

88. The alignment would only apply to the ten year and exit charges arising in relevant property trusts and would not affect any IHT entry charge. Neither would it affect any other IHT charges such as charges on a person’s estate on death or on other lifetime transfers. These would retain their current payment and filing dates because of the ‘one off’ nature of these events.

**Question 11: Are there any issues with bringing IHT within the concept of Self Assessment?**

**Question 12: How much time will trustees and practitioners save as a result of the payment and filing dates being aligned with the SA framework?**

**Question 13: What would the impact be on trustees and practitioners’ clients?**

**Question 14: Will alignment bring benefits to customers in terms of reduced fees?**

## 6. Tax Impact Assessment

### Summary of Impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Economic impact</b>	Any Exchequer impact will depend on decisions made as a result of this consultation. Detailed costings will be subject to scrutiny by the Office for Budget Responsibility and will be set out at Budget 2014 where appropriate.				
<b>Impact on individuals and households</b>	<p><b>Simplification:</b> The measure will not impact on individuals or households. Its affect will be on trustees and their advisers.</p> <p><b>Multiple trusts:</b> Changing the application of the regime to multiple trusts created by the same settlor will impact on individuals seeking to maximise the nil-rate band available to trusts that they settle.</p>				
<b>Equalities impacts</b>	The Government has no evidence to suggest that the measure will have any adverse equalities impacts.				
<b>Impact on businesses and Civil Society Organisations</b>	<p>The policy objective is to reduce the complexity of the calculations trustees and their advisers have to take to calculate the amount of IHT charges imposed on trusts or confirm that no such charges arise, with a corresponding reduction in the administration burden associated with that task.</p> <p>The reform of the multiple trusts rule could increase the number of trusts liable to ten-yearly or exit charges. The numbers of trusts needing to undertake a ten-yearly charge calculation each year is less than 1500. Our evaluation of the impact of these changes will be informed by our consultation.</p>				
<b>Impact on HMRC or other public sector delivery organisations</b>	Simplification will result in some efficiencies for HMRC in undertaking and checking trustees' calculations, but these will not be significant. There will be costs to HMRC both in making amendments to forms and in particular the IT costs associated with the simplification of the IHT calculations and the alignment of payment and filing dates. The level of these costs is dependent on the options taken forward.				
<b>Other impacts</b>	The measure will benefit small businesses (firms with fewer than 20 employees) as a result of the reduction in complexity and administration burdens. The measure will have no impact on wider areas such as privacy, carbon assessment, health impact assessment, rural proofing or other environmental issues. The impacts on sustainable social and economic development are negligible.				

## 7. Summary of consultation questions

### Questions on the simplification of IHT trust charges

**Question 1: Do these proposals meet the objective of reducing complexity and administrative burdens and in what way(s)?**

**Question 2: Does a single rate of 6% present any difficulties, particularly for smaller trusts?**

**Question 3: How much time would the simplified method save trustees and practitioners, on average per trust?**

**Question 4: Will there be significant costs to trustees and practitioners familiarising themselves with the new system and if so can you quantify these?**

**Question 5: Do HMRC's proposals in paragraphs 54 - 58 on the way in which the nil-rate band should be split for ten year and exit charges provide the right balance between fairness and the risk of manipulation?**

**Question 6: Are there any other ways that the nil-rate band could be split that would not risk a loss to the Exchequer?**

**Question 7: Would applying the new rules from a set date cause trustees and practitioners any difficulties?**

**Question 8: In what other way could the new rules be implemented?**

### Questions on income that may be accumulated

**Question 9: Are there any issues with using this method as a practical way of dealing with accumulations?**

**Question 10: Do you anticipate any additional administrative burden resulting from the proposed changes to the calculation of IHT on accumulated income? If so, what would you estimate to be the average cost per trust?**

### Questions on aligning filing and payment dates

**Question 11: Are there any issues with bringing IHT within the concept of Self Assessment?**

**Question 12: How much time will trustees and practitioners save as a result of the payment and filing dates being aligned with the SA framework?**

**Question 13: What would the impact be on trustees and practitioners' clients?**

**Question 14: Will alignment bring benefits to customers in terms of reduced fees?**

## 8. The consultation process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- Stage 1 Setting out objectives and identifying options.
- Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3 Drafting legislation to effect the proposed change.
- Stage 4 Implementing and monitoring the change.
- Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

### How to respond

A summary of the questions in this consultation is included at chapter 7.

Responses should be sent by 23 August 2013, by e-mail to [ihtandtrustsconsult.car@hmrc.gsi.gov.uk](mailto:ihtandtrustsconsult.car@hmrc.gsi.gov.uk) or by post to: Tony Zagara HM Revenue & Customs, Room G/45, 100 Parliament Street, London SW1A 2BQ

Telephone enquiries Tony Zagara 020 7147 2861 (from a text phone prefix this number with 18001)

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from GOV.UK. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

### Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of

confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

## Consultation Principles

The Consultation Principles are available on the Cabinet Office website:  
<http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

If you have any comments or complaints about the consultation process please contact:

Amy Burgess, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: [hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk](mailto:hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk)

Please do not send responses to the consultation to this address.