



Inheritance tax: interest changes to support the new digital service

Who is likely to be affected?

Personal representatives and advisors or agents who administer the estate of a deceased person, trustees and other individuals who are liable to inheritance tax.

General description of the measure

The measure makes amendments to legislation relating to late payment interest to:

- extend the power to make regulations to allow the instalment interest provisions relating to certain financial institutions and companies to be updated; and
- clarify the period from when interest is charged.

Policy objective

These amendments will complement other changes which will be included in secondary legislation to support the digitisation of inheritance tax as part of the Government's digital strategy to improve the process for customers and the administration of the tax.

Background to the measure

At Autumn Statement 2013 the Chancellor announced that HM Revenue & Customs (HMRC) will provide an online service in 2015-16 for people to submit inheritance tax returns and settle the tax affairs of those who have died. To support the introduction of the new online service, various legislative changes will be made in primary and secondary legislation to facilitate the new online processes and to align the treatment of interest and penalties for inheritance tax purposes with other taxes. The amendments made by this measure are a part of those changes and will ensure that the relevant interest provisions are updated and apply correctly when the new online service becomes available from 2015-16. HMRC are continuing to develop the new online service and expect to publish draft regulations in early 2015.

Detailed proposal

Operative date

The amendments will come into force at an appointed day to be specified in regulations. This is expected to be at the same time as the new online service becomes available.

Current law

The current relevant legislation is in:

- sections 147(4), 234(3)(c) and 234(4) of Inheritance Tax Act 1984, and
- paragraphs 7 to 9 and 14 of Schedule 53 to Finance Act (FA) 2009 (which are not yet in force but are expected to be commenced when the online service is introduced).

Proposed revisions

Legislation will be included in Finance Bill 2015 to:

- extend the power to make regulations under section 107(4) and (5) FA 1986 in connection with section 234(3) and (4) IHTA to paragraph 7(7) and (8) of Schedule 53 FA 2009;
- amend paragraph 9 of Schedule 53 FA 2009 to refer to the end of the month in which the testator died to align the provisions with those in section 233(1)(b) IHTA.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	negligible	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	The changes will only affect personal representatives dealing with the estate of a deceased person, trustees and other individuals who are liable to inheritance tax and hence who may be charged interest on unpaid tax. The measure is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	The changes are not expected to adversely or disproportionately impact any equality group.					
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. The changes will also affect solicitors, estate practitioners, accountants and other professional advisers and agents who deal with the small number of estates, trusts and lifetime transfers likely to be affected by this measure. They will need to understand and apply the changes to their clients' tax affairs.					
Operational impact (£m) (HMRC or other)	No additional operational impacts are expected from the legislative changes needed to support the new online processes.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Danka Wigley on 03000 585277 (email: danka.wigley@hmrc.gsi.gov.uk).

1 Inheritance tax: interest

- (1) In section 107 of FA 1986 (changes in financial institutions: interest) –
 - (a) in subsection (4), for the words from “section 234(4)” to “above” substitute “paragraph 7(8) of Schedule 53 to the Finance Act 2009 (late payment interest: inheritance tax payable by instalments)”;
 - (b) in subsection (5), for the words from “amend” to “section 234(3)(c)” substitute “set out one or more descriptions of company for the purposes of paragraph 7(7) of Schedule 53 to the Finance Act 2009”.
- (2) In Schedule 53 to FA 2009 (special provision: late payment interest start date) –
 - (a) in paragraph 7 (inheritance tax payable by instalments) for sub-paragraph (7) substitute –
 - “(7) A company falls within this sub-paragraph if –
 - (a) its business is carried on in the United Kingdom and is –
 - (i) wholly that of a market maker, or
 - (ii) that of a discount house, or
 - (b) it is of a description set out in regulations under section 107(5) of FA 1986.”;
 - (b) in paragraph 9 (certain other amounts of inheritance tax), for “date of the testator’s death” substitute “end of the month in which the testator died”.
- (3) The amendments made by this section come into force on such day or days as the Treasury may by regulations made by statutory instrument appoint.
- (4) Regulations under subsection (3) may –
 - (a) appoint different days for different purposes;
 - (b) make transitional or saving provision.

EXPLANATORY NOTE

INHERITANCE TAX: INTEREST

SUMMARY

1. Clause [X] amends the legislation relating to late payment interest provisions for inheritance tax (IHT). It extends the regulation making powers to allow the provisions relating to financial institutions and companies to be updated. It also clarifies the period from which interest is charged. These amendments complement other legislative changes which will be made to support the digitisation of IHT and will ensure that the relevant provisions will apply correctly when the new online service becomes available in 2015/16.

DETAILS OF THE CLAUSE

2. Subsection (1) amends section 107 of the Finance Act 1986 to provide that the power to make regulations is extended to paragraph 7(7) and (8) of Schedule 53 to the Finance Act 2009 (FA 2009). Subsection (2)(a) amends paragraph 7(7) of Schedule 53 FA 2009 to include a reference to a description set out in regulations made under section 107(5) of the Finance Act 1986. Taken together, these changes will enable regulations to be made so that the late payment interest provisions in Schedule 53 of FA 2009 relating to inheritance tax instalment payments can be updated.

3. Subsection (2)(b) corrects the period from which late payment interest is charged in paragraph 9 of Schedule 53 FA 2009 by referring to the end of the month in which the testator died. The amendment aligns the date with the current provisions in section 234(4) of the Inheritance Taxes Act 1984.

BACKGROUND NOTE

4. At Autumn Statement 2013 the Government announced that, as part of the Government's digital strategy to improve the process for customers and the administration of the tax, an online service will be provided in 2015/16 for the submission of IHT returns. To support the introduction of the new online service, legislative changes will be made in 2015 to align the treatment of interest and penalties for inheritance tax purposes with other taxes. The amendments made by this clause are part of those changes and will ensure that the relevant provisions relating to late payment interest are updated and apply consistently when the new online service becomes available in 2015/16.