



Working out the interest on Inheritance Tax payments

The easiest way to work out the interest due on a payment of Inheritance Tax is to use the interest calculator on our website, go to www.gov.uk/guidance/hmrc-tools-and-calculators

To work out the interest yourself, follow the guidance in this helpsheet. You can find more information on our website, go to www.gov.uk/inheritance-tax

How to work out interest on tax that is not being paid by instalments

1. Work out the number of days from the date interest starts (box 55 on form IHT400, 'Calculation') to the date you expect to pay the tax, including those 2 days themselves.
2. From the table of interest rates in form IHT400, 'Rates and Tables' look up the interest rate for that period.
3. Multiply the tax due (box 54 on form IHT400, 'Calculation') by the interest rate, then by the number of days, and divide the answer by 366:

$$\frac{\text{Tax due} \times \text{interest rate \%} \times \text{number of days}}{366} = \text{interest due}$$

Enter your answer in box 58 on form IHT400, 'Calculation'.

Example 1

The deceased died on 7 March 2004. The papers and tax were sent to us on 14 December 2004. The tax due was £5,000.

The date interest starts from, for a death in March, is 1 October of the same year. The start date for calculating interest is 1 October 2004 and the finish date is 14 December 2004.

1. The number of days between those 2 dates is 75, which is made up of the following:

Days in October	31
Days in November	30
Days to 14 December	<u>14</u>
Total	75

2. The interest rate for the period 1 October 2004 to 14 December 2004 is 4%.

3. The interest due is:

$$\frac{£5,000 \times 4\% \times 75}{366} = £40.98$$

Enter £40.98 in box 58 on form IHT400, 'Calculation'.

How to work out interest on tax being paid by instalments

Interest is normally payable on instalments from the day after the date when the first instalment is due. On the first instalment we charge interest on that instalment only, from the day after the due date to the date of payment.

On each later instalment, we charge interest:

- on the whole unpaid portion of the tax, for one year
- on the instalment itself, from the date it is due to the date of payment

Example 2

The deceased died on 7 March 2004. The papers and tax were sent to us on 14 December 2004. The tax due on the instalment option property is £10,000. So each instalment is £1,000.

For a death in March interest is payable from 1 October of the same year to 14 December 2004 when payment is made, that is 75 days.

Instalment 1

$$\frac{£1,000 \times 4\% \times 75}{366} = £8.19 \text{ interest for late payment}$$

Instalment 2

The second instalment is due on 1 October 2005 and is paid on 15 October 2005, which is 15 days late. Interest charged on the late payment is as follows.

$$\frac{£1,000 \times 3\% \times 15}{366} = £1.22 \text{ interest for late payment}$$

Interest is charged on the whole of the outstanding balance for the whole year from 1 October 2004 to 30 September 2005.

This period covers 2 different interest rates, so the calculation of interest is as follows:

£9,000 from 1 October 2004 to 5 September 2005 = 340 days x 4%	£334.42
£9,000 from 6 September 2005 to 30 September 2005 = 25 days x 3%	<u>£18.44</u>
Total	£352.86

So the total tax and interest due on the second instalment is as follows:

Tax	£1,000.00
Interest 1	£1.22
Interest 2	<u>£352.86</u>
Total	£1,354.08

Enter £1,354.08 in box 59 on form IHT400, 'Calculation'.

When interest is not payable on instalments

Inheritance Tax paid by instalments on some types of asset is interest-free (we call this 'with interest relief' or WIR). This means you only pay interest if you pay the instalment itself after the date it is due.

Instalments of Inheritance Tax are interest-free (if the instalments are paid on time) if the tax is on:

- shares or securities that qualify for payment by instalments - but shares in an investment or property company (whether a dealing or holding company) qualify only if the company is either
 - a holding company or companies that are not investment or property companies
 - a market maker or discount house in the UK
- a business or interest in a business carried on for gain
- land that qualifies for Agricultural Relief
- timber
- land, buildings, plant and machinery that qualify for 50% Business Relief (for deaths from 6 April 2026)

If you need to calculate interest on late payment of instalments that are otherwise interest-free

1. Work out the number of days from the day after the due date of the instalment to the date you expect to make the payment.
2. From the table of interest rates in form IHT400, 'Rates and Tables' look up the interest rate for that period.
3. Multiply the tax due (box 39 on form IHT400, 'Calculation') by the interest rate, then by the number of days and divide the answer by 366.

$$\frac{\text{Tax due} \times \text{interest rate \%} \times \text{number of days}}{366} = \text{interest due on late payment of interest-free instalment}$$

Enter the result in box 59 of form IHT400, 'Calculation'.