

Written evidence submitted by the Chartered Institute of Taxation (FB11)

Finance Bill 2024-25 Public Bill Committee

Inheritance Tax

Clause 57 - Rate bands etc for tax years 2028-29 and 2029-30

Clauses 58-60 - Employee Benefit Trusts

Clause 61 - Agricultural Property Relief: environmental land management agreements

Clause 62 - National Savings Bank: statements from HMRC no longer required

Executive Summary

Clause 57: Freezing inheritance tax bands brings more estates into charge through fiscal drag. There is a missed opportunity to simplify the tax system by abolishing the Residence Nil Rate Band (with a compensatory rise in the Nil Rate Band).

Clause 61: We welcome the clarification that Agricultural Property Relief is not lost when existing agricultural land is subject to environmental management schemes overseen by public bodies. However, this does not cover private sector arrangements so may be seen as a missed opportunity to encourage innovation.

We have no comments on clauses 58-60, which tighten the criteria for eligibility for the tax advantages of being an Employee Benefit Trust, or on clause 62, which removes a requirement on the National Savings Bank to check with HMRC that IHT has been paid before releasing funds.

We also make some wider comments on IHT, in relation to measures announced but not included in this Bill, and IHT as a whole. These include the observation that this is a missed opportunity for a wider review of IHT.

1 Clause 57: Rate bands etc for tax years 2028-29 and 2029-30

- 1.1 This clause fixes the inheritance tax (IHT) thresholds at their current levels for a further two tax years, 2028-29 and 2029-30. This will fix the:
 - a. Nil Rate Band (NRB) at £325,000;
 - b. Residence Nil Rate Band (RNRB) at £175,000; and
 - c. RNRB taper threshold at £2,000,000.
- 1.2 The NRB is the amount below which no IHT is charged. It is automatically indexed in line with CPI each year unless Parliament otherwise determines. The RNRB is an additional IHT nil-rate band that has been available since 6 April 2017 to those passing on a qualifying residence on death to their direct descendants. The RNRB taper threshold reduces the amount of the RNRB by £1 for every £2 the estate is worth more than £2,000,000, meaning

no RNRB is available on estates over £2.35 million in value. A 'downsizing' relief is also available so that the RNRB can still apply when an elderly owner downsizes to a smaller property in their later years.

- 1.3 Legislation introduced in the Finance Act 2023 fixed the NRB, RNRB, and RNRB taper threshold at their 2020 to 2021 levels for the tax years up to and including 2027 to 2028.
- 1.4 Any unused NRB or RNRB following the death of an individual can be transferred to their surviving spouse or civil partner. This means that since 6 April 2020, qualifying estates have been able to pass on up to £500,000 and, if the NRB and RNRB remain unused, the qualifying estate of a surviving spouse or civil partner is able to pass on up to £1 million without an IHT liability.

2 CIOT comments

- 2.1 The Nil Rate Band has been frozen at £325,000 since 2009. Each further year, as the value of estates increases due to increases in the value of property and other assets, fiscal drag brings a higher proportion of estates into the scope of IHT. Had the NRB increased with inflation from 2009, it would now be standing at just under £505,000.
- 2.2 The Residence Nil Rate Band has been criticised for its complicated conditions and workings. On its introduction, CIOT said: *"This measure increases the complexity of the tax system. The consequence of raising the threshold only for a particular category of beneficiaries (direct descendants) and only for a particular constituent element of the deceased's estate (the family home) is the addition of nine pages of dense legislation to the statute book."* (Briefing on clause 9 of Finance Bill 2015)
- 2.3 We note the suggestion last year from the IFS that the RNRB be abolished and the nil-rate band increased to £500,000. It is disappointing that the new government has not taken the opportunity for simplification by removing the anomalies inherent in the 10 pages (as it now is) of complex legislation required to implement the RNRB by simply increasing the nil-rate band available to all taxpayers.
- 2.4 HMRC forecast that freezing these bands for the additional two years will increase the number of taxpaying estates by 1,400 in 2028-29 and by 2,900 in 2029-30. This will bring added costs and pressures to those families and also to HMRC in terms of administration.
- 2.5 It is a feature of a tax regime such as IHT which has a high rate of tax – 40% - that sizeable allowances such as the NRB and the RNRB are more likely to be considered necessary to alleviate what would otherwise be deemed an unacceptably severe impact on bereaved families. The generosity of these allowances will be eroded from 6 April 2026 when unused pension funds are brought into scope of IHT. Then, the allowances will have to be apportioned between the deceased's pension fund and their wider estate. Changes to agricultural and business property reliefs will add further to the complexity of IHT.
- 2.6 The government commitment to invest £52 million to digitalise the inheritance tax service is welcome, but introducing the new service from 2027-28 would seem to be a year later than would ideally be the case in the context of these significant additions to complexity.

3 Clauses 58-60 – Employee Benefit Trusts

- 3.1 An EBT is a trust which is set up by an employer to reward and motivate employees. The benefits provided may be pensions, sick pay, a share of profits, shares or almost anything the employer chooses.
- 3.2 These three clauses implement changes resulting from the 2023 consultation on the Taxation of Employee Ownership Trusts (EOTs) and Employee Benefit Trusts (EBTs). Changes relating to EOTs are implemented by clause 31 and schedule 6 of the Bill and CIOT has produced a separate briefing note on these. All three of the changes relating to EBTs tighten the criteria for eligibility for the tax advantages of being an EBT.
- 3.3 The three clauses provide that, in order to benefit from an IHT exemption on transfers into an EBT –
- Restrictions on shareholders in the company (participators, to use the technical term) and persons connected with them benefiting from the EBT must apply for the lifetime of the trust (clause 58);
 - No more than 25% of employees who are able to receive income payments from an EBT should be connected to the participators in the company (clause 59);
 - The shares must have been held for 2 years prior to settlement into an EBT (clause 60).
- 3.4 CIOT has no comments on this measure.

4 Clause 61 - Agricultural Property Relief: environmental land management agreements

- 4.1 Clause 61 extends the scope of Agricultural Property Relief (APR) from inheritance tax to land managed under an environmental agreement with, or on behalf of, the UK government, devolved governments, public bodies, local authorities, or approved responsible bodies. This means land taken out of agricultural production permanently or for an extended period for this reason does not lose relief. The measure will take effect on or after 6 April 2025.

5 CIOT comments

- 5.1 These changes were consulted on in 2023. They may go some way to ensuring that farmers and landowners are not disadvantaged when they enter into environmental schemes by losing entitlement to APR. However, the wider proposed reforms to APR (not in the current Bill) are likely to have a greater impact on the behaviour of the farming community.
- 5.2 The new relief will apply only to environmental management schemes entered into with a public authority. Although part of the consultation, the opportunity to include land managed under innovative schemes in the private sector has not been developed and is a missed opportunity. This restricts the ability of enterprising landowners to embrace environmental schemes outside those regulated by the statutory bodies.
- 5.3 Sub-clause (1)(a) requires the relevant land to have been agricultural land for the two years prior to it becoming subject to the environmental management scheme. As we pointed out in our response to the consultation, the difficulty with any condition requiring evidence of previous usage lies in the taxpayer (or their personal representatives after a death)

retaining sufficient information to be able to prove it. DEFRA and HMRC should take steps to publicise this requirement.

- 5.4 As this legislation has been repeatedly delayed, it would not be unreasonable, to remove the uncertainties where the landowner dies before the legislation is enacted, for the effective date to be 6 April 2024 rather than 6 April 2025. As the Exchequer impact statements for both 2025-26 and 2026-27 are 'negligible', an earlier effective date would not add any significant cost.

6 Clause 62 - National Savings Bank: statements from HMRC no longer required

- 6.1 Clause 62 removes the requirement for the National Savings Bank (NSB) to obtain confirmation of IHT paid from HM Revenue & Customs (HMRC) in certain circumstances.
- 6.2 The requirement for the NSB to contact HMRC directly to check IHT has been paid in the limited circumstances described in the regulations is no longer required, in line with modern compliance processes.
- 6.3 CIOT makes no comment on this measure.

7 Inheritance tax – other proposed changes and general points

- 7.1 We take this opportunity offer some brief, wider comments on IHT, in relation to measures announced but not in this Bill, and IHT as a whole.

7.2 APR and BPR

- 7.2.1 We note the government's proposal to limit the extent to which agricultural and business property reliefs (APR and BPR) can be used. These changes are likely to trigger an increase in the number of lifetime gifts, as all but those owning the smallest value farms and businesses scramble to avoid paying IHT - although this will be less, with a 20 per cent relief on the value of qualifying assets over £1 million, than if it had been removed entirely.
- 7.2.2 While we appreciate that unlimited reliefs can be potentially exploited beyond the original aims of the relief, many family farms (with not particularly large acreage) and family businesses will be adversely affected by the change and the £1 million threshold. The government state that they expect almost three-quarters of estates claiming APR in 2026-27 (the first year under the new rules) to be unaffected by this reform. The source of this claim is presumably [their figures](#) indicating that in 2021-22 (the latest figures available) 73% of APR claims were for assets of £1 million or less in value. However, we note that it is common for an estate to claim both APR and BPR so an estate making a combined claim of up to £2 million split equally between the two reliefs would fall below the £1 million threshold for each but would not fall below the combined £1 million threshold which the government are proposing to introduce.
- 7.2.3 How many estates the changes bring into the scope of IHT will depend on the interaction of APR not just with BPR but with nil-rate bands and other reliefs as well as potential behavioural changes including more lifetime gifting to family members and changes to the structuring of farm businesses. Behavioural changes of these kinds will potentially reduce the revenue from the changes.

- 7.2.4 The £1 million APR/BPR allowance is not (according to the [Budget note](#)) transferable between spouses in the way nil-rate bands are, so while it appears that a farm jointly owned by a couple could potentially use two £1 million allowances (as well as two sets of nil-rate bands and residence nil-rate bands) if a share of the ownership of the farm was passed to the next generation on the first death and the remainder on the second, this is only likely to happen if the couple in question are well advised.
- 7.2.5 The Treasury [costings document](#) states that the costing “accounts for a behavioural response whereby individuals restructure their estates by making greater use of other available reliefs and exemptions”. It does not state how great an effect they are anticipating or what assumptions the government have made.
- 7.2.6 This change also raises a more practical concern – it will create a lot more administrative work with formal valuations being needed for farms and businesses worth more than £1 million and potentially greater input from HMRC and district valuers on enquiries.
- 7.2.7 There is a further argument around the introduction of major changes such as these at short notice. Is it fair, when people have taken long-term decisions based on a particular set of tax rules, to radically change those rules with very little notice? This isn’t to say that no tax relief should ever be withdrawn – or that people should expect tax reliefs to continue to apply for ever. But – particularly where long-term decisions have been taken (e.g. those relating to pensions and IHT, in particular) – there is an argument that transition should be more gradual or incremental. Here the only transitional provision is a delay until 6 April 2026. It might have been fairer to have had (say) 75% APR/BPR (that is, a 10% rate) for a few years and then a further reduction, though this would have introduced further complexity.

7.3 Pensions

- 7.3.1 Subjecting inherited pensions to inheritance tax is an understandable move. By giving preferential treatment to pensions the current set-up incentivises those who can afford to do so to use up other assets while they are alive and leave the pension untouched; pensions were never meant as a means to bequeath wealth tax-free.
- 7.3.2 This move effectively aligns pensions with other forms of investment and seemingly returns pensions to their primary duty of providing for retirement. Transfers to a spouse will presumably be exempt; only when passing to the next generation will IHT apply. But expanding the asset base of IHT will mean more estates exceeding the £2 million threshold, at which point the residence nil-rate band is tapered away.
- 7.3.3 Both this change and the changes to business and agricultural reliefs will add significantly to the administrative burden on both HMRC, farmers, business owners and the executors of estates. HMRC need to ensure this is factored into their future service level planning.

7.4 Wider review

- 7.4.1 Whilst the recent announcements constitute a significant change, this is nonetheless a missed opportunity for a wider review of inheritance tax. The UK’s approach to IHT has until now been one of a high rate but with generous reliefs. With some of the reliefs being made less generous, the time is ripe for a review of whether this balance is the best way forward, especially as the rate and thresholds remain in place for longer.

8 The Chartered Institute of Taxation

- 8.1 The CIOT is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.
- 8.2 The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 8.3 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 8.4 Our 20,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

The Chartered Institute of Taxation
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