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SIMPLIFICATION OF INHERITANCE TAX

Representation by Association of Taxation Technicians in respect of Spring Budget 2024

1 Introduction

- 1.1 The residence nil rate band (RNRB) is a complex Inheritance tax (IHT) relief that is available to some estates in addition to the nil rate band (NRB). While it would come at a cost, we consider that IHT could be both simplified and made fairer by merging the RNRB and NRB into a single nil rate band.
- 1.2 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.

2 Our recommendation

- 2.1 We suggest that the provisions which introduced the RNRB in 2017 are removed, and the NRB uplifted from £325,000 to £500,000 to compensate.

3 Background to our recommendation

- 3.1 The NRB is available to all individuals and represents the amount of the estate that can be passed down on death without IHT applying (subject to any restrictions arising due to lifetime gifting). It is currently set at £325,000. The RNRB was introduced in April 2017 as part of a policy designed to make it easier to pass the family home down the generations. It can be claimed in addition to the existing NRB where the estate includes a residential property which is left to descendants of the deceased. Like the NRB, unused RNRB can be transferred to a surviving spouse. However, unlike the NRB it only applies on death and not to lifetime gifts.
- 3.2 The RNRB is worth up to £175,000 - or the value of the qualifying property held in the estate if less. The RNRB is tapered (reduced) by £1 for every £2 that the total estate exceeds £2m. No RNRB is available once the estate exceeds £2,350,000.
- 3.3 For an estate to be able to claim RNRB against the value of residential property the following conditions must be met

- The residential property has been the individual's main residence at some point during their ownership.
- The property is 'closely inherited' -i.e. it is left to the direct descendants of the deceased (including step, adopted and fostered children) and/or their spouses.

3.4 Where a property has been sold during the lifetime of the deceased and the proceeds of the property are left to their descendants, the RNRB may still be available through complex 'downsizing' provisions. These are required as otherwise an individual selling a property to move into care or a less expensive property in older age, would lose the relief.

3.5 The creation of the RNRB has introduced substantial complexity into the administration of IHT. The provisions are not clear or easy to understand.

It also creates distortions, as two estates of equal value can have different IHT liabilities depending on the value of residential property held by the deceased and whether or not they have children who are inheriting that property.

3.6 We consider that removing the RNRB and increasing the NRB to compensate would make the IHT system simpler and fairer. The cost of this was estimated by the IFS last year at £700m¹.

4 Contact details

4.1 We would be pleased to join in any discussion relating to this representation. Should you wish to discuss any aspect of this representation, please contact our relevant Technical Officer, Helen Thornley on atttechnical@att.org.uk.

The Association of Taxation Technicians

19 January 2024

5 Note

5.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government, and academia.

¹ See recommendation 8 on page 2 of the IFS report on Reforming Inheritance Tax <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>.

The Association has more than 9,800 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.