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SIMPLIFICATION OF INHERITANCE TAX

Representation by Association of Taxation Technicians in respect of Autumn Budget 2026

1 Introduction

- 1.1 Inheritance tax is a very complex tax for those affected by it. We have two suggestions for simplification - both of which will come with a tax cost, but would result in a fairer system, with people better able to understand more clearly when they are likely to have IHT to pay.
- 1.2 Any simplification should also create administrative savings for HMRC. As HMRC is currently working to digitalise the IHT system by April 2027, it would make sense to simplify the IHT system as far as possible before the new service is fully developed and launched.
- 1.3 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 recommendations

- 2.1 The provisions which introduced the Residential Nil Rate Band (RNRB) in 2017 should be removed, and the Nil Rate Band (NRB) uplifted from £325,000 to £500,000 to compensate. This would come at a cost but would bring significant simplification.
- 2.2 For the purposes of assessing if the reduced rate of IHT applies (which requires at least 10% of the net estate to be left to charity) we would like to see pension assets considered as a separate component of the estate.

3 Background to our recommendation regarding the Residential Nil Rate Band

- 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.
- 3.2 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.

- 3.3 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.
- 3.4 For an estate to be able to claim RNRB again 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.
- 3.5 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.
- 3.6 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.
- 3.7 We consider that removing the RNRB and increasing the NRB to compensate would make the IHT system simpler and fairer. As further changes bring unused pension assets and death benefits into scope from April 2027, many more families will find themselves having to grapple with these complex provisions.

4 Background to recommendation for changes to the calculation of the reduced rate of IHT for estates leaving gifts to charity

- 4.1 Gifts to charity are fully exempt from IHT under section 23 IHTA 1984. In addition, where an estate includes a significant gift to charity, it is possible for some or all of the remaining estate to benefit from a lower rate of IHT provided that the gift is large enough. The lower rate is 36% compared to 40%. This lower rate was introduced to encourage individuals to consider gifting via their will.
- 4.2 To assess if the gift is large enough for the reduced IHT rate to apply, the gift must be more than 10% of a 'base line' amount – very broadly, the net estate after deduction of allowances such as the nil rate band.
- 4.3 To complicate matters, the test is not applied to the estate as a whole. Instead, the estate is divided into three components. It is possible to meet the test in one component and receive the reduced rate in that component alone. Alternatively, a gift in one component can be large enough that an election can be made for one or more of the other components to qualify for relief.
- 4.4 The estate is divided into the following three components:
- Amounts left by survivorship – very broadly, assets which are left to surviving joint owners, outside of the will

- Settled assets – this includes assets in which the deceased had an interest in possession
- The general component of the estate – broadly any other assets comprised in the estate.

- 4.5 HMRC have confirmed that notional pension property will form part of the *general component*.
- 4.6 Individuals who have arranged to gift 10% of the general component may now find that the inclusion of their pension assets will cause them to fail the test to achieve the reduced rate. They will either have to increase their gifting (which they may not be willing to do) or lose the benefit of the reduced rate.
- 4.7 In order that individuals are not discouraged from gifting to charity on their death we would like to see notional pension property considered a separate 'component' for the tests for the 36% rate. This 'component' should be eligible for the same mechanisms that allow individuals to 'merge' components where a gift in one component is big enough to allow two or more components to meet the criteria for the 36% rate. This would protect existing planning for some and allow greater flexibility on gifting for others.
- 4.8 This should protect access to the reduced rate for those who have planned to make gifts under the existing rules, while enhancing the flexibility for those who are motivated to make charitable gifts to reduce IHT on their pension assets only.

5 Contact details

- 5.1 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 us at atttechnical@att.org.uk.

The Association of Taxation Technicians

6 August 2026

6 Note

- 6.1 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.

The Association has more than 10,000 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.