Ensors

Information

Labour Budget 2024
Ensors Personal & Business Tax sector
Changes to Inheritance Tax

Impact

Individuals with business interests valued in excess of £1m will, unless action is taken, face higher IHT liabilities, and a significant number of family businesses will not survive if those liabilities crystallise.

In very simple terms, someone with a business valued at £4m that currently qualifies in full for Business Property Relief would have no IHT liability arising on that business on a death pre-6 April 2026, but will have a liability of £600,000 on a death on or after that date. That liability may need to be paid from post-tax funds, so to generate the £600,000 a 40% taxpayer might need to generate a gross £1m.

Action

Tax planning has always been important, but the Budget has changed the emphasis as to the most effective course of action. Under the current rules, holding on to an asset did not cause a problem as, should a death occur, the business could still pass on IHT free. The emphasis now will be on passing the business on sooner, in the hope that the person making the gift will survive the seven-year period such that the gift becomes completely exempt from IHT.

There are multiple issues that arise from this, for example potential CGT charges and a need to avoid triggering a 'Gift With Reservation of Benefit', but good planning should be able to largely overcome those obstacles.

All businesses need to consider whether / how they can survive the death of an owner. Life insurance companies are likely to see a significant increase in trade.

Opinion

We believe that the Government has seriously under-estimated the impact of these changes and over-estimated the ability of family businesses to withstand the IHT liabilities that will now arise.

The hardest hit will be taken by those who are not in a position to take the actions outlined above – i.e. their life expectancy is such that survival for 7 years is highly unlikely and the cost of insurance would be prohibitive.

AIM shareholdings restricted to 50% relief

From 6 April 2026 AIM shares (or any shares designated as 'unlisted' on the markets of recognised stock exchanges) will cease to qualify for 100% relief and will instead qualify for 50% relief. They will not qualify for the 100% allowance referred to above either.

A point that seems to have been misunderstood is that this does not apply to 'unquoted shares' – so unquoted shares in (for example) a family business will still be able to qualify for relief under the £1m allowance.

Opinion

A reduction in relief for AIM investments has long been mooted and it has now come to fruition. The fear was that removing the relief entirely would 'crash the market' but the market has not been badly impacted as yet. Investing in AIM shares will still provide some IHT shelter, but the investment decision has become more marginal and the market could now become more volatile.

As ever, anyone looking to invest in such shares should do so only after taking advice from an Independent Financial Advisor.

Extension of Agricultural Property Relief to certain environmental land management schemes

As anticipated, because it was announced by the previous government, the definition of agricultural property for the purposes of qualifying for Agricultural Property Relief has been extended to include land managed under an environmental agreement with the one of the UK government, devolved governments, public bodies, local authorities or approved responsible bodies.

Opinion

The extension of APR to cover certain Environmental Land Management schemes is sensible given that the UK is heavily pushing environmental sustainability. That said, could we now see a situation where the reduction in APR mentioned above leads to farmers leaving the sector and significant amounts of land being moved out of food production by 'non-farmers' who will use the land for environmental purposes to obtain IHT relief?

IHT on unused pension pots

From 6 April 2027 the value of an unused pension fund in a deceased person's estate will be subject to IHT at 40% (assuming the £325,000 nil rate band has been used elsewhere) unless the exemption on transfers to a spouse / civil partner applies.

Again, this change in legislation means a complete change of emphasis in relation to IHT planning.

Pre-Budget day advice was that a pension pot could be an IHT effective means of passing wealth on. It was often better to use up funds outside of a pension first, leaving the pension intact to pass on IHT free. Note though that income tax could apply when the beneficiary then took the pension.

The emphasis will now be on using the pension and looking to undertake any IHT planning with either the funds extracted, or any other assets held.

Opinion

Once again, we believe that this change has not been properly thought through.

As there is now the possibility of both IHT and income tax on the same fund there are some eye-watering potential tax liabilities for the worst affected. As the value of the pension fund is expected to count towards the £2m estate value at which a person starts to lose their Residence Nil Rate Band, the effective rate of IHT for some could be 60%. If that is then combined with income tax at the highest 45% rate it will not leave much in the pot.

And it may be that the remaining pot is also reduced considerably by charges.

It will be for the pension administrators to calculate and pay the IHT to HMRC. This will mean having to liaise with the executors of the estate who will be calculating the tax due on the assets held outside of the fund. There is going to be a very significant increase in the administrative burden here and that is highly likely to be reflected in the costs charged.

It is likely that some will now be questioning the wisdom of saving into a pension – which must surely not have been the intention of the Government?

For further information or advice on the matters discussed, please contact your usual Ensors contact or send an enquiry.