



Halifax welcomes the doubling of the Inheritance Tax Threshold for couples

Halifax welcomes the move by the Chancellor in today's Pre-Budget Report to effectively double the inheritance tax (IHT) threshold to £600,000 for couples and widows through the announcement of a transferable inheritance tax allowance. House prices have increased by 219% since 1995/96. Today's announcement ensures that the IHT threshold has kept pace with house price inflation for many but not all of the UK's households.

There are only 600,000 properties (3% of all owner occupied properties) in the UK valued above £600,000. This represents a fall of 2.4 million or 80% from the 3 million UK properties valued above the £300,000 IHT threshold. Today's announcement takes many of the 2.4 million properties across the UK valued between £300,000 and £600,000 out of the IHT net.

Halifax also commends the government announcement that it will consider both house prices and retail price inflation when setting IHT thresholds. This is clearly not the same as index linking but is a welcome change.

Key points

- Inheritance tax revenue raised in 2006/07 was a record £3.6bn, up £300m (9%) on 2005/06 when £3.3bn was collected. Government estimates are for inheritance tax revenue to be £3.9bn in 2007/08 but revenue is expected to fall to £3.3bn in 2008/09.
- Today's inheritance tax announcement is expected to cost £1.0bn in 2008/09, rising to £1.4bn in 2010/11.
- In 2006/07, 33,000 estates are estimated to have paid inheritance tax, while in 1997/98 only 18,000 estates paid the tax.
- About 40% of taxpayers, accounting for half of IHT revenues, reside in London and the South East, according to two special exercises carried out by the Inland Revenue.

Martin Ellis, Halifax Chief Economist commented:

"We commend the Chancellor on his decision to increase the effective inheritance tax threshold to £600,000 for couples. This move should ensure that the majority of UK households are not vulnerable to paying inheritance tax, based purely on the value of their family home.

We also welcome government moves to consider house price inflation when considering increases to the threshold in the future."

EDITORS' NOTES

Background on Inheritance Tax

The IHT threshold has risen by 95% since 1995 from £154,000 to £300,000 in April 2007. There was a 30% rise in April 1996 from £154,000 to £200,000. Over the period 1997 to 2004, the IHT threshold was increased broadly in line with retail price inflation; rising by 22% against a 19% increase in the RPI and 129% growth in house prices. In 2005, the threshold was increased by 5% to £275,000 with a further 4% rise seen in April 2006 to £285,000, followed by a 5% rise to £300,000 in April 2007. The government has scheduled a 4% increase in the threshold to £312,000 in 2008/09 and then a further 4% to £325,000 in 2009/10.

The revenue raised by the government through IHT has risen by £1.7bn since 1996/97 from £1.6bn to £3.3bn in 2005/2006. (Source: Inland Revenue.) About 40% of taxpayers, accounting for half of IHT revenues, reside in London and the South East, according to two special exercises carried out by the Inland Revenue. (Regional figures are not normally available.)

A single flat rate of 40% was introduced for IHT in March 1987. Prior to this date there were a number of tiered rates.

The government projects 37,000 estates will pay inheritance tax in 2006/07, 22% higher than in 2003/04. (Source: Table 1.4 http://www.hmrc.gov.uk/stats/tax_receipts/menu.htm)

*calculation takes into account threshold rises already announced up to 2009/10

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