

Is inheritance tax a dastardly double dip by the Revenue, or a feeble form of wealth distribution?

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BY **RYAN BEMBRIDGE**



By, Trevor Abrahmsohn, Glentree International

With the spring Budget looming on March 6, there are theatrical whispers about the prospect that the Chancellor will either reform or scrap Inheritance Tax altogether. No doubt this is an attempt to garner support from disaffected Tory voters, as they have become disillusioned with the unprecedentedly high tax regime environment imposed by government over the last thirteen years.

No matter what the Tories have thrown at the electorate to date by way of a charm offensive – some would have other interpretations. Despite this, the Prime Minister and his merry men have hardly managed to change the stubbornly ingrained negative poll predictions of a 16-20% deficit to the Labour Party and just maybe, this is the last hoorah before the General Election, where the fate of the Tories will be decided. Oh dear! The sight of political blood makes me feel queasy.

40% IHT is draconian

Common sense dictates that the wealth you accumulate by the time of your demise should be post tax and for the Chancellor to take a further hefty 40% slug of one's net worth, after allowances, could be far too draconian for many stomachs to bear. Some would argue that this is mean spirited and Scrooge-like, to say the very least.

The trend across America and Europe is either to reduce this liability by very generous allowances or, get rid of it altogether, which seems to sit well with the broad band of political environment in these countries, which range from centre right to centre left. Why, therefore, should this not be aped in the UK?

The wealthy and sophisticated cognoscenti make provisions well ahead of time to reduce this liability, by cunningly devised methods inspired by clever accountants and lawyers, therefore, any positive effect of wealth distribution is effectively neutralised by these measures.

The problem is that Mr/Mrs Middle to Upper Middle class, who do not have access to sophisticated advisers, will have to part with a big chunk of their wealth, mainly due to increased residential property values of their primary home, which is usually their single largest asset and will bring them, inescapably, into the IHT net.

Meddling hands of the revenue

Let us not forget, having worked hard throughout one's life, and paid all the taxes along the way, surely your last wish to try to enrich your surviving family's lifestyles should be granted. Some of these family members would certainly need the money to purchase their first property and this vital process should not be interfered with by the thieving and meddling hands of the Revenue, gorging themselves on the family 'booty' before anyone else.

Bizarrely, I'm not in favour of scrapping it altogether since, understandably, I feel in this economically troubled environment, exacerbated by the energy crisis, high inflation, and the credit crunch, reducing the IHT tax band to 20%, (rather than the hitherto 40%), is far more socially palatable and therefore, preferable.

Arthur Laffer's tax theory

As a fervent believer in the US economist Arthur Laffer's fair tax theory, "if a tax rate is interpreted by the public as fair they will pay it willingly, but not if they don't", his view, for instance, is that the prevailing income tax rate should not be more than 20%.

At this level, he believes that the government would raise far more money for the Exchequer as a result, since the populace would declare more of their income and would not bother to circumnavigate the liability, which at present is up to the 40-45% level, in the UK.

In fact, you could find that the fiendishly clever IHT avoidance schemes, could be rendered un-economic, if the rate was 20%.

Given that only 6% of the tax paying population would be affected by this tax exchange, I am not sure it would have a profound effect on residential property values, but it would certainly improve sentiments, which may not be a bad thing amongst grass root Tory supporters.

What about VAT reclaim?

Whilst on the subject of tax reforms, maybe the Chancellor needs to look at the VAT reclaim arrangements which previously existed in the UK, by allowing international consumers to purchase goods in this country for export, in common with a great deal of other countries elsewhere in the world.

According to a number of retailers, this irritating tax trap is the reason why many of them are losing business in the UK and are compelled to redirect consumers to other shops within their orbit, elsewhere in the world, where they can enjoy this tax-free purchasing facility.

This would have an insignificant effect on the HMRC's VAT takings but would serve as a welcome fillip to the retailers in this country who are suffering this unfair burden.

If the socialistically inspired republic of France can tolerate this arrangement, why not Britain?

Note to Chancellor Hunt; make Britain a convenient place to buy and invest in and we will soon be reaping the rewards that we justly deserve.