TheNegotiator

IHT: Double dipping by HMRC or a feeble form of wealth redistribution?

Glentree boss Trevor Abrahmsohn says that with the Spring Budget looming the Chancellor should be looking to ease the burden of Inheritance Tax.

Trevor Abrahmsohn, Glentree International

4th January 2024

With theSpring 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 13 years.

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.

TOO 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.

> Why should this not be aped in the UK?"

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 should this not be aped in the UK?

The wealthy and sophisticated cognoscenti make provisions well ahead of time to reduce this liability by using 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 and 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 (usually their single largest asset) into the IHT net.

MEDDLING HANDS

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.

> I'm not in favour of scrapping it altogether."

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.

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