Inheritance tax receipts on track for record year as Chancellor considers reforms

Inheritance tax receipts are on track for another record year, with speculation mounting that the Chancellor is plotting to extract more from the contentious duty.

HMRC's latest data revealed that inheritance tax receipts reached £3.5bn from April to August, a £300m surge compared to the same timeframe last year, as reported by City AM.

The government has maintained the thresholds at which inheritance tax kicks in, resulting in a greater number of estates being ensnared by the tax as asset values have climbed.

In the 2024 financial year, the tax garnered a historic high of £7.5bn, marking a £400m increase from the previous record of £7.1bn.

Quilter's tax and financial planning specialist Shaun Moore commented that the uptick in inheritance tax receipts will "no doubt" stoke speculations about Labour's plans to heighten the levy.

At present, inheritance tax is levied at 40 per cent on estates exceeding £325,000, though various exemptions mean only five per cent of deaths incur this tax, often at a significantly reduced effective rate.

Chancellor Rachel Reeves is reportedly contemplating methods to boost revenue from the tax as she aims to plug an alleged £22bn shortfall in public finances.

Chancellor Rachel Reeves

There are whispers that she is eyeing the closure of certain inheritance tax loopholes, including the tax exemption on AIM shares, which permits tax-free transfer of shares if they’ve been held for a minimum of two years before death.

Rumours have triggered warnings from the City that the Chancellor could inflict “irrecoverable damage” on London’s junior market if she abolished the relief.

Andrew Tully, Technical Services Director at Nucleus, suggested that other reforms could be implemented. “Changes could be made such as scrapping or updating the rules on agricultural land,” he stated.

At present, an individual can claim up to 100% relief on the inheritance of actively farmed agricultural land.

Tully also proposed a “tightening of qualifying criteria” for business relief, although he cautioned this might not align with the "tie with the desire to increase investment in the UK".

The IFS has contended that the government could generate an additional £4bn by closing loopholes in the inheritance tax system.

Moore at Quilter argued there was a "strong argument for simplifying the system" to make it more attractive to gift during one's lifetime.

"The complexity of the current system often leads to confusion and inequities. A simpler system could help reduce the administrative burden for both taxpayers and HMRC, while also making it fairer," he commented.