

## The 2011 Budget and IHT Planning

### Inheritance tax (IHT)

The IHT Nil Rate Band will be indexed by reference to the CPI instead of the RPI from 6 April 2015. Until then it is frozen at £325,000. This is in great contrast to the stated aims of the Conservative Party and the £1,000,000 Nil Rate Band – effectively this is an on-going reduction in the Nil Rate Band!

A reduced rate of 36% will be charged where 10% or more of a deceased person's net estate (after deducting IHT exemptions, reliefs and the nil-rate band) is left to charity.

The measure will apply where death occurs after 5 April 2011.

New IHT avoidance schemes involving some transfers into trust will have to be disclosed under the disclosure of tax avoidance schemes (DOTAS<sup>1</sup>) rules from 6 April 2011. Reversionary Schemes like IOMAs have received clearance for Grandfathering see HMRC letter from Mr Bara dated 21<sup>st</sup> February 2011.

Consideration also has to be given to the report made by the Office of Tax Simplification as to the future of IHT.

### Office of Tax Simplification - Review of tax reliefs Final report March 2011

On the basis of the low number of estates caught by IHT and the useful, but relatively low revenues (after reliefs) that it raises, the office consider that a more appropriate approach may be to review the whole of IHT rather than to consider individual IHT reliefs. Such a review may also encompass a review of capital gains tax and the authors envisage this as a longer term project.

### Enterprise investment schemes (EISs) and venture capital trusts (VCTs)

The rate of EIS income tax relief will rise from 20% to 30% from 6 April 2011.

From 6 April 2012:

- The annual EIS investment limit for individuals will double to £1 million.
- The qualifying company size limits for EISs and VCTs will rise to 250 employees and the gross assets ceiling will increase to £15 million.
- The annual investment limit for qualifying companies (EIS and VCT) will rise to £10 million.

All changes are subject to EU State aid clearance.

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<sup>1</sup> **Supplementary DOTAS Guidance published 22<sup>nd</sup> March 2011 w.e.f 6<sup>th</sup> April 2011** - List of grandfathered schemes & schemes that are not within the Regulations - 9 Q: Reversionary Interests Where property is transferred into a relevant property trust and the settlor retains a reversionary interest then the transfer will not require disclosure as long as it can be shown that the grandfathering rule applies.