

Transact Inheritance Tax Index

The rising need for financial advice

For adviser use only

Integrated Financial Arrangements Ltd

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1. Executive Summary

This paper explores the findings of research commissioned by Transact and conducted by Trajectory Partnership, a team of strategic insight and foresight experts that help organisations understand how the world is changing. On this occasion they examined an ever more prominent issue: inheritance tax (IHT). As IHT becomes more of an issue due to the level of inherited wealth increasing, this analysis has taken place to assess the number of households that fall within the scope of IHT and the overall value of IHT liability in the UK based on thresholds determined by Transact. Transact wants to help financial advisers and their clients by creating an index that helps raise awareness of the potential tax liability individuals may face.

The potential liability for IHT is increasing due to growing private home outright ownership (without a mortgage), and the rising value of property and assets which causes many estates to fall outside the exemption thresholds and therefore potentially leave an estate that could be subject to 40% tax. The current inflationary pressures and the government's decision to freeze the IHT nil-rate bands until at least 2025/26 also elevates the prominence of this issue.

Based on the recent data from the Wealth and Assets Survey sourced from the Office of National Statistics, Trajectory conducted an analysis of the number of households that fall within the scope of IHT and/or the overall value of IHT liability in the UK, with some interesting findings:

- By the end of 2020 more than 3.5 million households were potentially liable for IHT.
- By the end of 2020 the potential combined tax liability was at a high £898bn.
- The number of potentially liable households had also greatly increased by over two million, from 1.49 million to 3.51 million between 2006 and 2020, when the data became available.
- The percentage of liable households in London more than doubled between 2006 and 2020.

Recognising the increasing significance of this tax burden and to allow financial advisers who use our platform to more easily address the needs of their clients, we have created an index to raise awareness of IHT and track the ongoing potential liability faced by their clients.



2. How IHT works

When an estate falls above the IHT threshold, the impact can differ depending on the client's personal situation at the time.

Each individual has a nil rate band (NRB) of £325k. The ability to combine two NRBs in the case of a married couple or civil partnership can provide some level of protection. More recently the introduction of the residence nil rate band (RNRB) has gone some way to providing some protection for most people's largest asset, their home.

This threshold has risen, as demonstrated in the following table, and is set to be fixed until 2026.

The RNRB is an additional allowance that could be received on top of the £325k NRB allowance if a residence is passed on to children/grandchildren although it is reduced for estates in excess of £2m.

The table below shows how these allowances combine.

Data Set	NRB (per person)	RNRB (per person)	Total Household Threshold (THT) where the entire NRB and RNRB are inherited by the surviving spouse/civil partner
07/2020 to 06/2026	£325k	£175k	£1m
07/2018 to 06/2020	£325k	£150k	£950k
07/2016 to 06/2018	£325k	£100k	£850k
07/2014 to 06/2016	£325k	£0	£650k
07/2012 to 06/2014	£325k	£0	£650k
07/2010 to 06/2012	£325k	£0	£650k
07/2008 to 06/2010	£325k	£0	£650k
07/2006 to 06/2008	£300k	£0	£600k

3. Methodology

Trajectory Partnership sourced data on household wealth for the UK from the Office of National Statistics (ONS) for the period of 2006 to 2020. The data is produced every two years and breaks down total household wealth into four components: Property, Financial, Physical and Private Pension. In order to calculate the estate valuation for IHT purposes, the Private Pension wealth is deducted from total wealth as this can be gifted outside of the estate. The net result can then be compared against the Total Household Threshold (THT) to determine how many households are above this threshold. When estimating the potential financial liability current IHT rate of 40% was applied.

As an example, if a household consists of two adults who are a married couple or in a civil partnership then, if their total wealth minus pension is greater than the THT, they will have a potential liability. They each have an NRB of £325,000 plus their £175,000 RNRB which means that together, as a couple, they can have up to £1 million tax free allowance in the 2022/23 tax year assuming the second to die fully inherits the other person's allowances and the estate is below the £2m threshold. (Where the estate is greater than £2m the RNRB is tapered until it is lost entirely if the estate is valued at more than £2.7m.)

Estimates were made at both a national and regional level (excluding Northern Ireland), with the analysis focusing on the number of households liable, the proportion of total liability compromised from each region and the percentage of households liable in each region.

4. The picture for all UK households

The data illustrates a growing issue. Figure 1 shows that by the end of 2020 over 1 in 10 households were potentially liable for IHT. There has been a consistent increase in this number since 2008.

Figure 1

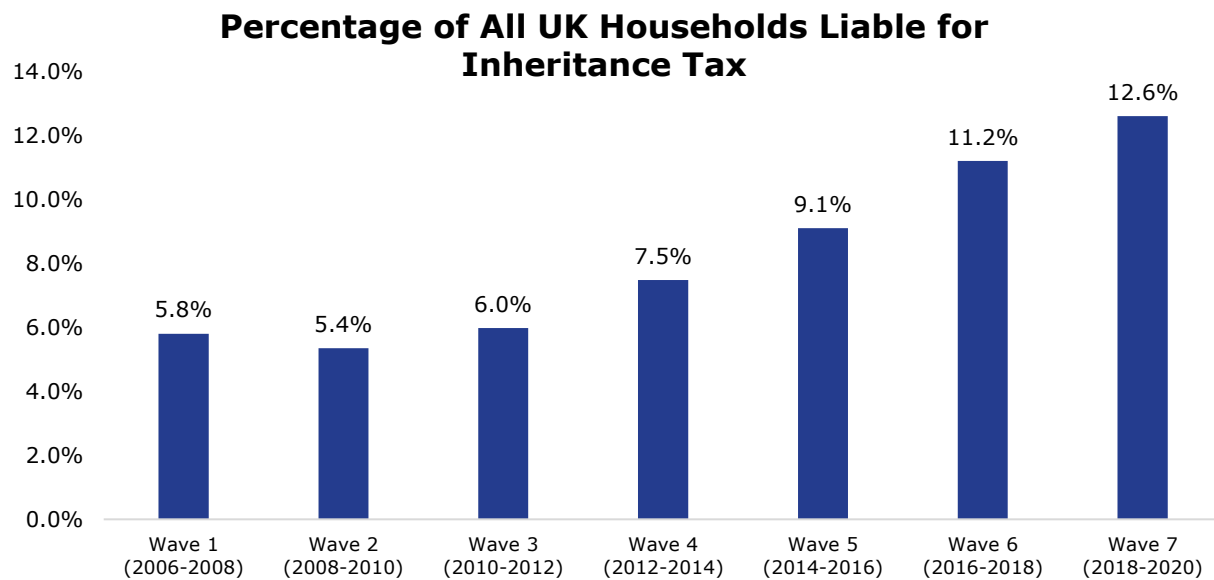
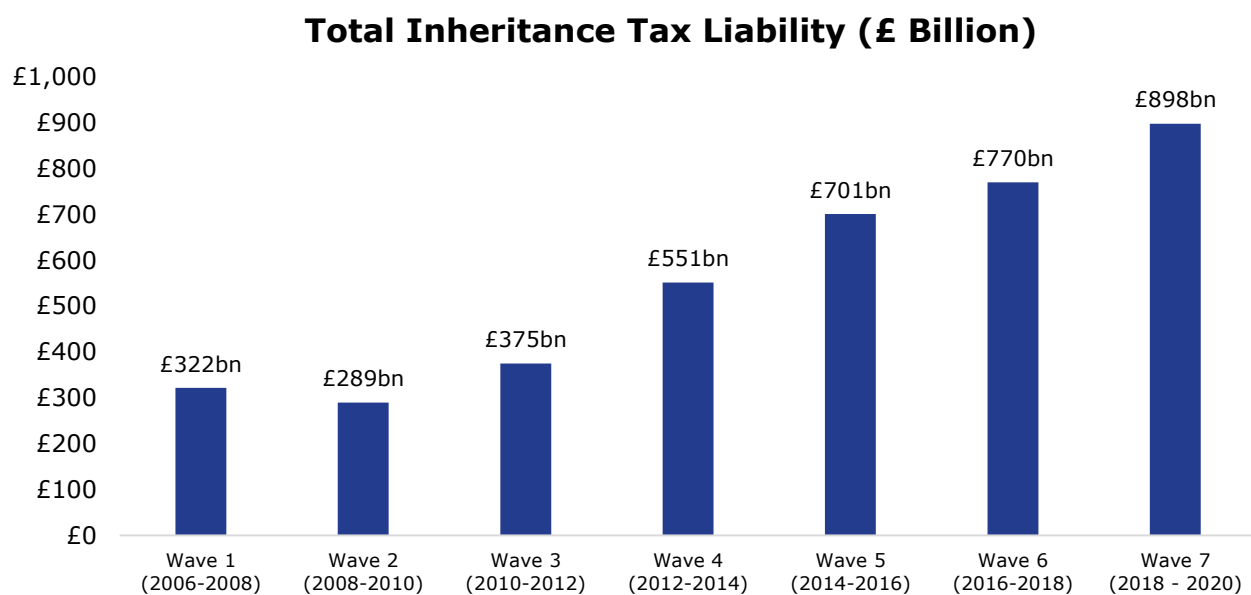


Figure 2 shows how the total IHT liability has almost tripled between 2006 and 2020, with the potential tax liability at an all-time high of £898bn by 2020.

Figure 2



The trend here is clear. Figure 3 looks at the number of liable households in the UK. More than three and a half million households are now potentially liable for IHT – up by more than a million compared to Wave Five (2014 to 2016).

Figure 3

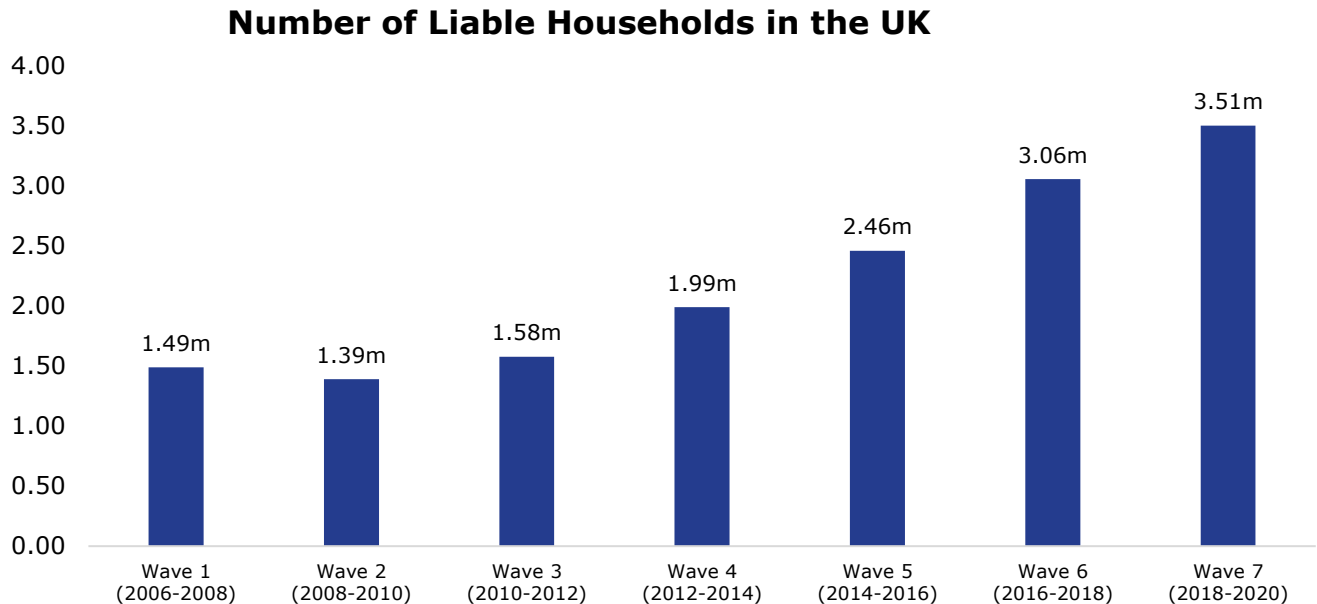
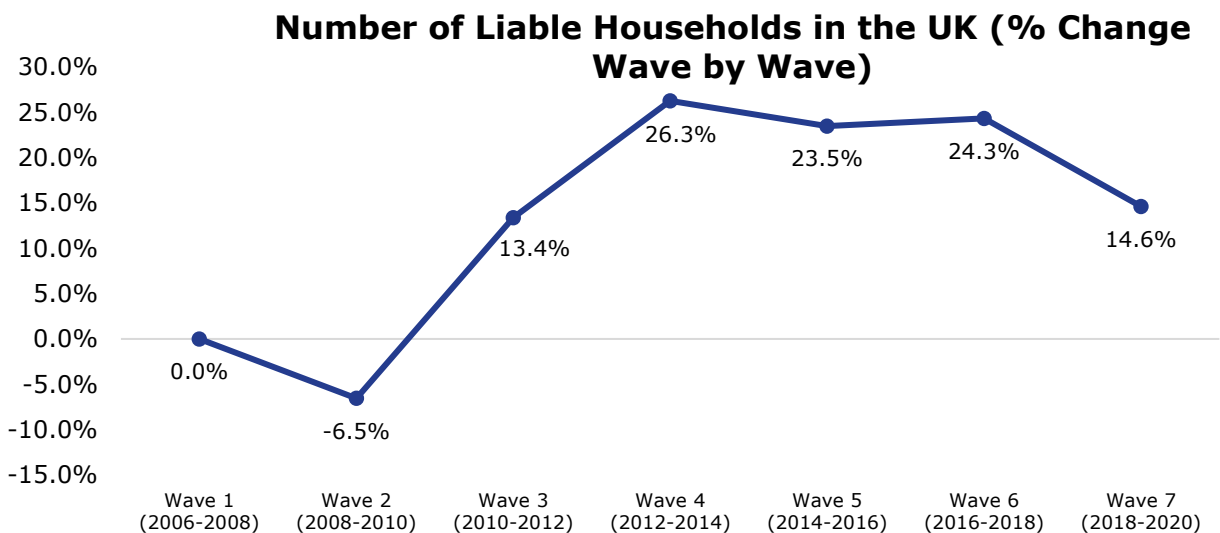


Figure 4 shows that the rate of increase for the number of households being potentially liable to IHT peaked in the 2012-14 wave. Despite some slowing down, the percentage increase in 2018-20 was still high at almost 15%.

Figure 4



5. IHT is a Regional Issue

All figures referenced here and in the following sections can be found in the appendix at the end.

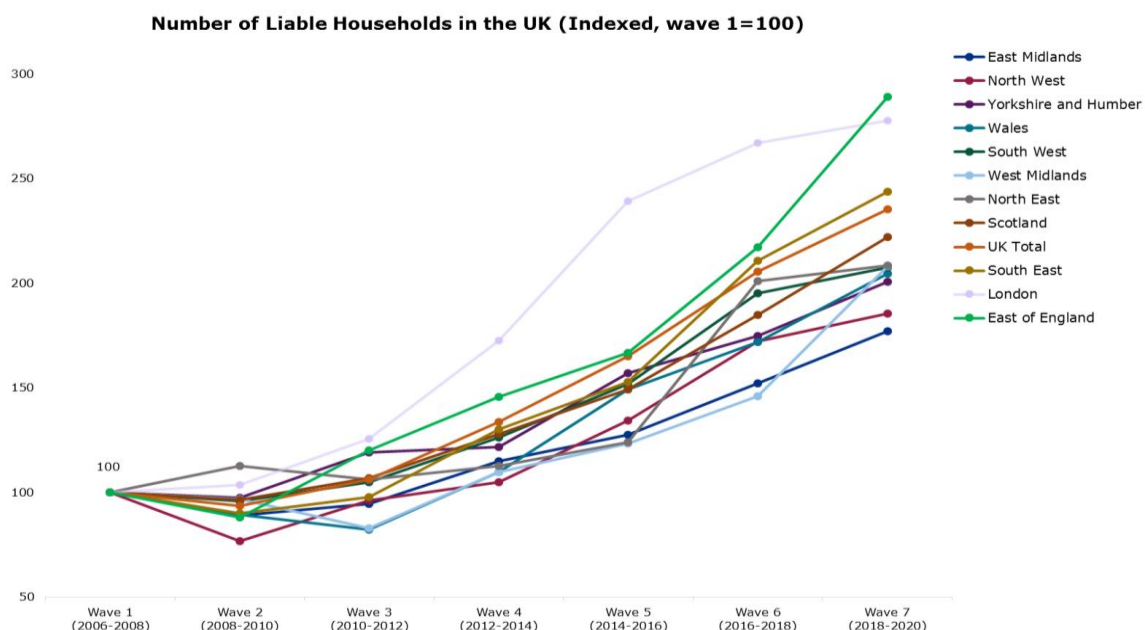
We have also examined the trends of potential IHT liability based on location, which highlights the scale of the issue across the UK. Figure 8 looks at the most recent wave and shows a marked difference between the South East and London (which are almost identical), and the rest of the UK, as more than half of the total IHT liability (in monetary terms) comes from these two regions.

The same is also evident in Figure 9, which tracks potential IHT liability across the different waves. Even though there is a marked difference between these two South East and London regions compared to the rest of the UK, many regions, other than the East Midlands and Scotland in the last year, have seen increasing liability. It is important for individuals across the UK to consider how they can plan for IHT and understand how they might be able to manage the liability and help the inheritors settle the bill on behalf of the estate.

Furthermore, in both Figure 10 and 11, around half of the number of potentially liable households in the UK and the total UK IHT liability is accounted for by households in London and South East for wave 7. When looking a little deeper at the regional growth in liability between waves 6 and 7 in Figure 12, growth in the South East and London fell but still remains high overall. This may be due to external factors such as the Coronavirus pandemic which had begun to act as a catalyst for some individuals to leave the capital and surrounding areas in 2020 and had an impact on the value of house prices. The North East, West Midlands and East of England also saw modest increases, the North West remained level and Wales, Scotland, East Midlands, Yorkshire and Humber decreased. Figure 12 reinforces this difference between the South East and London when compared to the rest of the UK for wave 7. You can see a breakdown for each region in Figures 13 to 22.

As can be seen below, there is an overall increase across the UK throughout the different waves when indexed. It is clear that the East of England has seen the highest growth rate since wave five regarding both number of households liable and the total liability. This is followed by the South East, which saw the next highest growth and then Scotland. This highlights the prominence of IHT across all regions within the UK and the growing need for financial advice.

Figure 5



We can see in Figure 24 that the percentage of liable households in London more than doubled between 2006 and 2016 and almost one in four households in both London and the South East are now potentially liable for IHT. Significant increases are also shown across the other regions with the East of England at 17% and the South West with over 13% of households with a potential liability.

6. The results as an index

Figures 6 and 7 below demonstrate the increase in the total index in terms of the number of potentially liable households as well as the total liability. Both figures clearly show a steady increase as the waves have progressed.

Figures 25 and 26 examine this at a regional level. It is clear that there is regional picture of potential IHT liability amongst households when rebasing to the first waves of data in 2006-2008 and that when the Total IHT Liability is indexed to wave 1 there is a marked regional difference across the UK.

Figure 6

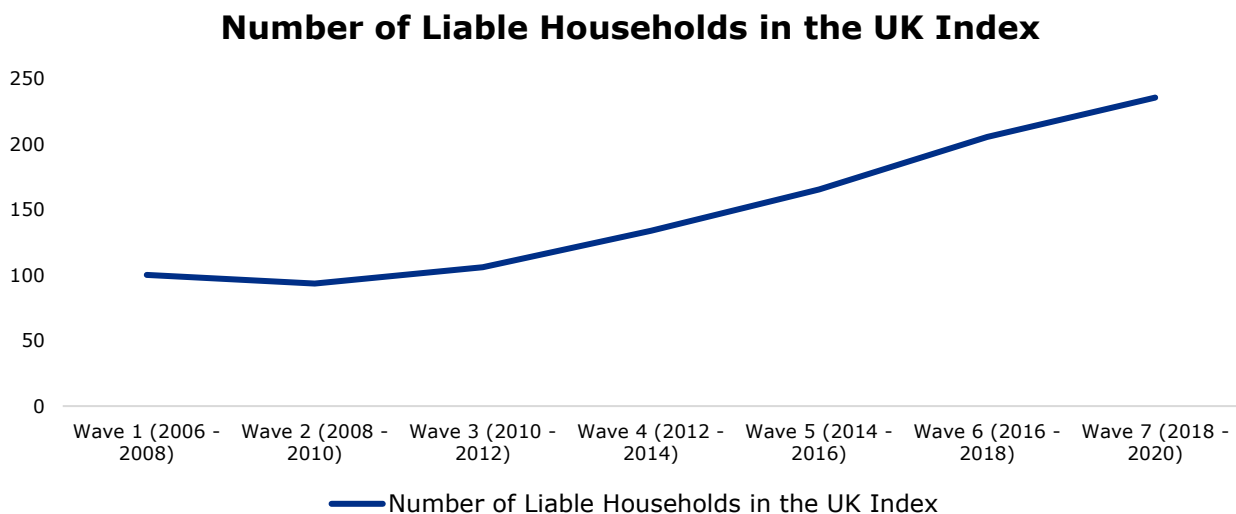
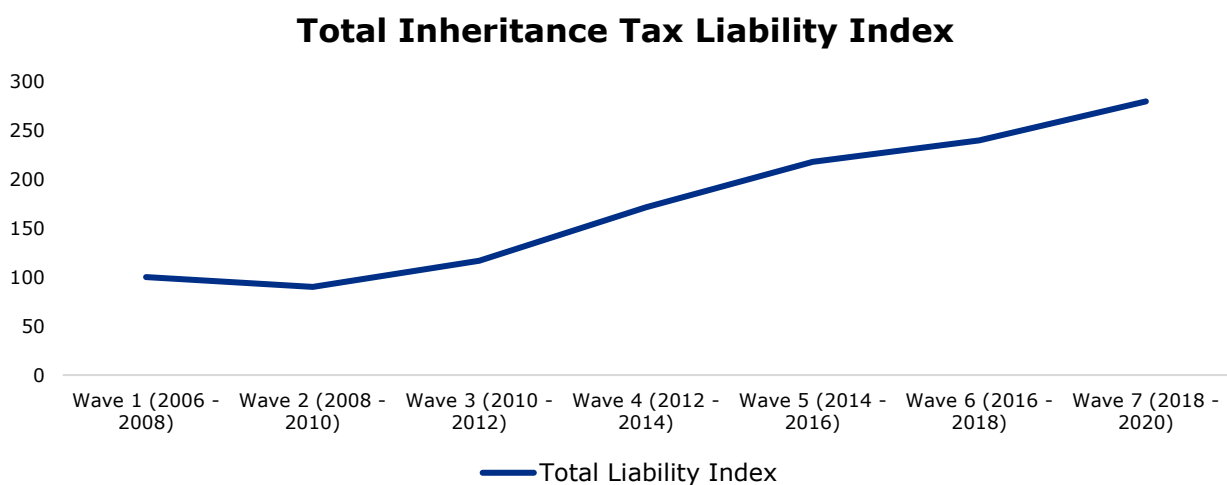


Figure 7



7. What's needed to resolve this?

As the data shows, even those living in areas with a lower potential IHT liability should be aware of the possibility of being subject to IHT and, if it is something they need to consider, how to manage the potential liability. In order to tackle this issue, it is important to raise awareness with clients and engage with them now, to help them understand the implications and the strategies available to help them mitigate the impact.

Some of the ways to mitigate exposure to IHT include the following.

Wills: Through making a will an individual can help to ensure that their estate is passed on tax-efficiently. If this is not done then intestacy rules apply (under which the deceased's estate is inherited by their married/civil partner and/or children, or it goes to the crown if there are no surviving relatives), which could result in an IHT bill.

Gifts: IHT can also be managed by making gifts. Both small gifts and regular gifts from income should be IHT free, although larger gifts are only IHT free if the donor has lived at least seven years after making the gift.

Trusts: A trust can be established to mitigate IHT. It can often be quite a complex legal arrangement, but is beneficial as once assets are put in a trust they are no longer owned by the donor. This means they won't usually be included as part of the donor's estate, although it is important to note that the seven-year rule applies here too.

Business Relief: It is also possible to invest in companies and investments that qualify for Business Relief (BR). After two years have passed, such investments should become IHT free as long as they are still held at time of death and the investments still qualify. This can be a higher risk option as it is possible that the money invested could be lost.

Maximising pension contributions: It is important to note that pensions do not usually form part of an individual's estate and as a result are not subject to IHT. Therefore, maximising pension contributions can also be a good way to pass on more wealth, tax-efficiently.

8. Conclusion

This data covers the period between 2006 and 2020. When the data becomes available in 2024, we would expect the next two-year period to show the impacts of external factors such as the Covid-19 pandemic and the war in Ukraine. Whatever the impact may be, the need for an IHT Index is clear. It works in a fluid way to allow the total liability to be tracked whatever the current socioeconomic conditions.

9. The case for independent financial advice has never been stronger

The need to protect all assets while following a complex set of rules with an increasing number of households liable for IHT shows that those who may not have ever previously considered seeking financial advice should start to consider doing so. An FCA authorised financial adviser will help those affected to navigate the complex issue of IHT planning.

Transact therefore commissioned further research from Trajectory on this, and a sample of 839 homeowners were surveyed from the monthly Trajectory national representative sample of 1,500 respondents on a variety of issues. Of those who participated, 26% have both a household income above £48k and own a property worth more than £250k. This group have a better understanding of how IHT works, suggesting that increased wealth means increased understanding as 27% of those fitting this criteria felt they understood how IHT works very well compared to the 17% of all

homeowners who said the same. Interestingly, perceived understanding of IHT is also considerably stronger amongst younger generations, with 34% of 18-24 year olds saying they understand IHT 'very well' compared to just 12% of those aged 65+.

Those with a household income above £48k and with a property worth more than £250k also have a greater appetite for exploring how they could reduce their IHT liability than the average homeowner, at 46% compared to 38% of all homeowners. There is also a greater interest here from younger generations in exploring this. The 35-44 age group comes out on top with 54% of these individuals having a greater interest than 18-24 year olds at 47% and 65+ year olds at 28%.

One in three homeowners who said they want to reduce their IHT liability would be looking to take professional advice, with opinions on this being similar across all homeowners of varying wealth. There is a greater appetite for professional advice amongst 55-64 year olds with 48% of participants willing to seek this out, whilst those in younger age groups were more inclined to look into reducing liability themselves.

Tom Johnson, Managing Director at Trajectory Partnership commented: *"As house prices are increasing faster than the thresholds, more people are becoming liable for inheritance tax, especially in London, the South East and the East of England. For those liable, it's never been more important to have a good knowledge of how IHT works and what the implications for them could be. In our recent survey of homeowners, half admitted they didn't understand IHT and a third are planning to take professional advice to explore how they might reduce their liability."*

Transact is a leading UK platform that only accepts new business from FCA authorised financial advisers. We provide access to a broad range of tax wrappers including general investment accounts, ISAs, pensions and onshore and offshore investment bonds whilst also making available a suite of trust documentation and support material along with technical support on taxation matters. We are therefore well placed to help you and your clients plan for the future and protect assets from being subject to unnecessary tax. To learn more about Transact, visit our website www.transact-online.co.uk.

10. Appendix

Figure 8

Total Inheritance Tax Liability by Region - Wave 7

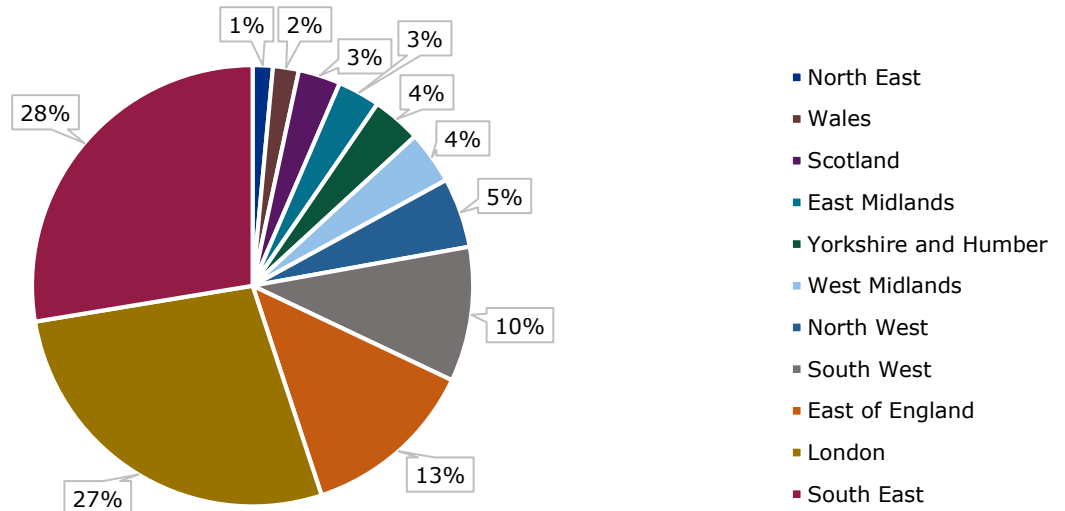


Figure 9

Total Inheritance Tax Liability by Region (£ Billion)

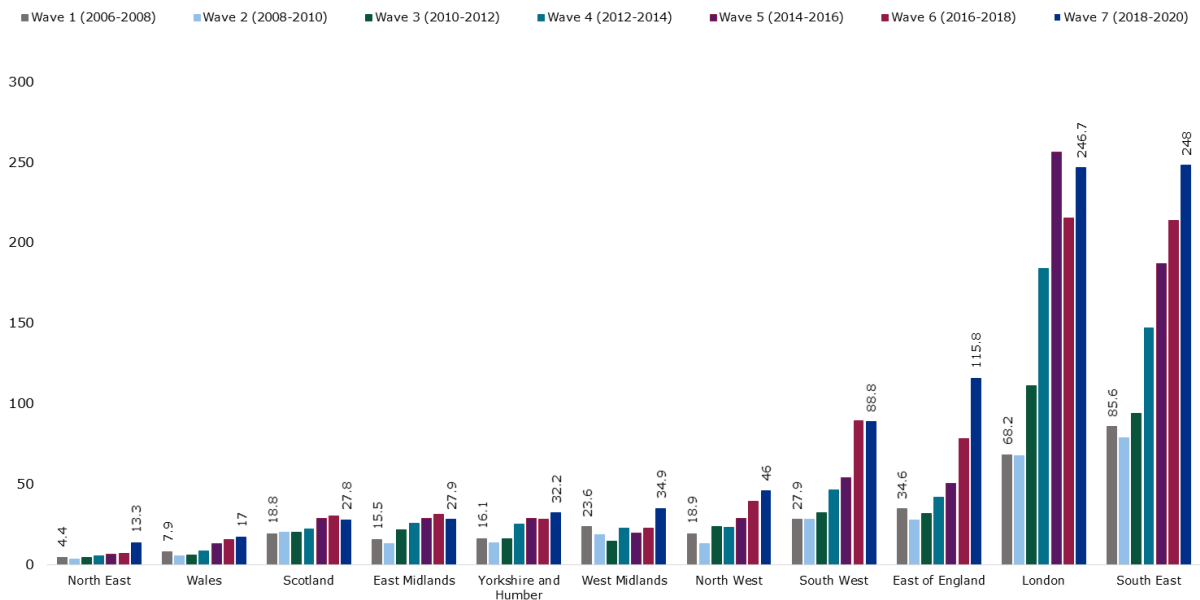


Figure 10

Regional Breakdown of Households liable for Inheritance Tax - Wave 7

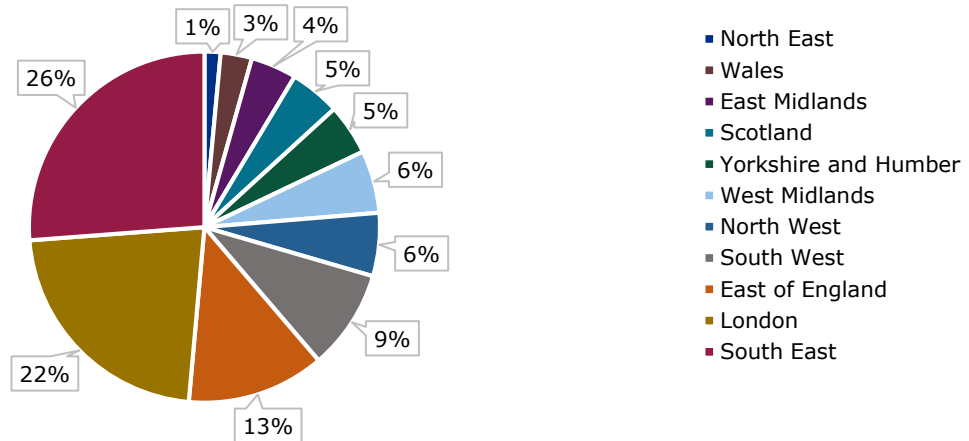


Figure 11

Regional Breakdown of Inheritance Tax Liability - Wave 7

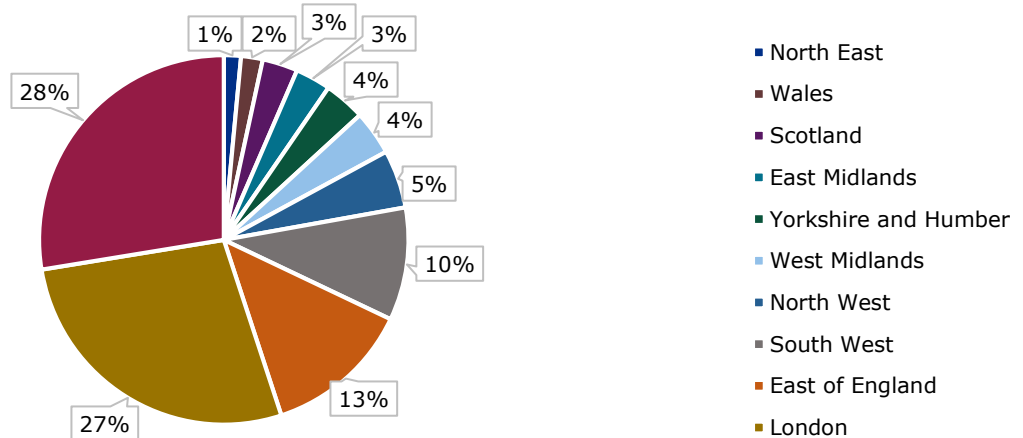


Figure 12

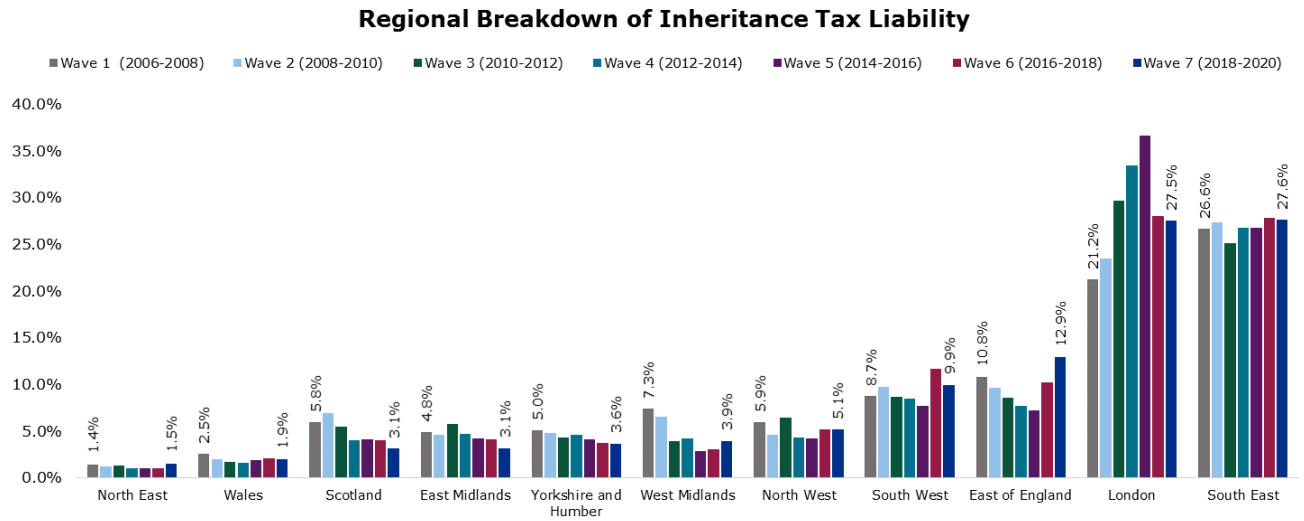


Figure 13 – Regional Breakdown

North East							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	25045	28213	26568	28225	31032	50349	52155
Total number of liable households [ONS]	1111200	1139400	1137300	1122100	1154400	1141000	1175000
Total liability (£ billion)	£4.40	£3.20	£4.50	£5.20	£6.40	£7.10	£13.30
% of households liable in region	2.25%	2.48%	2.34%	2.52%	2.69%	4.41%	4.44%
% of Total households from each region	1.68%	2.03%	1.68%	1.42%	1.26%	1.65%	1.49%
% of Total liability from each region	1.37%	1.11%	1.20%	0.94%	0.91%	0.92%	1.48%

Figure 14 – Regional Breakdown

North West							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	109779	84222	105394	115006	147404	188979	203713
Total number of liable households [ONS]	2940400	2956200	3033100	2988700	3057900	3087000	3066000
Total liability (£ billion)	£18.90	£13.00	£23.80	£23.30	£28.80	£39.10	£46.00
% of households liable in region	3.73%	2.85%	3.47%	3.85%	4.82%	6.12%	6.64%
% of Total households from each region	7.37%	6.05%	6.68%	5.77%	5.99%	6.18%	5.81%
% of Total liability from each region	5.88%	4.49%	6.34%	4.23%	4.11%	5.08%	5.12%

Figure 15 – Regional Breakdown

Yorkshire and Humber							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	81797	79627	97394	99526	128487	142852	164010
Total number of liable households [ONS]	2209500	2242000	2271900	2292800	2280700	2314000	2360000
Total liability (£ billion)	£16.10	£13.70	£15.80	£25.00	£28.40	£28.20	£32.20
% of households liable in region	3.70%	3.55%	4.29%	4.34%	5.63%	6.17%	6.95%
% of Total households from each region	5.49%	5.72%	6.17%	4.99%	5.22%	4.67%	4.68%
% of Total liability from each region	5.01%	4.73%	4.21%	4.54%	4.05%	3.66%	3.58%

Figure 16 – Regional Breakdown

East Midlands							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	83731	74551	79035	96072	106796	127214	148308
Total number of liable households [ONS]	1867000	1895500	1894900	1911500	1945900	2005000	2031000
Total liability (£ billion)	£15.50	£13.20	£21.40	£25.70	£28.80	£31.20	£27.90
% of households liable in region	4.48%	3.93%	4.17%	5.03%	5.49%	6.34%	7.30%
% of Total households from each region	5.62%	5.36%	5.01%	4.82%	4.34%	4.16%	4.23%
% of Total liability from each region	4.82%	4.56%	5.70%	4.66%	4.11%	4.05%	3.11%

Figure 17 – Regional Breakdown

West Midlands							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	83731	74551	79035	96072	106796	127214	148308
Total number of liable households [ONS]	1867000	1895500	1894900	1911500	1945900	2005000	2031000
Total liability (£ billion)	£15.50	£13.20	£21.40	£25.70	£28.80	£31.20	£27.90
% of households liable in region	4.33%	4.12%	3.51%	4.62%	5.02%	6.07%	8.32%
% of Total households from each region	6.51%	6.74%	5.09%	5.35%	4.86%	4.62%	5.76%
% of Total liability from each region	7.34%	6.46%	3.84%	4.10%	2.80%	2.96%	3.88%

Figure 18 – Regional Breakdown

East of England							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	154144	135706	185037	224423	256885	334921	445292
Total number of liable households [ONS]	2334900	2400600	2470400	2523100	2538700	2568000	2626000
Total liability (£ billion)	£34.60	£27.60	£31.80	£42.00	£50.30	£78.20	£115.80
% of households liable in region	6.60%	5.65%	7.49%	8.89%	10.12%	13.04%	16.96%
% of Total households from each region	10.35%	9.75%	11.72%	11.26%	10.44%	10.95%	12.70%
% of Total liability from each region	10.76%	9.54%	8.48%	7.62%	7.18%	10.15%	12.89%

Figure 19 – Regional Breakdown

London							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	282457	292697	354352	487373	675108	754033	784097
Total number of liable households [ONS]	3004200	3085300	3180600	3210300	3253000	3247000	3338000
Total liability (£ billion)	£68.20	£67.80	£111.00	£184.00	£256.00	£215.00	£246.70
% of households liable in region	9.40%	9.49%	11.14%	15.18%	20.75%	23.22%	23.49%
% of Total households from each region	18.96%	21.02%	22.45%	24.46%	27.44%	24.65%	22.37%
% of Total liability from each region	21.21%	23.43%	29.58%	33.38%	36.55%	27.92%	27.46%

Figure 20 – Regional Breakdown

South East							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	376876	339222	367800	490186	575043	794439	917712
Total number of liable households [ONS]	3451900	3492600	3538100	3562200	3613900	3623000	3693000
Total liability (£ billion)	£85.60	£78.90	£94.00	£147.00	£187.00	£213.70	£248.00
% of households liable in region	10.92%	9.71%	10.40%	13.76%	15.91%	21.93%	24.85%
% of Total households from each region	25.30%	24.37%	23.30%	24.60%	23.37%	25.97%	26.18%
% of Total liability from each region	26.63%	27.26%	25.05%	26.67%	26.70%	27.75%	27.60%

Figure 21 – Regional Breakdown

South West							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	155662	148849	163161	196185	236334	303565	322949
Total number of liable households [ONS]	2191900	2228000	2255500	2294200	2355200	2367000	2467000
Total liability (£ billion)	£27.90	£27.90	£32.30	£46.10	£53.70	£89.10	£88.80
% of households liable in region	7.10%	6.68%	7.23%	8.55%	10.03%	12.82%	13.09%
% of Total households from each region	10.45%	10.69%	10.34%	9.84%	9.61%	9.92%	9.21%
% of Total liability from each region	8.68%	9.64%	8.61%	8.36%	7.67%	11.57%	9.88%

Figure 22 - Regional Breakdown

Wales							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	49606	44274	40768	54379	73995	85267	101406
Total number of liable households [ONS]	1278900	1280900	1278900	1307300	1325100	1329000	1373000
Total liability (£ billion)	£7.90	£5.50	£6.10	£8.40	£12.90	£15.30	£17.00
% of households liable in region	3.88%	3.46%	3.19%	4.16%	5.58%	6.42%	7.39%
% of Total households from each region	3.33%	3.18%	2.58%	2.73%	3.01%	2.79%	2.89%
% of Total liability from each region	2.46%	1.90%	1.63%	1.52%	1.84%	1.99%	1.89%

Figure 23 – Regional Breakdown

Scotland							
	Wave 1 (2006- 2008)	Wave 2 (2008- 2010)	Wave 3 (2010- 2012)	Wave 4 (2012- 2014)	Wave 5 (2014- 2016)	Wave 6 (2016- 2018)	Wave 7 (2018- 2020)
Number of liable households	73609	70984	78634	93988	109784	136120	163441
Total number of liable households [ONS]	2294800	2339600	2341200	2414700	2375200	2425000	2492000
Total liability (£ billion)	£18.80	£19.90	£20.10	£21.90	£28.60	£30.20	£27.80
% of households liable in region	3.21%	3.03%	3.36%	3.89%	4.62%	5.61%	6.56%
% of Total households from each region	4.94%	5.10%	4.98%	4.72%	4.46%	4.45%	4.66%
% of Total liability from each region	5.85%	6.88%	5.36%	3.97%	4.08%	3.92%	3.09%

Figure 24

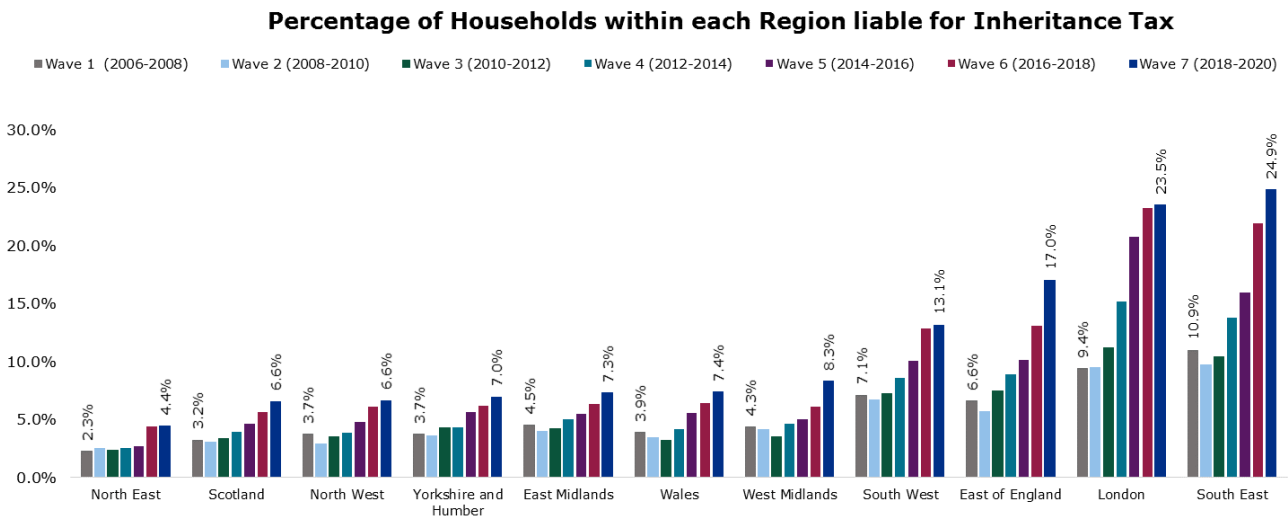


Figure 25

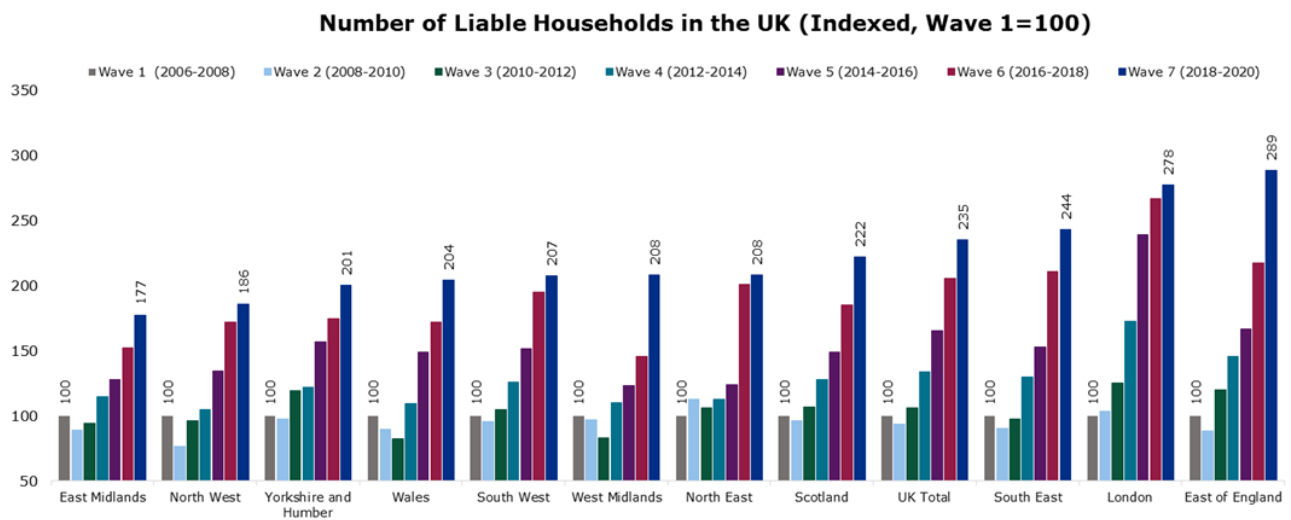
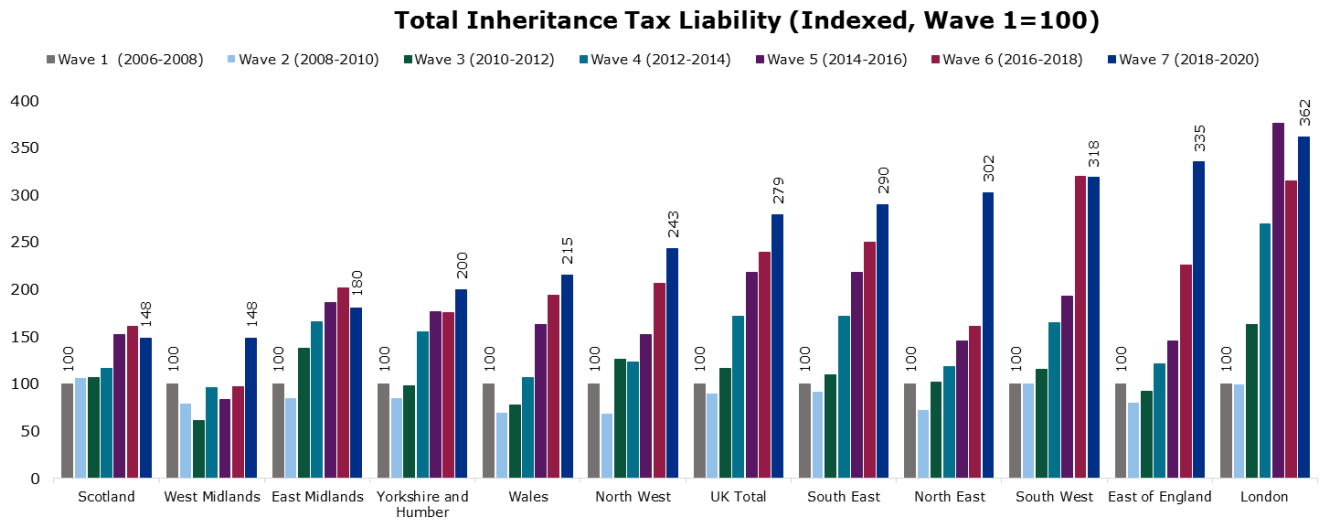


Figure 26



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M283 Version (1) October 2022

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Registered office: as above; Registered in England and Wales under number: 3727592

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