

# Policy Response Inheritance Tax Thresholds

Autumn 2015



### Raising the threshold

The Conservative party continued to demonstrate its love affair with home ownership in the Summer Budget by making good on its promise to increase the inheritance tax threshold for home owners passing property to their descendants.

In doing so they will effectively increase that threshold to £1m for married couples and those in a civil partnership by 2020/21; phasing in the additional relief from 2017/18.

This reflects the extent to which housing contributes to private wealth in the UK. Figures from HMRC suggest that residential property makes up 34% of the assets held by the 16,000 estates who yield £3.4bn in inheritance tax each year.

### Downsizing impact

While incorporating provisions to protect the relief for those who choose to downsize, the increase in the threshold will do nothing to encourage that activity. This may restrict the amount of family housing coming to the market in the years approaching or during retirement.

As such it is likely to underpin house prices of former family housing particularly across the South of the country, where historically the IHT burden has been highest.

### Recycling equity

Our analysis suggests that the over 65s hold roughly 44% (or £1.2tn) of the equity held in owner occupied housing. The release of that equity to younger generations is likely to form an important part in helping younger generations to get on or move up the housing ladder.

As a result of these changes, inheritance tax is likely to erode less of that equity. However, it is also likely that more of it becomes locked up until mature homeowners pass away, meaning it only becomes accessible to younger generations at a later stage in their lives.

While some will welcome the tax give away that is expected to cost the Exchequer just under £1bn by 2021, this may act as a drag on housing transactions.

### Under occupation

This is likely to contribute an ongoing situation where older owner occupiers under-occupy essentially family homes. According to the 2011 census there were 3.14 million properties that were owned outright without a mortgage where there are at least 2 bedrooms per occupant.

Actively encouraging downsizing in other ways would ease this situation (for example, by providing relief from stamp duty). According to the English Housing Survey, downsizers only

account for 7% of all sellers in the housing market, with our own analysis suggesting a greater propensity to downsize in higher value markets.

Overall, this may increase as parents seek to release capital to younger generations to get on or move up the housing ladder. However, for it to be encouraged in a more benign inheritance tax environment, consideration should be given to stamp duty relief and more emphasis should be given to increase the delivery of good quality retirement housing. ■

## KEY FACTS

- In 2013-14 IHT raised £3.4bn.
- Of the 265,000 estates notified to HMRC in 2011-12, only 16,000 paid inheritance tax. Of these 3,900 had net assets of over £1m but generated 69% of IHT receipts.
- 50% of IHT receipts were generated by tax payers in London and the South East, with a further 20% coming from the East of England and the South West.
- Residential Property made up just over one third of the value of all assets held at death by those paying IHT.
- Just 0.67% of estates notified to HMRC held net assets of more than £2m in 2011-12, the level at which the tapered withdrawal of the additional nil rate band kicks in. The average value of residential property held in those estates was £1.3m.
- In 2014 19,000 properties sold for in excess of £1m accounting for 1.6% of all transactions.

.....  
 "Analysis suggests the over 65s hold 44% of equity held in owner occupied housing"  
 .....

## Savills Research team

Please contact us for further information



**Lucian Cook**  
 UK Residential  
 020 7016 3837  
 lcook@savills.com



**Susan Emmett**  
 UK Residential  
 020 3107 5460  
 semmett@savills.com



**Sophie Chick**  
 UK Residential  
 020 7016 3786  
 schick@savills.com

#### Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.