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SECRET

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PO -CH /NL/0366



PART A

1988 BUDGET INHERITANCE
TAX

PO -CH /NL/0366

PART A

DD's 25 years NAJZ 30/11/95

7-1-88

TASK FORCE SECRET



COPY NO. 7 OF 8 .

FROM: J M G TAYLOR

DATE: 19 October 1987

PS/INLAND REVENUE

cc PS/Financial Secretary
 PS/Sir P Middleton
 Mr Scholar
 Miss Evans
 Mr Isaac - IR

TAX PROPOSALSInheritance tax

The Chancellor has asked for a note showing the comparative incidence of IHT in the UK and other major countries on a businessman leaving property to his son. I should be most grateful if you could arrange for this to be done. The Chancellor would like two examples to be worked through. In the first example, the donor passes on a business worth £1 million, and other net assets of £100,000; in the second example, these amounts are doubled.

Capital Gains Tax

2. I passed on to you by telephone a further CGT option. Under this option, CGT would be payable on gifts at the point of transfer, and the base price for the donees' future CGT liability would be the price/value at transfer. I should be grateful for advice in due course.

Stamp Duty

3. You may also have seen (my minute of today to Miss Evans) that the Chancellor has suggested another starter. Under this, the £30,000 lower limit for liability of real estate to stamp duty is to be converted to a £30,000 threshold. I should be grateful for advice on this also.

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR

JMGT
 TO
 PS/IR
 19 OCT

TASK FORCE SECRET



Inland Revenue

UNCLASSIFIED (Agreed with B/IR)

Policy Division Somerset House

Handwritten initials

FROM: L E JAUNDOO
DATE: 22 OCTOBER 1987
EXT : 6459

Handwritten notes in red ink: 'Thanks. As suspect. Per son 15 k... (for son examples with his son @ Somerset) ... Low level ... what to ... lunch. ...'

- 1. MR ISAAC 2210
- 2. CHANCELLOR

INHERITANCE TAX - INTERNATIONAL COMPARISONS

- 1. The Chancellor asked to see the comparative incidence of IHT in the UK and other major countries based on examples of a businessman leaving property to his son (Mr Taylor's note of 19 October).
- 2. In broad terms the figures (in £000 sterling) are:

Example 1

(Business worth £1m with other assets of £100,000)

	UK	USA	FRG	FRANCE	BELGIUM	ITALY	HOLLAND	JAPAN
Tax	264	309	128	312	245	158	270	362
	(5)	(12)	(8)	(3)	(6)	(7)	(3)(4)	(1)

Example 2

(Business worth £2m with other assets of £200,000)

Tax	624	881	304	750	521	439	567	980
	(9)	(2)	(8)	(3)	(6)	(7)	(5)	(1)

JAUNDOO TO CX 22 OCT

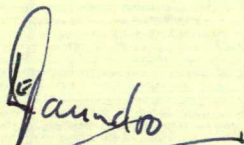
- cc PS/Financial Secretary
- PS/Sir P Middleton
- Mr Scholar
- Miss Evans

- Mr Battishill
- Mr Isaac
- Mr Beighton
- Mr Pitts
- Mr Jaundoo
- PS/IR

3. Whereas under the UK and USA regimes a uniform rate of tax is applied to all beneficiaries other than spouses, the remaining countries apply differential rates under which direct descendants and spouses are treated most favourably. In the USA, like the UK, transfers to spouses are wholly exempt from the tax. In Japan, a bequest to a spouse is taxed at about one half of the rate applicable to a bequest to a child. But in the other countries the tax treatment of a bequest to a spouse is little different from that to a direct descendant.

4. The contrast is even greater when the beneficiaries are not relatives. For instance, if the bequest had been made to a stranger the tax burden under the UK and USA regimes would remain the same as in Examples 1 and 2, whereas under the regimes of the other countries the tax burden would need to be increased by a factor ranging from 0.2 (Japan) to 4 (FRG).

5. Apart from the UK, only the Belgian and Italian regimes offer a measure of business relief, albeit in a more restricted form. In Belgium this relief takes the form of a reduction of 2 per cent and 5 per cent in the top two rates of tax to 22 and 25 per cent respectively for the part of the inheritance that represents an investment in a business exploited by the deceased. In Italy a 40 per cent reduction is granted on the first 200m lira (about £92,000) of the value of real property used in a limited category of small businesses. The figures in Examples 1 and 2 reflect these reliefs.



L E JAUNDOO



Inland Revenue

Policy Division
Somerset House

FROM: L E JAUNDOO

DATE: 26 NOVEMBER 1987

1. *Seen in draft.*
MR PITTS
2. CHANCELLOR

INHERITANCE TAX: INTERNATIONAL COMPARISONS

1. The Chancellor asked how the effective rate of IHT in the UK would compare with that of the corresponding taxes in other major countries, if our present IHT rates were amended by raising the threshold to £105,000 with a single rate of 40 per cent thereafter, while retaining 50 per cent business property relief (Mr Taylor's telephone call of 25 November).

2. Generally speaking, those major countries that levy estate and/or inheritance taxes centrally do so by reference to tax rates which vary according to the size of the estate and the degree of consanguinity, if any, between the beneficiaries and the deceased. Therefore, meaningful comparisons of effective rates need to take account of these variables as illustrated below, based on the two examples which the Chancellor had asked us to consider previously (Mr Taylor's note of 19 October).

JALINDOO
TO
CX
26 NOV

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr C J Ridley
Mr Cropper

Mr Battishill
Mr Isaac
Mr Beighton
Mr Pitts
Mr Calder
Mr Gonzalez
Mr Jaundoo
PS/IR

Example 1

(The estate consists of a business worth £1m with other assets of £100,000)

<u>Beneficiary</u>	<u>Effective % Tax Rates By Country</u>							
	<u>UK</u>	<u>USA</u>	<u>FRG</u>	<u>FRANCE</u>	<u>BELGIUM</u>	<u>ITALY</u>	<u>HOLLAND</u>	<u>JAPAN</u>
Child	18	28	12	28	22	14	25	33
Spouse	Nil	Nil	11	28	22	14	21	16
Stranger	18	28	52	60	78	41	65	39

Example 2

(The estate consists of a business worth £2m with other assets of £200,000)

Child	20	40	14	34	24	20	26	45
Spouse	Nil	Nil	13	34	24	20	24	22
Stranger	20	40	56	60	79	49	67	53

3. The FRG's effective rates levied on bequests to children and spouses in the examples reflect the fact that the relevant scale starts at 3 per cent on estates between about £17,000 - £25,000 and rises by 24 small increments to a maximum of 35 per cent on estates over about £33m. Under this scale, an effective rate of 18 per cent is levied on estates of about £3.5m and increases to 21 per cent for estates of about £8.5m.

4. Italy's effective rates for bequests to children and spouses shown in the examples reflect the fact that those beneficiaries only pay estate tax whereas most other beneficiaries also pay inheritance tax.

5. Canada does not appear in the illustrations because their federal estate tax was abolished in 1971.


L E JAUNDOO



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

2 December 1987

Sir Emmanuel Kaye CBE
Lansing Bagnall Limited
Kingsclere Road
Basingstoke
Hants
RG21 2XJ

A handwritten signature in cursive script, appearing to read 'Emmanuel Kaye'.

Thank you for your letters of 3 and 9 November. I should also like to say how much I enjoyed the luncheon on 15 October, and our discussion there.

... You may be interested to see the attached tables I have had prepared. They show the comparative incidence of IHT in the UK and other major countries, based on two examples where a businessman leaves property to his son. They tell a rather different story from that illustrated by your charts.

This said, I shall of course consider your comments and suggestions carefully in the run-up to the Budget. I know you will understand that it would not be appropriate for me to comment further.

NIGEL LAWSON

A handwritten signature in cursive script, appearing to read 'Nigel Lawson', with a large checkmark-like flourish to the left.

Example 1

A businessman leaves to his son a business worth £1 million, and other assets worth £100,000. His liability to tax, in various major countries, is as follows (figures in £000 sterling):

Japan	-	362
USA	-	309
France	-	312
Netherlands	-	270
UK	-	264
Belgium	-	245
Italy	-	158
Germany	-	128

Example 2

As above, but the business is now worth £2 million, and other assets £200,000:

Japan	-	980
USA	-	881
France	-	750
UK	-	624
Netherlands	-	567
Belgium	-	521
Italy	-	439
Germany	-	304



FROM: J M G TAYLOR

DATE: 4 December 1987

CHANCELLOR

IHT

Mr Jaundoo's note (behind) compares IHT liability under the proposed changes with that in other major countries.

2. I have turned Mr Jaundoo's figures into tables comparable to those in your letter to Sir E Kaye. (The tables in the letter compared the position only for transfers to children). Under the proposals, we slip down one place in those tables.

JMGT

J M G TAYLOR

*Mr Jaundoo's
note helpful.
Per Do - same as the
Jaundoo & Kaye books -
one more example:
a business worth £5m
& no other assets.
M.*

IMGT
TO
CX
4 DEC

Example 1

A businessman leaves an estate consisting of a business worth £1 million, and other assets worth £100,000. Liability to tax under the proposed changes compared with various major countries, would be as follows (figures in £000 sterling):

<u>Left to child</u>		<u>Left to spouse</u>		<u>Left to non-relation</u>	
Japan	- 362	France	- 312	Belgium	- 858
USA	- 309	Belgium	- 245	Netherlands	- 715
France	- 312	Netherlands	- 231	France	- 660
Netherlands	- 270	Japan	- 176	Germany	- 572
Belgium	- 245	Italy	- 158	Italy	- 451
UK	- 198	Germany	- 121	Japan	- 429
Italy	- 158	USA	- nil	USA	- 308
Germany	- 128	UK	- nil	UK	- 198

Example 2

As above, but the business is now worth £2 million, and other assets £200,000

<u>Left to child</u>		<u>Left to spouse</u>		<u>Left to non-relation</u>	
Japan	- 980	France	- 748	Belgium	- 1738
USA	- 881	Belgium	- 528	Netherlands	- 1474
France	- 750	Netherlands	- 528	France	- 1320
Netherlands	- 567	Japan	- 484	Germany	- 1236
Belgium	- 521	Italy	- 440	Japan	- 1166
UK	- 440	Germany	- 286	Italy	- 1678
Italy	- 439	USA	- nil	USA	- 880
Germany	- 304	UK	- nil	UK	- 440



FROM: J M G TAYLOR
DATE: 8 December 1987

MR JAUNDOO - Inland Revenue

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr C J Ridley
Mr Cropper

Mr Battishill - IR
Mr Isaac - IR
Mr Beighton - IR
Mr Pitts - IR
PS/IR

INHERITANCE TAX: INTERNATIONAL COMPARISONS

The Chancellor was most grateful for your note of 26 November (and, indeed, your earlier minute) which he found interesting and helpful.

2. He would like one further example to be worked up. This is the case where the estate consists of a business worth £5 million, with no other assets. I should be grateful if you could take this forward.

J M G TAYLOR



Inland Revenue

Policy Division
Somerset House

FROM: L E JAUNDOO

DATE: 10 DECEMBER 1987

1. MR PITTS *2/10/12*
2. CHANCELLOR

*Thanks.***INHERITANCE TAX - INTERNATIONAL COMPARISONS**

1. The Chancellor asked how the effective rate of IHT in the UK, on an estate consisting solely of a business worth £5m, would compare with that of the corresponding taxes in other major countries, if our present IHT rates were amended by raising the threshold to £105,000 with a single rate of 40 per cent thereafter, while retaining 50 per cent business property relief (Mr Taylor's note of 8 December).

2. The results are shown in the table below using three different classes of beneficiaries. They are directly comparable with those for the previous examples in my minute of 26 November.

Example: The estate consists of a business worth £5m with no other assets.

Effective % Tax Rates By Country

Beneficiary	UK	USA	FRG	FRANCE	BELGIUM	ITALY	HOLLAND	JAPAN
Child	19	48	18	37	24	24	26	57
Spouse	Nil	Nil	18	37	24	24	26	29
Stranger	19	48	60	60	79	55	67	69

L E JAUNDOO

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Cropper

Mr Battishill
Mr Isaac
Mr Beighton
Mr Pitts
Mr Calder
Mr Gonzalez
Mr Jaundoo
PS/IR

JAUNDOO
TO
CX
10 DEC



Inland Revenue

Policy Division
Somerset House

FROM: D Y PITTS

DATE: 21 DECEMBER 1987

FINANCIAL SECRETARY

*Assuming we stick
by the main option, which
has much to commend it
(esp. ~~in terms of the~~
proportional business, we discuss here), what is (a)
for the cost of each £1,000 increase in the
threshold, and (b) to the threshold and
to avoid the ~~anyone~~ ~~with~~ ~~the~~ ~~1975-76 'A'~~
scale*

INHERITANCE TAX: RATES AND BANDS

1. Mr Jaundoo's minute below gives the comparisons you had asked for and, for illustration, two Variants to the 'main option' within the constraints he lists in paragraph 6.

2. You may think the questions to be addressed are:

- a. is bettering 'Healey revalorized' an objective, and if so is it enough to have done so on the 'averaging' (as do both the 'main option' and both Mr Jaundoo's Variants) rather than on the 'conventional' basis or by comparison with house price inflation (paragraphs 5, 9 10, 12)?
- b. will 'main option' do enough for the individual who owns little besides a house, albeit he is not typical (paragraphs 13-18)?
- c. do you want the first rate of IHT to be as high as 40 per cent (30% now, and it used to be 10%)?

*Comparison
(or by comparison
with the 1988-89
index) version of
the
current
scale?)*

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie

Mr Battishill
Mr Isaac
Mr Pitts
Mr Beighton
Mr Calder
Mr Gonzalez
Mr Jaundoo
Mrs Evans
PS/IR

PITTS
TO
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21 DEC

d. is the size of the tax reductions for the large estates wholly an objective (eg to reduce high tax rates, or to help the UIC case), or in part only a by-product of going for one rate of tax? How overriding is the latter?

3. Depending on your policy, the answers could point to a structure which gives more at the lower end of the scale and, if necessary, less at the top end.

4. Neither of Mr Jaundoo's Variants betters 'Healey house-price-revalorized' in middle ranges, but Variant A does so at all points for "Healey conventionally revalorised" ('A' scale in Table 2). It does more for the lower and middle ranges of estates than does 'main option', but also for the large estates - inevitably, because it simply reintroduces a lower rate band. So it also costs £80m more than 'main option' in a full year.

5. Variant 'B' does more than 'main option' for estates up to something over £250,000 but less thereafter. It pays for the extra help for the smaller estates by giving less to the larger, but in the first tranche of the latter does less than 'Healey conventionally revalorized'.

6. I suggest that the next step could be for you to give a further steer on objectives in the light of these figures and how they rank in priority, including where 'cost' becomes critical. Unless one of the present proposals sufficiently meets Ministers' objectives, we can then seek to devise a scale which goes closer to doing so. (Where objectives conflict, there are of course constraints.)

DY



Inland Revenue

Policy Division
Somerset House

FROM: L E JAUNDOO

DATE: 21 DECEMBER 1987

1. MR PITTS *df 21/12*
2. FINANCIAL SECRETARY

INHERITANCE TAX: RATES AND BANDS

1. The Financial Secretary asked to see how the 1975/76 "Healey" scale (RPI adjusted) compares with the current scale. He has also asked for a similar comparison of the tax burden under the two scales with particular reference to the rise in house prices in the South East since 1975 (Miss Feest's minute of 30 November).

"Healey" 1975/76 scale (RPI adjusted) and current scale

2. Table 1 shows the tax payable on specimen estates under the 1975/76 scale (RPI adjusted to December 1986 prices) and under the current 1987/88 scale -

Table 1

Specimen estates £000s	1975/76 scale revaloured to 1987/88 <u>Tax payable £</u>	Current 1987/88 scale <u>Tax payable £</u>
100	7,250	3,000
150	20,450	19,000
200	37,000	39,000
250	56,900	62,000
300	78,450	87,000
400	126,600	144,000
500	181,400	204,000
1000	481,150	504,000
2000	1,097,100	1,104,000

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie

Mr Battishill
Mr Isaac
Mr Pitts
Mr Beighton
Mr Calder
Mr Gonzalez
Mr Jaundoo
Mrs Evans
PS/IR

3. The table confirms that although the tax burden on the smallest taxpaying estates has been reduced significantly under the current scale, most estates are worse off now than in 1975.

"Healey" 1975/76 scale (RPI adjusted) and scales for 1988/89

4. Table 2 compares the tax payable on specimen estates under revalorised 1975/76 scales with the 1988/89 statutory indexed scale, and a scale using a threshold of £105,000 and a single rate of 40 per cent - the main option.

We have shown two scales for 1975/76. The first (A) is revalorised to December 1987 on the usual basis. The second (B) is revalorised to the forecast average of the RPI for 1988/89 starting from the average of the RPI for 1975/76. Although not made on the orthodox basis, this comparison is arguably a better one. It shows the tax on 1988/89 estates if they were subjected to the same effective rate of tax as estates of equivalent real value in 1975/76.

The difference between the scales A and B arises because of the very large difference in prices, more than 20 per cent, between December 1974 and 1975/76 as a whole while the price difference between December 1987 and 1988/89 is forecast to be only 4 per cent.

Table 2

Specimen estates £000s	1975/76 A scale 1988/89 (revalorised to December 1987) <u>Tax payable</u>	1975/76 B Scale 1988/89 (revalorised by average of RPI) <u>Tax payable £</u>	Indexed scale for 1988/89 <u>Tax payable £</u>	Main Option for 1988/89 <u>Tax payable £</u>
100	6,800	9,250	1,800	NIL
150	19,550	23,250	17,200	18,000
200	35,800	41,750	37,200	38,000
250	55,350	62,250	59,300	58,000
300	76,400	84,750	84,300	78,000
400	123,950	136,750	139,900	118,000
500	178,050	194,300	199,900	158,000
1000	476,900	494,300	499,900	358,000
2000	1,089,800	1,119,450	1,099,900	758,000

5. The figures show that

using the 1975/76 A scale, the smallest and the largest estates are better off under both the indexed 1988/89 and the main option scales. However, estates in the range £172,000 to £2.2m are worse off under the indexed scale than in 1975/76; and estates between £165,000 and £332,000 are worse off under the main option scale than in 1975/76.

slightly

very

Using the 1975/76 B scale the smallest and the largest estates are again better off under the indexed scale than in 1975/76. However estates between £348,500 and £1.6m are worse off under the indexed scale than in 1975/76. However all estates are better off under the main option scale than in 1975/76.

6. The figures show also that the main option scale will involve a lower tax burden than the indexed scale except for estates in the range £138,000 to £235,000. This difference occurs because the rates under the indexed scale begin at 30 per cent compared with 40 per cent under the main option scale. Table 3 examines two possible ways of ensuring that the threshold of £105,000 in the main option scale is retained without creating any losers compared with the indexed scale. The first alternative attempts to do so by retaining a 30 per cent rate band (Variant A). The second (Variant B) is designed to mirror the cost of the main option scale.

Table 3

Specimen Estates	Main Option Threshold £105,000 + Single rate of 40%	Variant A Threshold £105,000 + 30% up to £146,000* thence at 40%	Variant B Threshold £105,000 + 30% up to £146,000* thence at 43%
100	NIL	NIL	NIL
150	18,000	13,900	14,020
200	38,000	33,900	35,520
250	58,000	53,900	57,020
300	78,000	73,900	78,520
400	118,000	113,900	121,520
500	158,000	153,900	164,520
1000	358,000	353,900	379,520
2000	758,000	753,900	809,520

Costs

1st year	£115	£150	£120
2nd year	£235	£310	£245
Full year	£255	£335	£265

[* The existing 30 per cent band goes up to £140,000. If this were indexed it would become £146,000 in 1988/89.]

7. Variant A shows that if the existing 30 per cent band, indexed to 1988/89, were retained, the resulting scale would cost £35m more in the first year and £80m in a full year than the main option scale. Variant B eliminates that additional cost but requires a higher rate of 43 per cent for estates above £146,000. It would be possible to adjust Variant B so that the existing 40 per cent band, indexed to 1988/89, were retained, but that would also involve retaining a top rate of 50 per cent to offset the additional cost.

House prices in 1975 and 1987

8. In 1975 the average UK house price stood at £12,100. By 1987/88 it has increased to £44,100. Table 4 attempts to illustrate the tax payable under the 1975/76 scale, adjusted by reference to the change in average UK house prices to 1987/88, compared with the 1988/89 indexed and the main option scales.

Table 4

Specimen Estates	1975/76 scale Revalorised by UK house prices to 1987/88	Indexed scale for 1988/89	Main Option
<u>£000s</u>	<u>Tax payable £</u>	<u>Tax payable £</u>	<u>Tax payable £</u>
100	6,250	1,800	NIL
150	18,450	17,200	18,000
200	34,300	37,200	38,000
250	53,350	59,300	58,000
300	73,750	84,300	78,000
400	120,500	139,900	118,000
500	173,650	199,900	158,000
1000	471,300	499,900	358,000
2000	1,080,250	1,099,900	758,000

9. The table shows a greater tax burden in 1975/76 than under the main option scale for all estates except those in the range £154,000 to £375,000 ie 10,500 or 42 per cent of total taxpaying estates under the main option scale. This is quite a severe test and confirms the considerable improvement over Healey 1975/76 which the main option represents.

10. If allowance is made for the likely rise in the average UK house prices in 1988/89 to £48,800, the effect would be to widen the range of loser estates to those between £138,000 and £459,000 (ie 14,000 or 56 per cent of total taxpaying estates).

11. Since 1975 house prices in the South East have risen from an average of £15,600 to £77,300 (August 1987), a factor of 4.9 compared with a factor of 3.6 nationally. Table 5 attempts to show how tax payable under the 1975 scale indexed by South East house prices compares with the 1988/89 indexed scale and the main option scale.

Table 5

Specimen Estates	1975/76 scale Revalorised by South East house prices to 1987	Indexed scale for 1988/89	Main Option
<u>£000s</u>	<u>Tax payable £</u>	<u>Tax payable £</u>	<u>Tax payable £</u>
100	2,600	1,800	NIL
150	11,400	17,200	18,000
200	24,000	37,200	38,000
250	39,100	59,300	58,000
300	56,800	84,300	78,000
400	97,000	139,900	118,000
500	142,200	199,900	158,000
1000	425,500	499,900	358,000
2000	1,025,500	1,099,900	758,000

12. The table shows that except for the smaller estates below the main option threshold of £105,000 and for larger estates above around £500,000 neither the 1988/89 indexed scale nor the main option scale would be sufficient to offset the increase in house prices in the South East since 1975/76. At first sight, this appears to confirm the perception that IHT bears heavily on estates in the South East whose sole asset consists of a modest house.

13. However, our figures show that on average and for all estates exceeding £90,000 houses form only 26 per cent of total net assets. Clearly as estates get larger so the proportion that the house bears to the whole reduces. Even in the smallest taxpaying estates above the threshold the family home does not on average form more than about half of total net assets. Annex 1 shows the average components of estates above the threshold. Annex 2 shows components of estates below £125,000.

14. The perception that in the small estate the home absorbs virtually the whole threshold is generally incorrect. Other assets normally match the value of the house, and in most cases provide liquid assets from which the tax can be paid.

15. Estates with homes valued at around the current threshold of £90,000 are drawn into tax not only because of the rise in house prices but also because of the rise in share prices. Both house prices and share prices have increased much faster than the RPI since 1982 when indexation of the tax bands was introduced. This is still true in spite of the recent fall in the stock market. Until October the increase in share prices had exceeded even that in house prices.

16. Despite the evidence that on average in a taxpaying estate a house forms no more than half the total net estate, there clearly are individual cases where it forms a much greater proportion. We have therefore looked more closely at average house prices in three specific London boroughs in both 1975 and 1987.

Table 6 sets out the prices of semi-detached houses at both dates in the inner London borough of Bexley/Greenwich and in the outer London borough of Ealing and Hounslow.

Table 6

Average semi-detached house prices

	<u>1975</u>	<u>1987</u>
	£	£
Inner London		
Bexley/Greenwich	15,000-20,000	63,000-87,000
Outer London		
Ealing	20,000-24,000	80,000-130,000
Hounslow	14,500-19,000	75,000-115,000

17. Table 7 uses the middle of the price range and assumes the house forms 90 per cent of the total estate. The effective rate of tax is shown for the (then) 1975 scale, the current scale, and the main option scale.

Table 7

Effective rate of tax %

	<u>1975/76</u>	<u>Current</u>	<u>Main option scale</u>
	<u>Scale</u>	<u>Scale</u>	
Bexley/Greenwich	2.39	NIL	NIL
Ealing	4.77	6.87	3.99
Hounslow	1.94	4.42	.21

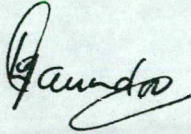
18. Although quite small, the effective rate of tax is greater now for the outer London boroughs than in 1975/76. However this is eliminated under the main option scale. But the main option scale would not be able to offset a further (say) 20 per cent increase in London house prices during 1988/89.

Conclusion

- a. Although the tax burden on the smallest estates is less under the current scale most estates are worse off now than in 1975/76 (paragraph 3).
- b. Small estates also pay less tax under the 1988/89 indexed scale than in 1975/76. However (apart from very large estates over £2.2m) all other estates are worse off under the statutory indexed scale than in 1975/76 (paragraph 5). Even using the less conventional "averaging" 1975/76 B scale (paragraph 4), estates between around £350,000 and £1,600,000 are worse off than in 1975/76.
- c. When we compare 1975/76 with the main option scale it depends whether we use the 1975/76 A scale or the 1975/76 B scale. Under the first, small estates up to £165,000 are better off under the main option, as are estates over £332,000. But estates in the range £165,000 to £332,000 are worse off than in 1975/76. However if we use the 1975/76 B scale all estates are better off under the main option scale.
- d. However, even though (on the 1975/76 B scale comparison) the main option scale would allow us to say that on average all estates paid less tax than in 1975/76, this scale will not meet completely criticism founded on the inflation of house prices. Measured against average UK house price inflation the main

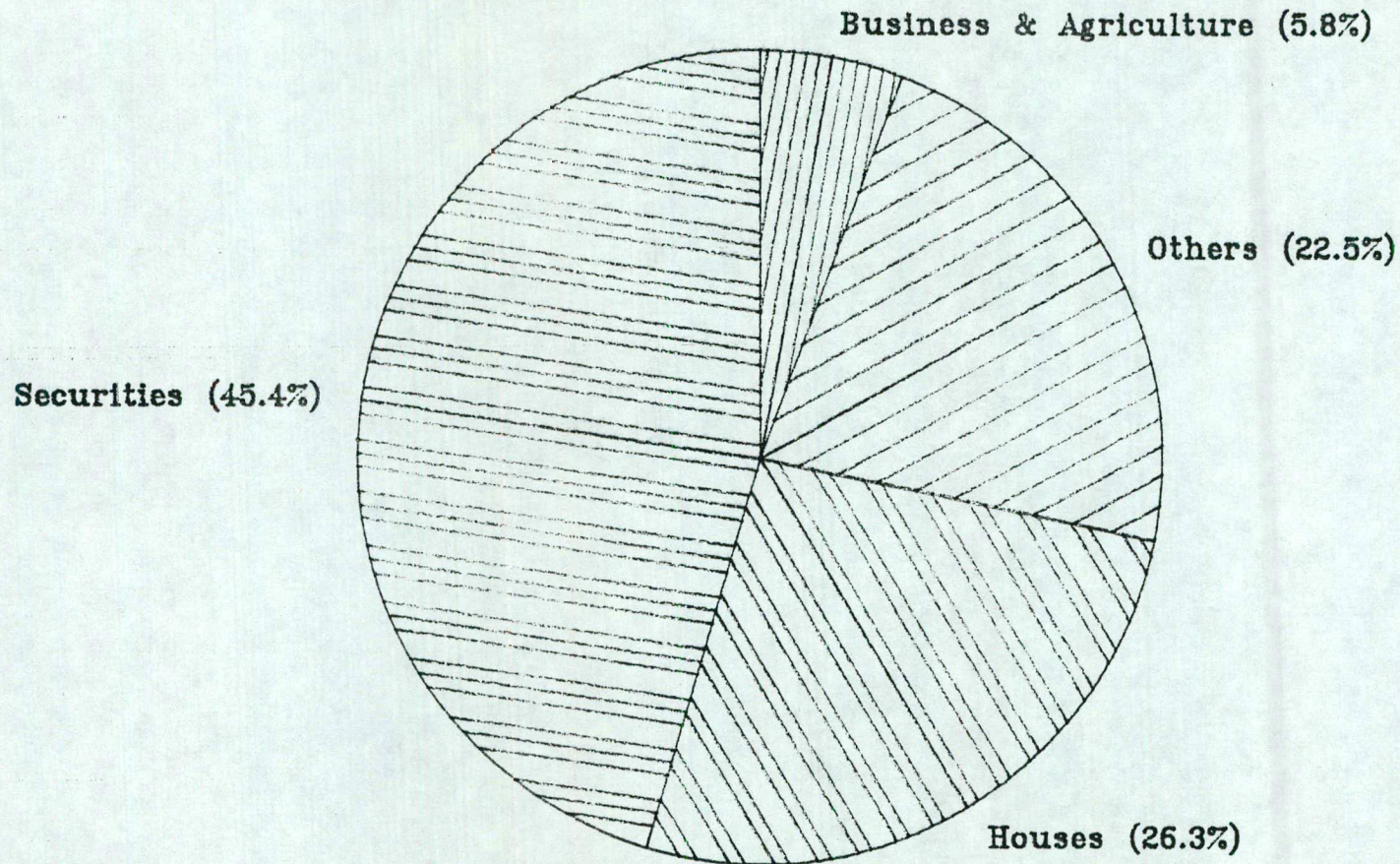
option scale will take more tax from 42 per cent of
taxpaying estates than those same estates paid in
1975/76 (paragraphs 9 and 10). Measured against
inflation of houses in the South East the tax burden as
compared with 1975/76 will be even greater. But, as a rule,

*the house forms only less than half of the value of the
estate and there are usually liquid assets with which
to pay the tax by instalments.*



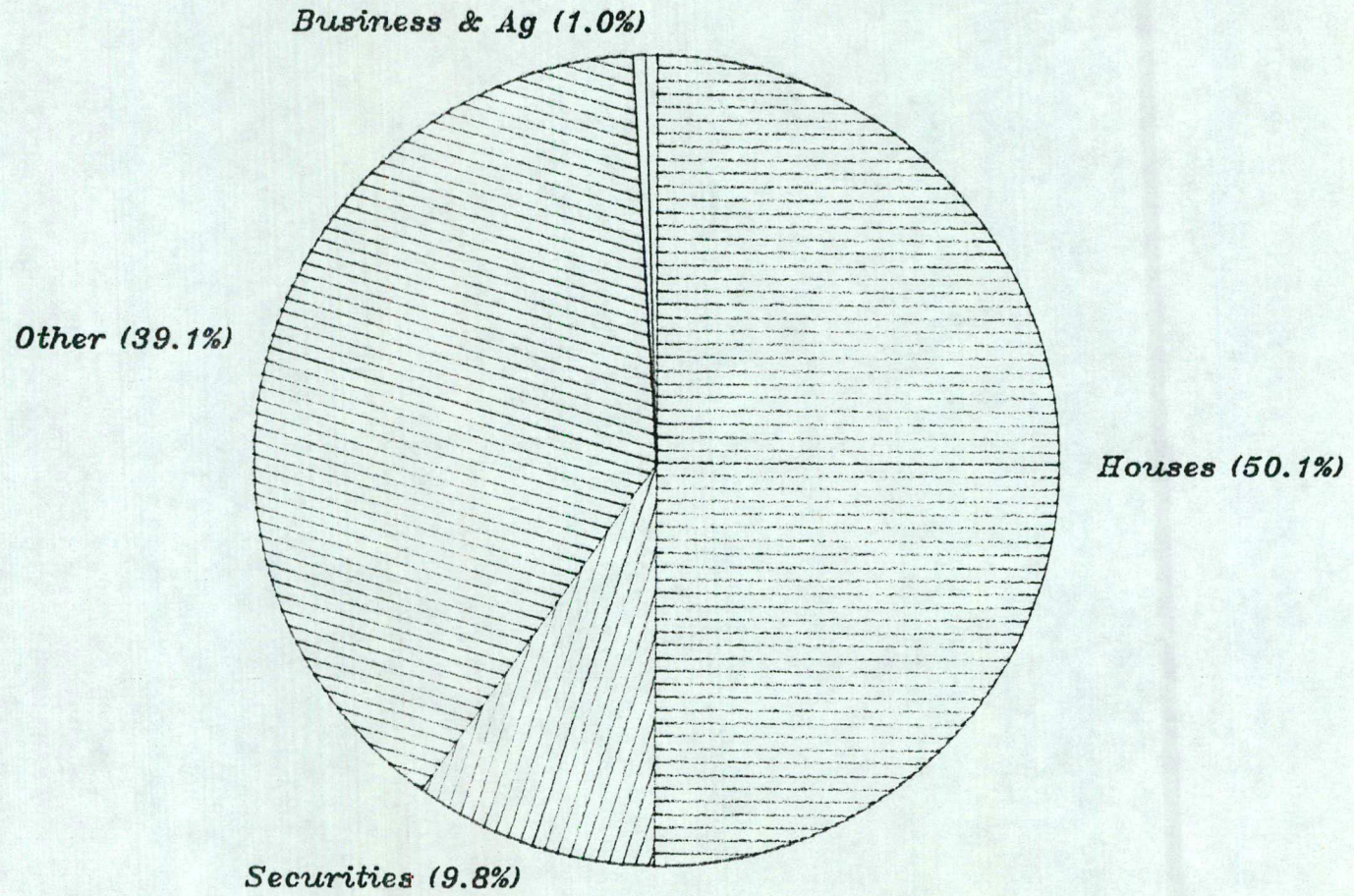
L E JAUNDOO

Components of estates of over £90,000
in 1987/88



Components of estates

below £125,000



Page 2

SECRET

CHANCELLOR

FROM: A G TYRIE

DATE: 22 DECEMBER 1987

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Miss Sinclair
 Mr R Allen
 Mr Cropper
 Mr Call

Mr Jaundoo - IR

*as per Mr Jaundoo's
 distinguish between children
 & spouses.*

on
 Mr Jaundoo's note (+ my
 gloss on it) immediately behind
 this minute. You may also be
 interested to see Jan

*Thanks.
 All this stuff relevant
 to Chatterbox.*

PS Sir's note on paper (notes)

INHERITANCE TAX - INTERNATIONAL COMPARISONS

I saw Mr Jaundoo's note of 10 December. I have no doubt that these numbers conceal as much as they reveal.

Using the information provided two conclusions I would (like to) draw are first, that complete transferability between spouses seems to be uniquely an Anglo-Saxon phenomenon. Secondly, the two most dynamic of the major economies of the world, the US and Japan, appear to have the highest IHT rates on business transfers.

Only on transfers to children

I am tempted to conclude that the encouragement of 'intergenerational wealth' through reductions in IHT (and indeed the removal of tax on lifetime gifts), although perhaps 'conservative' is not in conformity with policies to develop and sustain an enterprise culture. Lower IHT rates may inhibit it. Of course people work to pass something on. But I don't think the 'family incentive' is quite so strong for the second million!

An enterprise culture thrives, does it not, on the principle that you get what you earn, not what your relatives or friends give you?

Misses the point: the recipient of kind something up for you children.

[Incidentally, the US figure looked high in the light of their recent tax reform package. Richard Allen kindly checked it for me with his erstwhile colleagues. It is correct.]

AGT.

A G TYRIE

TYRIE
 TO
 CX
 22 DEC.



FROM: J M G TAYLOR

DATE: 23 December 1987

CHANCELLOR

Thank:

IHT: INTERNATIONAL COMPARISONS

Mr Jaundoo's minute of 10 December sets out the position for an estate consisting of a business worth £5 million and no other assets.

2. The position on the "Kaye" basis is ^{tax} (figures in £000 sterling):

IMGT
TO
CX
23 DEC

	<u>Left to child</u>		<u>Left to spouse</u>		<u>Left to non-relation</u>
Japan	2,850	France	1,850	Belgium	3,950
USA	2,400	Japan	1,450	Japan	3,450
France	1,850	Netherlands	1,300	Netherlands	3,350
Netherlands	1,300	Belgium	1,200	France	3,000
Belgium	1,200	Italy	1,200	Germany	3,000
Italy	1,200	Germany	900	Italy	2,750
UK	950	USA	-	USA	2,400
Germany	900	UK	-	UK	950

JMGT

J M G TAYLOR



FROM: J M G TAYLOR
DATE: 31 December 1987

MR TYRIE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr R I G Allen
Mr Cropper
Mr Call
Mr Jaundoo - IR

INHERITANCE TAX - INTERNATIONAL COMPARISONS

The Chancellor was grateful for your minute of 22 December.

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR



FROM: J M G TAYLOR

DATE: 31 December 1987

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie

Mr Battishill - IR
Mr Isaac - IR
Mr Pitts - IR
Mr Jaundoo - IR

INHERITANCE TAX - RATES AND BANDS

The Chancellor has seen Mr Pitts' submission of 21 December.

2. He has asked what, assuming we stick by the main option which has much to commend it (especially in terms of the proprietorial business), would be:

- (a) the cost of each £1000 increase in the threshold; and
- (b) the threshold required to avoid anyone being worse off even under the 1975-76 "A" scale comparison (or by comparison with the 1988-89 indexed version of the current scale).

I should be grateful for advice.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR



Inland Revenue

Policy Division
Somerset House

Prig

FROM: L E JAUNDOO

DATE: 7 JANUARY 1988

- ad 2/1
1. MR PITTS
 2. FINANCIAL SECRETARY

Thanks. Mr Isaacs. The choice is between main option & Mod 1. Box can be used with main option with some (check back papers) if you want.

INHERITANCE TAX: RATES AND BANDS

1. The Chancellor asked PS/Financial Secretary (Mr Taylor's note of 31 December) for

- the cost of each £1000 increase in the threshold; and
- the threshold required to ensure that the main option scale avoided losers compared with the 1975/76 A scale (conventionally revalorised to December 1987) or with the current scale indexed for 1988/89.

2. The Financial Secretary asked also for

- a scale (Variant C) using a minimum threshold of £105,000 with rates of 30 and 45 per cent that would avoid losers compared with the 1975/76 A scale at a cost as close as possible to the main option scale; and
- a table showing the yield from estates and their number by bands.

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Miss Hay
Mr Cropper
Mr Tyrie

Mr Battishill
Mr Isaac
Mr Pitts
Mr Beighton
Mr Calder
Mr Gonzalez
Mr Jaundoo
Mrs Evans
PS/IR

Threshold costs

3. The cost per £1000 increase in the threshold varies a little with the starting point but, broadly, is as follows:

<u>Ranges</u>	Full year cost per <u>£1000</u> increase £m
£105,000-£110,000	10
£111,000-£115,000	9
£116,000-£120,000	8

The first year costs (in 1988/89) would be about 45 per cent of these full year costs rising to almost 90 per cent in the second year (1989/90).

Main option scale - threshold increases

4. Table 1 shows the comparative costs of scales with different thresholds but with a common single rate of 40 per cent.

Table 1

	Main Option	Mod 1	Mod 2	Mod 3	Mod 4	Mod 5
Thresholds	£105,000	£107,000	£108,000	£110,000	£112,000	£115,000
<u>Cost £m</u>						
1st year	115	125	130	135	145	155
2nd year	230	250	260	275	290	315
full year	255	275	285	305	325	350

5. To avoid losers compared with the 1988/89 statutory indexed scale, the threshold in the main option scale needs to be increased to £107,000. Such a scale (Mod 1) would cost £10m more in the first year and £20m more in a full year than the main option scale. The threshold in the Mod 2 scale is 20 per cent more than the current £90,000 threshold and this presentational advantage over Mod 1 is only marginally more costly.

6. A similar comparison with the 1975/76 A scale, requires a threshold of £112,000 to the main option scale ie an increase of almost 25 per cent to the current £90,000 threshold. Such a scale (Mod 4) would cost £30m more in the first year and £70m more in a full year than the main option scale.

Mods 3 and 5 give the cost of the Mods 1 or 2 and 4 thresholds respectively rounded up to the nearest £5,000.

Main option scale - a further variation

7. We have prepared a further variation - Variant C - to the main option scale, which is intended to meet the conditions (at paragraph 2) set by the Financial Secretary. Its main elements are a

- threshold of £106,000
- 30 per cent rate on estates up to £180,000
- 45 per cent rate thereafter.

8. Table 2 compares the tax payable on specimen estates under Variant C with the 1975/76 A scale, the 1988/89 statutory indexed scale and the main option scale.

Table 2

Specimen estates £000s	1975/76 A scale 1988/89 (revalorised to December 1987) <u>Tax payable £</u>	Indexed scale 1988/89 <u>Tax payable £</u>	Main Option Scale <u>Tax payable £</u>	<u>Variant C</u> <u>Tax payable £</u>
100	6,800	1,800	NIL	NIL
150	19,550	17,200	18,000	13,200
200	35,800	37,200	38,000	31,200
250	55,350	59,300	58,000	53,700
300	76,400	84,300	78,000	76,200
400	123,950	139,900	118,000	121,200
500	178,050	199,900	158,000	166,200
1000	476,900	499,900	358,000	391,200
2000	1,089,800	1,099,900	758,000	841,200

9. Under Variant C

- all estates pay less tax than under the 1975/76 A scale or the 1988/89 statutory indexed scale
- all estates up to £336,000 pay less tax than under the main option scale
- estates over £336,000 pay more tax than under the main option scale.

10. The comparative costs of the Variant C and the main option scale are:

	<u>Variant C</u>	<u>Main Option</u>
1st year	£130m	£115m
2nd year	£260m	£230m
Full year	£290m	£255m

11. It would be possible to reduce the full year cost of Variant C to £270m, with similar consequences to those noted in paragraph 9, by extending the 30 per cent rate up to (rounded) £225,000 and increasing the 45 per cent rate to 50 per cent thereafter.

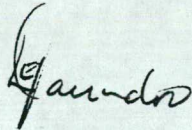
Estates and their yield

12. Appendices I, II and III show for the 1988/89 indexed scale, the main option scale and Variant C respectively the total number of estate, those which are taxpaying and the amount of tax payable in bands.

Summary

13. a The full year cost of each £1,000 increase in the threshold is broadly £10m (paragraph 3).

- b. A threshold of £107,000 will ensure there are no losers compared with the 1988/89 statutory indexed scale. It costs £20m more in a full year than the main option scale (paragraph 5).
- c. A threshold of £112,000 is needed to avoid losers compared with the 1975/76 A scale. It costs £70m more in a full year than the main option scale (paragraph 6).
- d. Variant C - with a threshold of £106,000 - ensures no losers compared both with the statutory indexed scale and the 1975/76 A scale, and is better for the smaller estates than the main option scale (paragraphs 7-9). Its full year cost is £35m more than the main option scale (paragraph 10).



L E JAUNDOO

If bettering 'Healey' is an objective, the front-runners are Mod 4 (or 5) and Variant C.

The criteria in choosing between them could include cost (C is cheaper): the effect on different sizes of estates - Mod takes more out of tax, C then gives more up to nearly £300,000 and Mod gives more thereafter: how many rates of tax you want (only Mod has one): and the level of the starting rate (C's is lower).

If you wish, we could further refine one of the scales.



D Y PITTS

Appendix I

1988/89 Statutory Indexed Scale

<u>Range of Estates £000s</u>	<u>Total number of estates</u>	<u>Taxpaying Estates</u>	<u>Tax payable £m</u>
0 - 94	619,000	NIL	NIL
95 - 100	3,744	3,436	3
101 - 150	17,532	13,729	106
151 - 200	7,584	5,597	142
201 - 250	4,158	3,023	139
251 - 300	2,224	1,496	107
301 - 400	2,407	1,582	172
401 - 500	1,456	1,057	175
501 - 1,000	1,728	1,070	321
1,001 - 2,000	485	278	193
2,001 and above	146	70	123

Appendix II

Main Option Scale -

Threshold of £105,000, and single
rate of 40%

<u>Range of Estates £000s</u>	<u>Total number of estates</u>	<u>Taxpaying Estates</u>	<u>Tax payable £m</u>
0 - 105	625,000	NIL	NIL
106 - 200	14,416	11,001	84
151 - 200	7,584	5,597	147
201 - 250	4,158	3,023	140
251 - 300	2,224	1,496	102
301 - 400	2,407	1,582	153
401 - 500	1,456	1,057	143
501 - 1,000	1,728	1,070	240
1,001 - 2,000	485	278	136
2,001 and above	146	70	84

Appendix III

Variant C

Threshold of £106,000, rate
of 30% up to £180,000 and
45% thereafter

<u>Range of</u> <u>Estates</u> <u>£000s</u>	<u>Total number</u> <u>of estates</u>	<u>Taxpaying</u> <u>Estates</u>	<u>Tax</u> <u>payable £m</u>
0 - 106	626,000	NIL	NIL
107 - 150	14,115	10,790	60
151 - 200	7,584	5,597	110
201 - 250	4,158	3,023	123
251 - 300	2,224	1,496	97
301 - 400	2,407	1,582	154
401 - 500	1,456	1,057	148
501 - 1,000	1,728	1,070	258
1,001 - 2,000	485	278	149
2,001 and above	146	70	93