

# New threat of inheritance tax fines on thousands of estates

Rising property values mean that more people face hefty fines

Carol Lewis

September 15 2018

The Times

• Economics



The inheritance tax system is often criticised because it is so complex  
ALAMY

Some 5,400 estates were investigated by the tax office for underpayment of inheritance tax (IHT) last year, about one in five, according to accountants.

Mark Giddens, a partner at UHY Hacker Young, an accountancy firm, says: “HM Revenue & Customs [HMRC] knows that there is a temptation to undervalue residential property to save on inheritance tax, because it is typically the largest figure on the return. The rise in investigations means that more beneficiaries, who may not be cash-rich, could be hit with hefty fines. If HMRC deems that there has been a lack of care in carrying out valuations, an estate could end up doubling the tax through penalties,” he says.

A tax return for IHT needs to be sent to HMRC within a year of the estate owner’s death. An automatic £100 penalty is applied if this is done late, even if no inheritance is due, and further penalties are added if the return is more than three months late. If the tax in the return is found to be wrong, penalties of up to 100 per cent of the missing tax can be imposed in addition to the tax.

Estates were liable for IHT for the last tax year if they were worth more than £325,000 — or £425,000 if the deceased’s main residence was included and passed on to a direct descendant. The allowance is transferable between couples. The £100,000 main residence allowance increased to £125,000 this tax year and is expected to be £175,000 by 2020-21.

Mr Giddens says that the tax office is most likely to investigate three key things: whether any property in the estate has been valued accurately, whether any claims for business or agricultural

reliefs are valid and whether any assets have been omitted deliberately or due to “lack of reasonable care”.

“The area most likely to be queried by HMRC is the valuation of residential property passed on to heirs. In some cases the tax office might argue that additional value should be attributed to properties that have potential for refurbishment, or development of any attached land,” Mr Giddens says. “If you get a professional valuation of the property, it might be argued that it is not correct, but you will not be charged a penalty because you have done the right thing.”

IHT is often criticised for its complexity and a review by the Office of Tax Simplification is to be published this autumn. Hoxton Capital Management, an independent financial adviser, says that in 2015-16 some 24,500 estates were liable for IHT, compared with 16,000 five years ago.