Finance Bill : MPs debate IHT pension concerns

Briefings



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CIOT and ATT warnings over the difficulties of bringing pension pots into inheritance tax were raised in Parliament.

Personal representatives of people who have died will face significant practical difficulties in administering estates containing pensions when inheritance tax is extended next year, ministers have been told.

CIOT and ATT warnings were cited extensively in the House of Commons during January’s committee stage debate on the proposal.

Shadow Exchequer Secretary James Wild warned that personal representatives would have to ‘identify every pension asset, calculate the inheritance tax due and ensure payment within six months’. This, he said, was unrealistic, particularly where multiple or illiquid pension arrangements are involved.

Liberal Democrat Treasury spokesperson Daisy Cooper set out similar criticisms, saying the clauses seek to ‘shoehorn pensions legislation into tax legislation’. Also citing CIOT and ATT, she highlighted the risk that personal representatives could be personally liable for IHT on pension funds that they ‘did not know about and could not reasonably know about’. She warned that this could lead to ‘costly and protracted litigation’.

Both the Conservatives and Lib Dems tabled new clauses asking the government to report on the impact of the measure on personal representatives, though these were not ultimately pressed to a vote.

Responding, Economic Secretary Lucy Rigby said the changes introduced by the Bill were consistent with the existing process for administering estates and paying IHT. She pointed to changes announced at the Budget to mitigate the risks to personal representatives, including providing them with the ability to direct pension scheme administrators to withhold 50% of the pension fund until the IHT has been settled. This was something CIOT had pressed for in comments on the draft legislation, although the Institute had argued for a longer maximum period than the 15 months from the date of death provided for in the legislation.

Wild noted this in his remarks, praising both CIOT and ATT for offering ‘practical solutions’ to the problems with the legislation, such as extending the withholding period. He asked the minister to consider extending the period beyond 15 months for complex cases.

Wild also noted that both CIOT and ATT had criticised the government for consulting on pensions in isolation, rather than in the context of individuals’ wider inheritance tax position. This had prompted him to table a new clause for debate to provide for such consultation.

The shadow minister also raised concerns that illiquid pension assets, including commercial property, might need to be sold quickly at lower prices to meet tax deadlines. He warned, again citing CIOT, that professionals may withdraw from acting as executors, leaving families with heavy administrative burdens. The complexity introduced by the measure meant that comprehensive guidance was essential, he said – a point stressed by both CIOT and ATT in briefings sent to MPs.

The Economic Secretary sought to reassure MPs, saying that HMRC guidance and helpline support would be available ahead of the implementation of this measure.

She added that the government keeps all tax policies under review through the monitoring of returns and communication with representative bodies and taxpayer groups.