



Inheritance tax: Finance Bill update

Inheritance tax exemptions for death on active service and for medals and awards will be extended but other IHT changes have been postponed.

The draft Finance (No. 2) Bill 2015 published on 24 March 2015 contains provisions dealing with two of the inheritance tax (IHT) changes set out in the 2014 Autumn Statement.

First, the existing death on active service IHT exemption, which applies in certain circumstances to the armed forces, is extended to (1) members of the emergency services and humanitarian aid workers responding to emergency circumstances and (2) to constables and service personnel where the person was deliberately targeted by reason of their professional status. Furthermore, the exemption will apply not only to transfers on death but also to prevent potentially exempt transfers becoming chargeable and will stop any additional tax becoming due on any chargeable lifetime transfers in the seven years before death. These provisions will apply to deaths on or after 19 March 2014.

Secondly, the existing IHT exemption for medals and decorations that are awarded for valour or gallantry (provided not acquired for money or money's worth) will apply to all decorations and awards to the armed services of any country or emergency services personnel. The exemption will also apply to awards made by the Crown, or other countries outside the UK, for achievements and service in public life. It will apply to transfers of value made, or treated as made, on or after 3 December 2014.

[Amendments to the IHT manual](#) have also been drafted in anticipation of these changes.

The draft Finance Bill 2015 published on 10 December 2014 included other draft clauses ([click here](#) and [here](#)), but the Government has indicated that they will now be included in future legislation. These covered:

- the changes to IHT and trusts and same-day additions;
- correcting the IHT trap on distributions from will trusts within three months of death;
- easing the process of claiming conditional exemption on the ten year charge for heritage property in trust; and
- changes to the rules about when interest in possession trusts with settlor and/or spouse initial interests become relevant property.

The changes to the calculations to IHT on relevant property trusts were expected to come into force from 6 April 2015 for settlements created on or after 10 December 2014, and to same day additions on or after 10 December 2014 to pre-existing settlements.

The 2015 Budget documents indicate that, following consultation, some changes to the draft clauses published on 10 December 2014 will be made. These changes include a threshold of £5,000 above which additions will be within the same day addition rules. The protection that was proposed to be given to additions to multiple settlements under a will that remains substantially the same as it was before 10 December 2014, is to be extended by one year to deaths before 6 April 2017. This will give testators a bit longer to adjust their affairs if they so wish.

The correction of the three month trap is expected to have effect from 10 December 2014, while the remaining measures were proposed to have effect from Royal Assent. There may therefore be a



slightly longer period of time for married couples or civil partners with initial interests in possession to consider advancing in their lifetime a succeeding life-interest to the other without bringing the settlement into the relevant property regime.

Whilst it is encouraging that HMRC are listening to stakeholders, postponement of the implementation of previously announced measures inevitably leads to a level of uncertainty.

For more information contact

Daniel Crowther

T: +44 (0) 20 7694 5971

E: daniel.crowther@kpmg.co.uk

Oliver Pinsent

T: +44 (0) 117 905 4356

E: oliver.pinsent@kpmg.co.uk

Rebecca Bailes

T: +44 (0) 20 7311 4333

E: rebecca.bailes@kpmg.co.uk

www.kpmg.co.uk

The information contained in this document is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is provided or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.