Reduced Rate of IHT for some legacy donors in Budget 2011

Please note that the University of Sheffield can make no definitive statements about the proposed changes until all aspects of the legislation have been completed and any ambiguities are resolved.

The Chancellor George Osborne delivered his second budget on 23 March. In his speech he made several announcements of interest to tax exempt institutions and their donors. One of these was the announcement of a reduced rate of Inheritance Tax (IHT) for donors to charity, in certain circumstances. The Chancellor’s actual words were:

- “If you leave 10% or more of your estate to charity, then the Government will take 10% off your inheritance tax rate.”
- “Let’s be clear. No beneficiaries will be better off. Just the charities, to the tune of £300 million.”
- “I want to make giving 10% of your legacy to charity the norm in our country.”

Points to make:

- Philanthropic organisations have welcomed this move, affirming that it may encourage some people to increase their giving to charity.
- However, there is ambiguity in the Chancellor’s statement, as to whether the gift must be 10% of the net estate, i.e. after IHT exemptions, reliefs and the nil rate band, or 10% of the entire estate.
- This ambiguity has been amplified by media reports failing to make the distinction or introducing further confusion via unclear language.
- As a result of this HMRC are referring queries about the reduced rate to the following paragraph from their 2011 Budget Tax Overview:

  “3.4 Inheritance tax--reduced rate—The Government has announced that a reduced rate of IHT will apply where 10 percent or more of a deceased’s net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases the current 40% rate will be reduced to 36%. The new rate will apply where death occurs on or after 6th April 2012. The Government will be consulting on the detailed implementation of this measure and will issue a consultation document before the summer.”