



GOVERNMENT SERVICES

Administrative  
Burdens – HMRC  
Measurement  
Project

Report by Tax Area  
Part 15: Inheritance Tax

20 March 2006  
Restricted – Commercial

TAX



**HMRC**

**Administrative Burdens -  
HMRC Measurement Project  
Report by Tax Area  
Part 15: Inheritance Tax**

This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than HMRC) for any purpose or in any context. Any party other than HMRC that obtains access to this Report or a copy (under the Freedom of Information Act 2000 or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than HMRC.

KPMG LLP  
20 March 2006

## **Contents**

<b>1</b>	<b>How to use this report</b>	<b>2</b>
1.1	Volume 1	2
1.2	Volume 2	2
1.3	Table conventions	3
<b>2</b>	<b>Executive summary</b>	<b>4</b>
<b>3</b>	<b>Introduction</b>	<b>5</b>
3.1	Background	5
3.2	Overview of regulation affecting the private sector	5
3.3	Approach and methodology	6
<b>4</b>	<b>Administrative burden on business</b>	<b>7</b>
4.1	Overview	7
4.2	Administrative burden by type of Information Obligation	8
4.3	Administrative burden by origin of Information Obligation	9
4.4	Administrative burden by business size	9
4.5	Administrative burden by most burdensome Information Obligations	9
4.6	Administrative burden by administrative activity and forms	10
4.7	Administrative burden by Information Obligations to third parties	11
<b>5</b>	<b>Other findings</b>	<b>12</b>



## **Tables**

Table 1: Number of Regulations, HMRC Forms, Information Obligations and Data Requirements by Tax Area.....	6
Table 2: Administrative burden – overview.....	7
Table 3: Burden by Information Obligation type.....	8
Table 4: Burden by business size.....	9
Table 5: Top 4 obligations by total administrative burden .....	9
Table 6: Summary of burden by standard activity type .....	10

# 1 **How to use this report**

This report should be read in conjunction with the main report on the Administrative Burdens - HMRC Measurement project. Both reports seek to give an overview of the model that has been built to measure the tax administrative burden for UK business. The reports give examples of some early analysis of areas of high burden, outline how the model was built and the size and format of the resulting data framework.

Like the UK tax system the model is large and complex. Thus the reports can only give a flavour of the model's full potential. The detailed analysis looking at specific pieces of tax regulation, the setting of the baseline and targets, how to link the administrative burden to the full range of impact assessments and wider policy initiatives will be done by HMRC as it takes the model forward, using the data framework.

For ease of reference, the main report is hereafter referred to as Volume 1 and this report, by tax area, is hereafter referred to as Volume 2.

## 1.1 **Volume 1**

Volume 1 is a good starting point for an overview of the model and the dynamics of the tax administration burden for UK business. The main body of Volume 1 provides a brief description of the background to the model, how the model was built, some examples of early analysis at a total level and a summary of the overall themes arising from business interviews. This report uses, from time to time, technical terms set out in the Standard Cost Model. The Glossary to Volume 1 seeks to give a practical explanation of each term.

There are a series of Annexes to Volume 1:

- **Annex A** is a detailed description of the methodology and how the model was applied in practice
- **Annex B** provides an example of the guide used to interview businesses
- **Annex C** provides a summary of the overall themes arising from interviews with businesses. The focus is on issues that do not relate to one specific tax but were raised in the context of interviews on many different subjects
- **Annex D** addresses demarcation issues: what regulation is included in the model and what is not

## 1.2 **Volume 2**

Volume 2 should be read in conjunction with Volume 1 for details of key terms used in the model and early analysis.

Volume 2 is in 28 Parts, one for each of the tax areas, described in further detail below. Volume 2 gives an overview of the administrative burden, early analysis and business

feedback for each tax area. Volume 2 can only give a flavour of the model's potential. It is already clear that the early analysis may prompt further questions. The further detailed analysis looking at specific pieces of tax regulation will be done by HMRC as it takes the model forward, using the data framework.

The tax areas are:

Part 1	Aggregates Levy	Part 15	Inheritance Tax
Part 2	Air Passenger Duty	Part 16	Insurance Premium Tax
Part 3	Capital Allowances	Part 17	Intrastat
Part 4	Capital Gains Tax	Part 18	Landfill Tax
Part 5	Climate Change Levy	Part 19	Pensions
Part 6	Construction Industry Scheme	Part 20	Petroleum Revenue Tax
Part 7	Corporation Tax	Part 21	Stamp Duty
Part 8	Customs	Part 22	Stamp Duty Land Tax
Part 9	Double Tax Treaties	Part 23	Stamp Duty Reserve Tax
Part 10	EC Sales List	Part 24	Tax Credits
Part 11	Employer Taxes	Part 25	Tax Management Provisions
Part 12	Excise Duties	Part 26	Tonnage Tax
Part 13	Gaming Duties	Part 27	Value Added Tax
Part 14	Income Tax for Businesses	Part 28	Withholding Tax

### 1.3 **Table conventions**

The early analysis in the reports is based on tables of monetary amounts and percentages derived from the data framework. These tables look at the administrative burden in a number of ways, at different levels of detail and for different areas of tax (some large, some small), to give examples of how the model can be used. This means that different measurement units are used for the monetary amounts and percentages, depending on which aspect of the model is being looked at. For example, some tables show monetary amounts to the nearest £ million and percentages in whole numbers. Other tables use different conventions. The overarching aim is that a monetary amount or percentage is shown and that the tables are as helpful as possible.

The underlying data held in the data framework is extremely detailed and has been rounded up to prepare the tables. Due to complex roundings not all the tables, as presented, will add up to the total shown on the table.

A dash '-' in the tables indicates a genuine zero value. By contrast, the figure '0' indicates a negligible number in the context of that table.

## 2 **Executive summary**

The administrative burden of Inheritance Tax is a negligible percentage of the total burden placed on business.

Inheritance Tax is a tax on individuals that occasionally gives rise to business obligations. These are relatively rare and not onerous. They are not a coherent group of obligations, but are simply a collection of unrelated obligations that happen to affect businesses in a variety of situations.

## 3 Introduction

### 3.1 Background

See Volume 1 Section 3.1.

### 3.2 Overview of regulation affecting the private sector

#### 3.2.1 Description of the scope and objectives of tax area

Inheritance Tax is, in broad terms, a tax on gifts made by an individual during his lifetime and on the value of his estate on death. Gifts made by an individual during his lifetime to a business or to an 'interest in possession' or 'accumulation and maintenance' trust are treated as 'potentially exempt transfers' ('PETs'). No Inheritance Tax is chargeable at the time a PET is made, and it becomes chargeable only if the donor dies within seven years of making it.

When an individual dies, he is deemed to have made a transfer equal to the value of his estate, and tax is calculated on the value of this deemed transfer together with any PETs made in the preceding seven years.

A number of exemptions and reliefs are available which limit and reduce the impact of the tax. The two main reliefs available are business property relief and agricultural property relief. Both reduce the value of the gift for the purpose of calculating the inheritance tax payable. Certain conditions must be satisfied for these reliefs to apply.

Essentially, therefore, Inheritance Tax is a tax that relates to individuals. However, there are occasions when an obligation relating to Inheritance Tax affects a business. This is through highly technical provisions where there is a very close link between an individual and a business. This is an area where the demarcation between business and non-business regulation was difficult. In very broad terms, the model analyses regulation that requires a business – in its business capacity – to do something even though the tax liability relates to an individual. For example, an asset subject to Inheritance Tax may be held on business premises and HMRC may wish to inspect this, and require the business to allow it to do so. From a business point of view, the Inheritance Tax obligations are a collection of unconnected, miscellaneous obligations.

**3.2.2 Summary statistics relating to the regulations included within the scope of the measurement exercise**

**Table 1: Number of Regulations, HMRC Forms, Information Obligations and Data Requirements by Tax Area**

<b>Tax Area</b>	<b>Number of sources of regulations</b>	<b>Number of forms</b>	<b>Number of Information Obligations</b>	<b>Number of Data Requirements</b>
Inheritance Tax	5	-	40	66
<b>HMRC Total</b>		<b>279</b>	<b>2,692</b>	<b>6,614</b>

**3.3 Approach and methodology**

**3.3.1 Overall methodology**

See Volume 1 Section 3.2 and Annex A.

**3.3.2 Major methodological issues specific to tax area**

None.

## 4 Administrative burden on business

### 4.1 Overview

#### 4.1.1 Summary of the administrative burden results

**Table 2: Administrative burden – overview**

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Inheritance Tax	0.05	0.00%
<b>HMRC Total</b>	<b>5,100</b>	<b>100%</b>

The total burden on business in relation to Inheritance Tax is negligible. This is because Inheritance Tax is primarily a tax on individuals, but may occasionally involve a business in some way.

## 4.2 Administrative burden by type of Information Obligation

Table 3 shows the number of IOs analysed by type of IO and the administrative burden for each type of IO. As set out in Volume 1 Section 3.2.2, the model uses 13 IO types, each of which represent a particular process. They are thus very helpful in seeing the overall dynamics in the tax system.

Table 3 uses the terminology in the SCM; please refer to Volume 1 – Glossary for a practical explanation of each term.

**Table 3: Burden by Information Obligation type**

Information Obligation type	Admin burden £	Share of total admin burden for tax area	Number of IOs	Share of total IOs for tax area
Cooperating with audits/inspections of ...	26,945	50.97%	5	12.50%
Notification of activities/registration	8,971	16.97%	15	37.50%
Returns and reports	8,185	15.48%	3	7.50%
Providing statutory information for third parties	4,732	8.95%	2	5.00%
Applications for subsidies, grants, allowances or credits for ...	2,768	5.24%	6	15.00%
Applications for authorisation	795	1.50%	5	12.50%
Framing complaints and appeals	392	0.74%	2	5.00%
Applications for permission for or exemption from	79	0.15%	2	5.00%
Statutory labelling for third parties	-	-	-	-
Keeping commercial emergency plans and programmes updated, etc ...	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
Application for Guidance	-	-	-	-
<b>Total</b>	<b>52,868</b>	<b>100.00%</b>	<b>40</b>	<b>100.00%</b>

<b>HMRC total</b>	<b>5,100,094,092</b>		<b>2,692</b>	
<b>Share of HMRC total</b>	<b>0.00%</b>		<b>1.49%</b>	

The key IO type is cooperating with audits/inspections. This relates almost entirely to one IO: to allow HMRC to inspect property so that it can be valued as part of a person's estate. It is difficult to make further observations on this table as the IOs are not related to each other.

#### 4.3 **Administrative burden by origin of Information Obligation**

All the legislation affecting Inheritance Tax is domestic in origin.

#### 4.4 **Administrative burden by business size**

##### **Table 4: Burden by business size**

Table 4 is designed to show the administrative burden broken down by business size. It has been omitted here because it is not helpful bearing in mind the size of the burden in this tax area.

However, we have established that the IOs in this area do not vary with the size of the business as they are not related to the business' activities. The majority of the burden is therefore in the smaller size segments because all business sizes may encounter the IOs and there are more businesses in the smaller size segments.

#### 4.5 **Administrative burden by most burdensome Information Obligations**

**Table 5: Top 4 obligations by total administrative burden**

Information Obligation	Total administrative burden	Internal cost	External cost	Acquisition cost
	£	£	£	£
Making property available for HMRC inspection	26,619	26,619	-	-
Pension schemes providing information to HMRC on events potentially chargeable to Inheritance Tax	3,975	576	3,398	-
Delivery of accounts by party whose estate increased in value as result of transfer	3,924	486	3,398	40
Notification to trustees of existence of certain exemptions	2,378	315	2,039	24
<b>Total</b>	<b>36,896</b>	<b>27,996</b>	<b>8,836</b>	<b>64</b>
<b>Share of total for tax area</b>	<b>69.79%</b>	<b>92.04%</b>	<b>39.81%</b>	<b>24.69%</b>

<b>Total for tax area</b>	<b>52,868</b>	<b>30,416</b>	<b>22,193</b>	<b>259</b>
---------------------------	---------------	---------------	---------------	------------

The key IO is to allow HMRC to inspect property that is part of an individual's estate, which represents 50% of the total burden relating to Inheritance Tax, although still a negligible burden in the context of the HMRC total burden. The main reason that this is the highest IO is because this is by far the most likely IO for businesses to encounter.

#### 4.6 Administrative burden by administrative activity and forms

Table 6 analyses the administrative burden into the three component price parts (internal costs, external costs and acquisition costs). It also analyses internal costs between the 16 administrative activities set out in the SCM. Table 6 uses the description of administrative activities in the SCM. A practical interpretation of those activities is given in Volume 1 – Glossary.

The first part of the table analyses internal costs. The second part of the table analyses the total burden into the three component parts of price.

**Table 6: Summary of burden by standard activity type**

Activity	Form-filling related		Non form-filling related		Total	
	£	%	£	%	£	%
Familiarisation with the Information Obligation	-	-	-	-	-	-
Information retrieval	-	-	1,151	3.78%	<b>1,151</b>	3.78%
Assessment	-	-	12	0.04%	<b>12</b>	0.04%
Calculation	-	-	33	0.11%	<b>33</b>	0.11%
Presentation of figures	-	-	397	1.31%	<b>397</b>	1.31%
Checking	-	-	541	1.78%	<b>541</b>	1.78%
Correction	-	-	-	-	-	-
Description	-	-	1,002	3.29%	<b>1,002</b>	3.29%
Settlement/payment	-	-	172	0.57%	<b>172</b>	0.57%
Internal meetings	-	-	-	-	-	-
External meetings	-	-	-	-	-	-
Inspection by public authorities	-	-	26,626	87.54%	<b>26,626</b>	87.54%
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	-	-	237	0.78%	<b>237</b>	0.78%
Reporting/submitting information	-	-	245	0.81%	<b>245</b>	0.81%
<b>Internal total</b>	-	-	<b>30,416</b>	<b>100.00%</b>	<b>30,416</b>	<b>100.00%</b>

	Share of total burden %	Share of total burden %	Share of total burden %
<b>Internal total</b>	-	-	<b>57.53%</b>
<b>Acquisition costs</b>	-	-	<b>0.49%</b>
<b>External costs</b>	-	-	<b>41.98%</b>
<b>Total burden</b>	-	-	<b>100.00%</b>



The key activity here is inspection by public authorities (88%). This is almost all in relation to the main IO, to allow HMRC to inspect property.

#### 4.7 **Administrative burden by Information Obligations to third parties**

The Inheritance Tax obligations to third parties are negligible.



## **5 Other findings**

None.

