

Inheritance Tax

Lifetime Transfers and the Death Estate

1st edition

Megan Saksida

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15. Quick succession relief

15.1 Introduction

Quick succession relief (QSR) is available when an initial chargeable transfer has been made either in life or at death, and then a subsequent transfer is made as a result of death quite soon after. The impact of the death after the initial transfer is that the property is taxed to IHT twice in a short period. This is not perceived to be fair or just. The relief therefore steps in to balance this unfairness by reducing the charge to IHT on the subsequent transfer (usually on the donee's death), to reflect the fact that the IHT charge has been made twice in a short period.

Law: IHTA 1984, s. 141

15.2 The relief

Although the relief is not named “quick succession relief” in the legislation, this is how HMRC refer to it. The relief is only available if there is a “quick succession”, defined in the provisions as being a subsequent transfer (or a “later transfer” in the legislation) after the initial transfer (the “first transfer”), where the first transfer was less than five years ago.

The provisions specify that the estate of the person being charged the IHT on the later transfer, must have been previously increased by a chargeable transfer within the previous five years (the first transfer). IHT must have been payable at the earlier transfer, or there is no unfairness to remedy. At the date of the later transfer, which is usually at the recipient's death, the IHT calculated in his or her death estate can then be reduced.

The earlier transfer is not always as a result of a transfer made at death; it can also be a lifetime transfer. For the provisions on lifetime transfers, see **Chapter 9**. It may have been a potentially exempt transfer (PET) which failed as a result of the death of the transferor, so although the charge did not happen until the death of the donor, the transfer itself was not made at death. Finally, it may be a transfer of settled property, whether held on an interest-in-possession or a discretionary trust.

It is not a requirement of the relief that the asset that was transferred in the first transfer remains in the estate at the date of the second transfer. For example, relief could be given if a car was bequeathed in the first

transfer and, as a result, IHT needed to be paid by the donor, and then the recipient of the gift sold the car but then subsequently died himself. The fact that the car is not in his estate at the date of his death (the later transfer) will not preclude his personal representatives (PRs) from making a claim for QSR. This is because it is a relief for tax being charged twice on the individual, rather than being attached to any particular asset.

Example

Marcelo lost his best friend Ernie on 7 October 2019. He was bequeathed a tax-bearing (see **15.3.5**) pecuniary legacy of £100,000 in the estate of Marcelo, on which Marcelo paid IHT of £8,000. Marcelo himself passed away on 9 July 2020. His entire estate was left to his wife.

In summary:

- The transfer to Marcelo from Ernie's death estate was a chargeable transfer.
- Marcelo's estate increased as a result of the transfer.
- Marcelo died within five years of the first transfer.

Because there was no double charge, as no IHT was payable on the later transfer (the death of Marcelo), no QSR can be claimed.

Law: IHTA 1984, s. 141

Guidance: IHTM 22041, 22042

15.3 Calculation of the relief

15.3.1 The formula

A formula is needed to calculate the amount of QSR that may be given. HMRC express this formula as:

$$B \times C \times A/D$$

Where:

- **B** is the tax on first transfer;
- **C** is the appropriate QSR percentage (see **15.3.3**);
- **A** is the increase in the donee's estate as a result of the first transfer;
- **D** is the gross chargeable transfer value of the first transfer.

The amount of the reduction relies on the above formula, which has three parts.

Law: IHTA 1984, s. 141

Guidance: IHTM 22051

15.3.2 “B” – the IHT paid

The first part of the formula is the amount of IHT that was paid on the first transfer. It does not matter which party paid the tax. It may have been paid by the donee in the case of a failed PET or where the legacy was specified by the deceased as being tax-bearing on the recipient. It may also have been paid by the residual beneficiary of the estate if it was a tax-free gift from an estate (see **26.2.2**). Which party actually paid the tax will be important for the third part of the formula (see **15.3.4**).

If QSR had already reduced the IHT due on the first transfer, QSR on the second transfer is calculated ignoring it and, as such, the formula uses the tax charge before the QSR.

If the IHT charge on the first transfer was being made using the instalments option, which is available for some transfers (see **Chapter 30**), the QSR will be calculated as if the instalment option was not opted for, and as if all the IHT was paid at one time. However, if no instalments have been paid at the date of the calculation of the QSR, or if they are in arrears, a provisional amount of QSR can be calculated.

The chronological order of deaths may also complicate the amount of the tax in the formula. For example, a mother makes a PET of land to her daughter and her daughter dies one year after the gift. This event in isolation would not cause QSR to be considered as there is only one death and therefore one chargeable transfer. The land would be included in the death estate of the daughter, with IHT calculated on it at her death; but as the PET has not failed, no further tax is payable until it fails and becomes chargeable. This is because her mother, the donor, is still alive. However, if the mother then dies (say) six months after the daughter's death, the PET will fail and it is the responsibility of the PRs of the *daughter's* estate to pay the IHT on the failed PET. In these circumstances, the daughters' executors must wait to see what actual tax is payable on the estate of the mother in order to claim QSR.

Law: IHTA 1984, s. 141

Guidance: IHTM 22051, 22080

15.3.3 The QSR percentage

The amount of IHT paid on the first transfer is multiplied by a percentage of relief specified by the legislation. This is dependent on how much time has elapsed (in whole years) between the first and the later transfer. The maximum relief is 100% and is given when less than a year has passed between the transfers. The statutory reductions are as follows:

One year or less	100%
One year but not more than two years	80%
Two years but not more than three years	60%
Three years but not more than four years	40%
Four years but not more than five years	20%

Where the time between the two deaths is more than five years, no relief can be claimed at all.

Any deaths that are on the precise anniversary of the previous death will be “given the benefit of the doubt” by HMRC and allowed to use the higher percentage, i.e. it will be assumed that a complete year has passed.

Law: IHTA 1984, s. 141

Guidance: IHTM 22052

15.3.4 The effective tax percentage

The final factor in the formula is the effective tax rate of the IHT charge on the first transfer. What this is essentially doing, is not allowing *all* the previously charged IHT to be deducted (or paid back), even when the QSR percentage is 100%. It only permits relief up to a maximum amount. That maximum amount is the tax originally paid less the effective percentage of the original IHT charge offset against it. HMRC explain this restriction as “the extent to which the earlier transfer increased [the] estate”.

For example, if there were no nil-rate bands or exemptions on the first transfer and the effective IHT rate was 40%, the earlier transfer will have increased the donee’s estate by 60% of the value of the transfer, so only 60% of the IHT paid on the first transfer, multiplied by the QSR percentage, can be deducted. If there were nil-rate bands and exemptions, such that the effective IHT charge on the first transfer was 13%, the earlier transfer would have increased the donee’s estate by