TAXREP 47/11

IHT: CHARITABLE LEGACIES

Comments submitted on 31 August 2011 by ICAEW Tax Faculty in response to HMRC's consultation document A New Incentive for Charitable Legacies published on 10 June 2011

Contents **Paragraph**

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IHT: CHARITABLE LEGACIES

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation document A New Incentive for Charitable Legacies published on 10 June 2011 by HMRC at http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pag brary_ConsultationDocuments&propertyType=document&columns=1&id=HMCE_PROD1_031346

2. We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

3. In April 2011 we attended meetings with HMRC jointly with other professional bodies, in which we were able to discuss aspects of the proposals in advance of publication of the consultation document. We also met HMRC in July following publication of the condoc.

4. Information about the Tax Faculty and ICAEW is given below. We have also set out, in Appendix 1, the Tax Faculty's Ten Tenets for a Better Tax System by which we benchmark proposals to change the tax system.

WHO WE ARE

5. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 136,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

6. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

7. The Tax Faculty is the voice of tax within ICAEW and is a leading authority on taxation. Internationally recognised as a source of expertise, the faculty is responsible for submissions to tax authorities on behalf of ICAEW as a whole. It also provides a range of tax services, including TAXline, a monthly journal sent to more than 8,000 members, a weekly newswire and a referral scheme.

8. ICAEW has a charities technical sub-committee and a charities & voluntary sector special interest group with over 3,000 members. Many ICAEW members are active in charities and the voluntary sector; approximately 30,000 are charity trustees, treasurers, school governors and in other voluntary roles.

KEY POINT SUMMARY

9. We recommend that instead of a 36% IHT rate, the IHT at the standard rate of 40% should be offset by a non-refundable tax rebate (which in this response we refer to as a tax credit to distinguish it from the reduction postulated in the condoc) equal to 10% of the proposed reduced rate (ie 3.6%). In terms of the effective rate of tax, a tax credit will be more progressive than the condoc proposals and will, we believe, provide a greater incentive to make charitable legacies of more than the minimum required to qualify.

MAJOR POINTS

10. We support the government's desire to encourage charitable giving, although as a matter of principle we consider that the tax system should be used to raise revenue rather than influence behaviour because using the tax system in this way tends to introduce grey areas and therefore complexity. Leaving aside our reservations, we think that there is a better way of using the IHT system to encourage charitable legacies than the proposals in the condoc which are regressive once the charitable legacy exceeds the 10% threshold and although the proposals in the condoc might nudge people into increasing gifts to charities to the 10% threshold, they may nudge those who contemplated giving above the 10% threshold into giving less.

11. We recommend that instead of a 36% IHT rate, the IHT at the standard rate of 40% should be offset by a non-refundable tax rebate (which in this response we refer to as a tax credit to distinguish it from the reduction postulated in the condoc) equal to 10% of the proposed reduced rate (ie 3.6%) based on the gross chargeable estate, ie before deducting the charitable donation, subject to the 10% threshold.

12. We set out in Appendix 2 a table comparing the consultation document proposal of a 10% cut in IHT with a tax credit of 10% of the proposed reduced rate with a graph and description of the methodology. The figures demonstrate that for charitable legacies of more than 10%, the tax credit route costs the beneficiaries less than the reduced IHT route. This will, we believe, provide a better incentive to make charitable legacies of more than the minimum required to qualify and hence will be more likely to achieve the government's objective of increasing charitable legacies.

13. For the purpose of this relief, the charitable legacies should be expressed in Wills as pecuniary legacies, and the Wills should give the personal representatives the right to appropriate assets in satisfaction of the legacy. If the Wills do not possess an express power of appropriation there is a statutory power set out in s.41(1) Administration of Estates Act 1925. The charity should be obliged to provide a receipt to the estate administrators who forward it to HMRC whereupon HMRC allow the relief.

14. Estate planning and Will drafting is a long term project. We would therefore emphasise that rather than create a regime and then tweak it annually as happens in too many parts of the tax system, it is important to get this right first time.

15. It will also be important that the rules are sufficiently straightforward to be understood by the average personal representative. In this regard it should be borne in mind that many estates are administered by non-professionals. The guidance will need to be written with this in mind, as well as being able to be understood by any man in the street who has sufficient assets to come within the class of people eligible to benefit from the new regime.

RESPONSES TO QUESTIONS

The 10% test and application of the reduced IHT rate

16. As a starting point, we think that the reduction in IHT should be confined to that component of the overall taxable estate out of which the charitable legacy derives and that each component of the estate, namely free estate, jointly owned assets, etc, should be considered separately, as in Example 5.

17. We understand that in Example 5 the amount of the nil rate band allocated to the joint account component of the estate which determines the baseline for the 10% test and hence the amount of charitable legacy required, is a circular calculation using an iterative process. If this regime

goes live then estate administrators will require a calculator, preferably on the face of the IHT account, which enables easy computation of both the charitable legacy required to meet the minimum requirement of 10%, and, where the estate comprises more than one component, the amount of nil rate band to allocate to each component.

1. Should the reduced IHT rate be available only to assets within the free estate; or should it be possible to extend its availability, by election, to other assets on which IHT is due following a death?

18. We think that the starting point should be that the 10% hurdle has to be met for the assets which the deceased was competent to dispose of, ie the free estate, as envisaged in para 2.11. Subject to that, we consider that the relief should be available to other assets on which IHT is due on a death, as in Example 5, and not just the free estate.

2. If the reduced rate can be applied to assets outside the free estate,
a) should all other components of the IHT estate be considered eligible for the reduced rate or should eligibility be limited to particular components (for example, joint propert only?

19. Even If no other assets are included, we do consider that the assets referred to in the first bullet of para 2.7, ie jointly owned assets, should be eligible for the reduced rate, because we do not see that there is, in principle, any difference between assets owned by the deceased jointly and assets owned by the deceased solely, save that for jointly owned assets the deceased was not able alone to dispose of it.

20. In principle, given that IHT extends to property in which the deceased had a reservation of benefit or a qualifying interest in possession it would seem to follow the spirit of the IHT legislation that these assets should also be eligible for reduced rate. For example, the trustees of an interest in possession trust could exercise their powers to give money to charities, in just the same way that the owner of joint property could make a gift to charity by means of an IoV.

b) who should be party to any election to extend the application of the reduced rate?

21. We would have thought that the parties to any election should include the trustees of a qualifying interest in possession where property is appointed to a charity. Where an IoV is entered into, an election could be deemed to have made where they enter into the IoV itself given that the IoV is likely to contain a statement that the IoV is to take effect as if it had been made by the deceased.

c) how should the benefit of the reduced rate be applied in cases where charitable legacies were sufficiently high to successfully pass the 10% tests for more than one component of the estate, but not high enough to pass the 10% test for all components?

22. We agree with the principle in para 2.13 that there should be correlation between the component(s) of the estate against which the charitable legacy is tested, ie the baseline, and out of which the charitable legacy is paid, and the component(s) of the estate on which the new relief is granted.

23. We consider that the relief should be restricted to those component(s) of the estate from which the charitable legacy/ies derive(s), so that the component(s) of the estate which bear(s) the burden of the legacy gain(s) the advantage of the relief from IHT. Thus, for example, if a charitable legacy derives from a redirection of a jointly owned asset and the resulting charitable legacy meets the 10% threshold for the jointly owned assets component of the estate, then the jointly owned component of the estate should derive the benefit of the relief.

24. Where the 10% hurdle is met initially and the estate administrators and beneficiaries wish to redirect funds from another component of the estate, for example a joint bank account, to form

the charitable legacy then, in order that the relief is not lost as a result of the redirection, the estate administrators and beneficiaries should be able to sign a joint declaration as to how the legacy is to be attributed over the various components of the estate.

Nature of the legacy

3. Should the new charitable legacy incentive encourage all forms of legacy for the purposes of the 10% test, or would charities prefer to encourage legacies of more easil realised assets (such as cash, quoted shares or real property)?

25. Whilst we recognise that most charities prefer legacies that are readily realisable, such as cash, quoted shares and real property, and are careful to ensure that they receive the maximum value to which they are entitled, it will not always be possible for legacies to be satisfied in this way.

26. For the purposes of this relief, in the interests of simplifying estate administration, we consider that the rules should provide that the legacy in the Will should be a pecuniary legacy (the amount of which can be arrived at on the basis of a formula) but the personal representatives should be allowed the right to appropriate other assets to satisfy the legacy.

27. A power to appropriate can arise under the terms of the Will or Codicil, by statute or under general law. The consent of the persons entitled to the property to be appropriated is generally required unless the Will or Codicil provides otherwise. There are safeguards in such cases, for example, under the power of appropriation contained in s.41 Administration of Estates Act 1925 the personal representatives are required to appropriate assets in satisfaction of the legacy valued at the time the appropriation (Re Collins deceased [1975] 1 WLR 309). In addition it is incumbent on the personal representatives to act in the interests of the estate as a whole. This would suggest that the charities concerned would have legally enforceable rights should the asset appropriated in satisfaction of the legacies fail fairly to satisfy their entitlements under the terms of the Will.

4. How could the administrative burdens to personal representatives and HMRC be minimised where a charitable legacy includes assets other than cash, quoted shares and real property?

28. The need to value assets to be applied in satisfaction of a legacy is an existing feature of estate administration. That said, whether or not an estate comes within this new regime, from a fiscal perspective the process could be greatly simplified by HMRC agreeing reasonable valuations promptly.

5. Should the entitlement to the reduced rate of IHT where there is a charitable legacy 10% be automatic, or should provision be made for personal representatives to disclain any entitlement to the reduced IHT rate?

29. We think that in the first instance entitlement should be automatic, with a right for estate administrators to disclaim and/or make elections/enter into IoVs to include other assets as discussed in the answers to Question 2.

30. We should welcome clarification of the circumstances in which it is envisaged that estate administrators might want to disclaim a tax saving.

6. What is the potential extent of avoidance based on manipulation of the value of charitable legacies, and what is the nature of any particularly risky assets or arrangements?

31. If manipulation of the value is brought about by reducing the value of the asset that is passed to the charity, then the charity will not have received the legacy provided for in the Will in which

case it will have a right of action against the estate administrators. As Wills are public documents it is open to charities to establish their entitlements under the terms of the Will concerned. Identifying their entitlement to such bequests would not seem to be a special feature of the new proposals.

32. The example cited in the condoc refers to cash having been stripped out of a company but this possibility could happen currently. We consider that if the government adopts our suggestion (see Q3) as to the nature of the legacy qualifying for relief, ie a pecuniary legacy only but able to be substituted as the result of a valid appropriation of assets in satisfaction of the pecuniary legacy, then the scope for manipulation of the legacy itself will be substantially reduced. It will be incumbent on the personal representatives to act fairly.

7. Where do respondents see the balance lying between ensuring that as wide a range assets as possible count towards the 10% test and the possible need for anti-avoidance rules to prevent manipulation of asset values?

33. The government has, rightly, expressed its desire that the tax system should be simple and we agree with this view – see Tenet no. 3 in our Ten Tenets for a Better Tax System in Appendix 1. We therefore think that the regime should be as simple as possible. The policy objectives could be achieved through restricting the types of assets which qualify as a charitable legacy for the purpose of this relief. Alternatively reliance could be placed on charities ensuring that they are not short changed.

Instruments of Variation

8. Where the reduced rate is dependent on the execution of an IoV, should it be conditional on HMRC receiving confirmation that the charity is aware that the IoV has been effected? How should such confirmations be given to HMRC to minimise administrative costs?

34. We believe that the recipient charity should be able to ascertain what it is entitled to under an IoV, just as it can for legacies left under a Will. Time will be of the essence, otherwise assets might be distributed before the charity is aware of its entitlement by which time the assets may have been spent. However, this is a general legal issue and not one that is specifically limited to this proposal.

35. Overall, the best way to ensure that the relief is only given where it is due would be to make the provision of the additional IHT relief dependent upon HMRC receiving a letter from the charity confirming receipt of the legacy.

Administrative issues

9. Although the drafting of Wills and professional advice are not areas where HMRC have a direct interest, will there be any significant difficulties in drawing up Wills or advising clients on how to benefit from the reduced rate which might affect take up or influence policy design?

36. Estate planning and Will drafting is a long term project. People tend to put off thinking about their Wills and most make Wills or change them only when prompted by a life-changing event such as getting married or having a child. Changes in the law create difficulties because it means that Wills have to be revisited. We would therefore emphasise that rather than create a regime and then tweak it annually, as happens in too many parts of the tax system, it is important to get this new regime right first time. Also if the regime is too complicated for advisers to explain to the average client, then this may discourage take-up. HMRC will need to publish guidance aimed at not only professionals but lay estate administrators, as well as the man in the street with an estate valuable enough potentially to benefit from this relief.

37. The method of giving relief proposed in the condoc will create cliff edges and advising clients will be difficult. Double grossing up will make the calculation of whether the 10% hurdle has been met extremely complex. Our proposal for a tax credit will simplify the advising of clients.

38. As it will not be possible to predict in advance how much in monetary terms the charitable legacy will need to be, we anticipate that the Wills of most people who wish to take advantage of this relief will incorporate a formula to ensure that the 10% hurdle is met.

39. In giving best advice, professional advisers will be obliged to explain to clients that the relief becomes increasingly unattractive once the 10% threshold is reached.

Other issues

10. Would basing the 10% test and applying the reduced rate to the non-deferred part of the estate and IHT charge be the most suitable method for dealing with deferred IHT liabilities? If not, what alternative approach is preferred?

40. We are content with this proposal.

11. HMRC expects that existing processes to deal with amendments to the IHT liability will apply to the new policy. Would this approach give rise to any issues?

41. We are content with this proposal. There are issues, for example the rules which enable sales values within one and three years of death of shares and real property respectively to be substituted for probate values may well lead to difficulties in determining whether the 10% hurdle has been met and may cause estate administrators to delay distributing the estate, including the charitable legacy. But estate administrators face this situation currently and accommodate it by making partial distributions and/or obtaining indemnities.

12. Would limiting the basis for the 10% test for non-UK domiciled people to assets on which they are liable to IHT present any difficulties?

42. There appear to be some typographical omissions in the last line of para 3.24. First, we suggest that the words ‘assets – not necessarily UK assets – worth’ should appear after ‘leave’, secondly ‘net’ should appear after ‘their’ and finally ‘after deducting the applicable reliefs’ should appear after ‘charity’.

43. We think that limiting the basis for the 10% test for non-UK domiciled people to assets on which they are liable to IHT is logical when determining whether the 10% hurdle is met, but see no reason why other assets on which the deceased is not liable to IHT should not be able to be substituted for UK assets when distributing the charitable legacy to the charity (provided the charity trustees agree to the substitution, such agreement not to be unreasonably withheld) because, for example, the family of the deceased may not wish to dispose of the house in which they live when in the UK.

13. Where grossing up applies and the outcome of the 10% turns on the rate at which the chargeable assets are grossed up, the most favourable way to apply the 10% test to a share of the residue passing to charity appears to be to gross up at the reduced rate of IHT. Are there any problems anticipated with using this method?

44. We anticipate that para 3.28 will be proved right in practice, ie more estates will be subject to grossing up. We are therefore content with the proposal in the Question, which is a pragmatic solution which will help when advising clients, subject to the estate administrators being able to choose which grossing-up method is to be adopted, as both methods might fulfil the 10% test and the other beneficiaries might prefer the lesser amount to go to charity.

14. Where interaction applies, would basing the 10% test on the actual value of the legacy before the application of those rules present any difficulties?

45. We are content with this proposal, which is a pragmatic solution which will help when advising clients.

Taxes Impact Assessment

15. The Government is interested in receiving comments from people who have information that may help refine or improve those assumptions, and on what metrics could be used to assess the effectiveness of the policy.

46. We think that take up will be slower than envisaged. Research undertaken by a member firm some time ago indicated that in general approximately seven years elapse between the drafting of a Will that includes a charitable bequest and the death of the testator. There were some exceptions and in particular hospices frequently benefited from codicils added to Wills in the final weeks of the testator's life. Although it is not an ideal comparison the uptake of gift aid on admission charges is perhaps an indicator of the time it takes for the public to become accustomed to using a charitable relief. Prior to 2004 some properties were using gift aid on their admissions. The 2004 provisions put a sudden brake on this. The fact that for gift aid the admission cost increased by 10% made it very difficult to persuade visitors to sign up. Only now seven years on does the public understand the scheme. People are now willing to pay a supplement and complete a gift aid declaration.

47. We also question HMRC's estimate that eventually there will be changes in 5,000 out of 16,000 estates. We feel that even 20% of the 16,000 estates is optimistic. On the other hand there may be some knock-on effect on estates below the threshold because, first, even modest estates may start to include 10% to charity rather than a specific small sum to a couple of favourite charities and, secondly, some testators with estates above the IHT threshold at the time the Will is drawn up and who choose to leave 10% to charity will fall below the threshold because of care costs. We guesstimate that the profile is more likely to be 200 in 2012-13, 300 in 2013-14, 500 in 2014-15, 700 in 2015-16, 1,000 in 2016-17, 1,400 in 2017-18, 2,000 in 2018-19, 2,700 in 2019-20 and 3,200 in 2020-21.

48. We do not disagree with HMRC's assumption that the amount will be £60,000 per estate but when working out the benefit to charities we would add a further amount from estates that are below the IHT threshold. Our guesstimate as to the amount is £8,000 per estate which might suggest 200 in 2012-13, 300 in 2013-14, 600 in 2014-15, 900 in 2015-16, 1,4000 in 2016-17, 2,000 in 2017-18, 2,800 in 2018-19, 3,700 in 2019-20 and 5,000 in 2020-21. These numbers start at similar levels to those for estates that are paying IHT and then increase beyond those numbers. This is an estimate of the possible effect of estates that have been depleted by care costs but still include a 10% charity provision.

49. The suggestion on page 22 of the condoc that the take up will depend on the extent to which the reduced rate is promoted by charities and professional advisers needs to be read in the context of the extent to which charities and professional advisers consider that the scheme is workable.

16. The Government would welcome information from advisers or their representative groups about how likely they are to promote this measure and what they expect the tal up will be.

and

17. The Government would welcome information from charities about how likely they ar to promote this measure and what they expect take up to be.

50. There are a number of extremely wealthy individuals who make very generous lifetime gifts to charities. We do not envisage that the current proposals will influence their behaviour. We

also note the comments made at 1.10 of the condoc that in 2010/11 it is projected that only 3% of estates will pay IHT, and conclude that these proposals are targeted at a relatively narrow social segment. The risk is that such donors will be encouraged to make charitable gifts through their Wills rather than taking advantage of lifetime giving. We also think that there is a risk, as a result of the way that the relief is currently structured, that gifts may be limited to the 10% threshold. We think that from a charity viewpoint, lifetime giving is better as the charity gets the money sooner, and it is enhanced by gift aid.

51. However, against this, there are many supporters of charities who can give only modest sums in their lifetimes but who are living in homes which are worth well above the IHT threshold. These individuals are likely to be open to approaches from their favourite charities and charities are likely to target this group. There will also be considerable incentive for charities that become aware of a legacy that is just below the 10% threshold to approach the estate administrators to point out the benefit of an IoV to increase the legacy to 10%.

52. We know that the charity sector is keen to promote any incentives that will lead to more people leaving legacies to charities, and which will encourage those already considering charitable legacies to leave a larger proportion of their estates to charity. There is already much promotion by charities of the fact that charitable bequests lead to relief from IHT.

53. But even the existing relief is not always understood by donors, and it is vital that this new initiative is explained in the clearest possible terms, which means that the underlying principles must be clear and simple. Moreover – as we note above – it is vital to establish this system clearly and not then tinker with it from year to year.

54. Charities need to be able to explain this relief in simple phrases that they can add to their fundraising leaflets – and they need to be able to say 'the more you leave to charity, the more you benefit… .'

55. The relief must not work on the basis of encouraging people to leave 10% of their estate to charity but no more – that could lead to a significant reduction in legacy income to charities.

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31.8.11

APPENDIX 1

THE TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.

2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.

3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.

4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.

5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.

6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.

7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.

8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.

9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.

10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see http://www.icaew.com/~/media/Files/Technical/Tax/Tax%20news/TaxGuides/taxguid towards-a-better-tax-system.ashx

APPENDIX 2

COMPARISON BETWEEN TAX REDUCTION AND TAX CREDIT - methodology

The key figures in each of the blue and white tables are those in the line titled "Effective cost of legacy to beneficiary". These figures show the cost to the non-charitable beneficiary/ies of carving a charitable legacy out of the main estate. Each column shows a different percentage charitable legacy carved out.

1. To illustrate, if my great aunt Mildred were to die tomorrow leaving me her £1,325,000 estate, I could elect to divert 10% of the chargeable estate of £1m to the RSPCA. This would cost me £60 for every £100 that the RSPCA received, given the IHT saving at 40% on the amount donated. So if I steered 10% of the net estate after NRB, ie £100,000, to the RSPCA, I would be worse off by only **60%** of the legacy, ie £60,000.

2. Under the new rules in the condoc, passing £100,000 of Mildred's estate over to the RSPCA would "cost" me only £24,000 (shown as 24% on the table). This is great, but there is not much additional incentive to increase what I give to the RSPCA over 10% of the estate as the effect of the reduced 36% IHT rate wears off pretty quickly the more the charity gets. By 65-70%, the cost of the legacy to me is back up to **58-59%** – almost indistinguishable from the 60% cost in bullet 1.

3. Under the 3.6% "credit" proposal, rather than reducing the rate of IHT to 36% for those estates in which more than 10% goes to charity, the IHT (at 40%) is offset by a tax credit equal to 3.6% of the gross chargeable estate, ie before deducting the charitable legacy. The table shows that this is more progressive – by 65%-70%, so the cost of the legacy to me is only **54-55%** of the gift, rather than the 58-59% in bullet 2.

The graph compares the proposals by showing the effective cost to the beneficiary of giving increasing amounts of the estate to charity. The blue line showing the condoc proposals is steeper because the "extra" charitable incentive offered by the proposal tapers off quickly until there is virtually no additional incentive (ie we are back up to each £100 which goes to charity costing me £60 as is the case today). In contrast, the 3.6% credit alternative is slightly flatter as the additional incentive to leave more to charity tapers away more slowly (only jumping up to 60% at the end as the credit is non-repayable).

Finally, the "legacy cost split" figures in the orange and white tables break down the 100% gift received by the charity by who funds it. Thus, with a 10% gift under the condoc proposal, the government is offering to take on funding of an extra 36% of the donation, 76% in total, with the beneficiary picking up the other 24%. Again, reading along this table from left to right, one is struck by how quickly the government's additional funding tails away under the condoc proposal. Under the 3.6% credit alternative, the government's funding endures slightly longer.

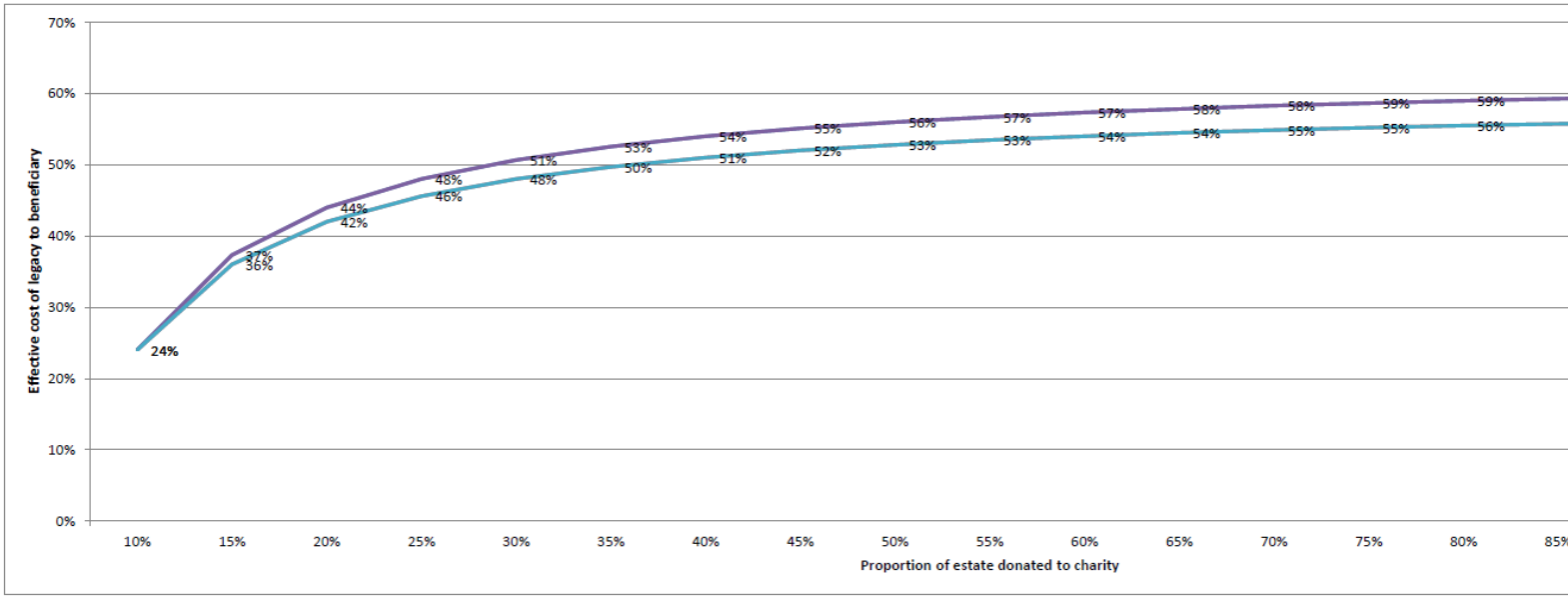
COMPARISON BETWEEN TAX REDUCTION AND TAX CREDIT – table and graph

Consultation Document Proposal

	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	
IHT CALCULATION															
Estate value	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	85
Less:NRB	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	32
	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	52
Less:charitable legacy	52,500	78,750	105,000	131,250	157,500	183,750	210,000	236,250	262,500	288,750	315,000	341,250	367,500	393,750	42
Taxable estate	472,500	446,250	420,000	393,750	367,500	341,250	315,000	288,750	262,500	236,250	210,000	183,750	157,500	131,250	10
IHT due	170,100	160,650	151,200	141,750	132,300	122,850	113,400	103,950	94,500	85,050	75,600	66,150	56,700	47,250	3
Distribution to non charity beneficiaries	627,400	610,600	593,800	577,000	560,200	543,400	526,600	509,800	493,000	476,200	459,400	442,600	425,800	409,000	39
SAVINGS TO BENEFICIARY															
Reduction in distribution compared to no legacy	12,600	29,400	46,200	63,000	79,800	96,600	113,400	130,200	147,000	163,800	180,600	197,400	214,200	231,000	24
Effective cost of legacy to beneficiary (as % of legacy)	**24%**	**37%**	**44%**	**48%**	**51%**	**53%**	**54%**	**55%**	**56%**	**57%**	**57%**	**58%**	**58%**	**59%**	
LEGACY COST SPLIT															
HMRC - Original Tax Relief	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	
HMRC - Additional Cost Under New Proposals	36%	23%	16%	12%	9%	7%	6%	5%	4%	3%	3%	2%	2%	1%	
Beneficiary	24%	37%	44%	48%	51%	53%	54%	55%	56%	57%	57%	58%	58%	59%	

3.6% Credit Proposal

	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	
IHT CALCULATION															
Estate value	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	850,000	85
Less:NRB	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	32
	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	52
Less:charitable legacy	52,500	78,750	105,000	131,250	157,500	183,750	210,000	236,250	262,500	288,750	315,000	341,250	367,500	393,750	42
Taxable estate	472,500	446,250	420,000	393,750	367,500	341,250	315,000	288,750	262,500	236,250	210,000	183,750	157,500	131,250	10
IHT due	170,100	159,600	149,100	138,600	128,100	117,600	107,100	96,600	86,100	75,600	65,100	54,600	44,100	33,600	2
Distribution to non charity beneficiaries	627,400	611,650	595,900	580,150	564,400	548,650	532,900	517,150	501,400	485,650	469,900	454,150	438,400	422,650	40
SAVINGS TO BENEFICIARY															
Reduction in distribution compared to no legacy	12,600	28,350	44,100	59,850	75,600	91,350	107,100	122,850	138,600	154,350	170,100	185,850	201,600	217,350	23
Effective cost of legacy to beneficiary (as % of legacy)	**24%**	**36%**	**42%**	**46%**	**48%**	**50%**	**51%**	**52%**	**53%**	**53%**	**54%**	**54%**	**55%**	**55%**	
LEGACY COST SPLIT															
HMRC - Original Tax Relief	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	
HMRC - Additional Cost Under New Proposals	36%	24%	18%	14%	12%	10%	9%	8%	7%	7%	6%	6%	5%	5%	
Beneficiary	24%	36%	42%	46%	48%	50%	51%	52%	53%	53%	54%	54%	55%	55%	


70%
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Effective cost of legacy to beneficiary
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Proportion of estate donated to charity