

Template for costing the policies of opposition parties

| | | | | |
|---|-----------------|----------------|-----------------------|----------------|
| 1). Description of policy, including any assumptions necessary to allow the commitments to be costed: | | | | |
| <p>Nil-rate band on Inheritance Tax to be increased to £1,000,000 with effect from April 2009.</p> <p>RPI is currently forecast to be negative during 2010/11 so the nil-rate band is frozen at £1m for 2010/11 and then increased in line with Treasury assumptions on RPI from April 2011 onwards. Assume that Transferable Nil Rate Band will be retained.</p> <p>This costing uses PBR08 assumptions.</p> | | | | |
| 2). Information required on distributional effects of the policy: | | | | |
| Effect on number of taxpayers | | | | |
| Who will benefit by wealth range? | | | | |
| 3). Cost/Revenue to the Exchequer over three years: | | | | |
| | Revenue | | | |
| | Start-up impact | | Recurrent impact | |
| | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| Total | -£0.5bn | -£1.2bn | -£1.3bn | -£1.4bn |
| 4). Distributional effects (if none requested, any significant): | | | | |
| <u>Number of estates</u> | | | | |
| <p>The impact on the number of taxpaying estates is very hard to estimate, mostly because of uncertainty over the impact of Transferable Nil Rate Band on the number of estates at different estate ranges.</p> <p>We do not yet have a baseline forecast for the number of taxpayers under the Government's current policy using PBR08 assumptions, but we expect it to be fewer than 15,000 for the year 2009/10.</p> <p>We can however estimate how many taxpayers there would be under this proposal: about 2,000 a year.</p> | | | | |
| <u>Distributional effects</u> | | | | |
| Share of benefit from reduction in tax: | | | | |
| Estates under £0.5m: | 9% | | | |
| Estates £0.5m-£0.8m: | 25% | | | |
| Estates £0.8m-£1m: | 16% | | (total 51% under £1m) | |
| Estates £1m-£2m: | 34% | | | |
| Estates over £2m: | 15% | | (total 49% over £1m) | |
| <p>So about half of the benefit (£600-700m) goes to estates under £1m and half to estates over £1m. The estimated number of taxpaying estates over £1m is 3,000 a year.</p> <p>So we can say that half the benefit would go to just 3,000 of the richest estates in the country.</p> | | | | |

5). Comparison with current system (if applicable):

-

6). Other comments (including other Departments consulted):

- PBR 2008 assumptions are used in these calculations, so they can be compared with PBR 2008 forecasts in the public domain.
- The most recent figures in the public domain for this option were issued in response to a PQ in November 2007. The effective date used was April 2008 and the figures were as follows:

| 2008/09 | 2009/10 | 2010/11 |
|---------|---------|---------|
| -£1bn | -£2bn | -£2bn |

- The most recent internal costing from September 2008 (change effective from April 2009) gave the following figures:

| 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---------|---------|---------|---------|
| -£0.6bn | -£1.4bn | -£1.6bn | -£1.7bn |

- The reductions in the cost of the measure have been due to the reductions in the forecasts for asset prices and therefore lower inheritance tax yields.
- Costs have been rounded to the nearest £0.1bn.
- The operational impact has not been included in this costing.