CHAPTER 13

QUICK SUCCESSION RELIEF

13.1 Introduction

Quick succession relief ("QSR") is an important and valuable relief, which reduces tax in the death estate. Having valued the death estate, we deduct any available nil band and the balance is chargeable to inheritance tax at the death rate of 40%. Quick succession relief will be deducted at this point – i.e. it reduces the inheritance tax payable on death. IHTA 1984, s.141

Death estate	DE
Less: nil band remaining	(NB)
Taxable	X
IHT @ 40%	IHT
Less: QSR	**(QSR)**
Inheritance tax due	DUE

13.2 *Calculating QSR*

Quick succession relief is given when **an individual's estate had been increased by a chargeable transfer made to him in the 5 years before death**.

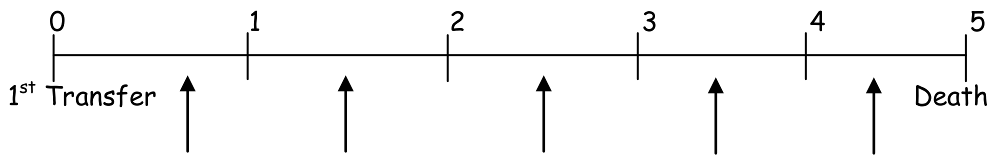
Illustration 1

Mr A died a few years ago. Mr A's Will directed that an asset should pass to a beneficiary, Miss B. Miss B died within the next 5 years. The value of the asset left to her by Mr A will be charged within Miss B's death estate. Having calculated IHT on Miss B's estate in the normal way, we reduce any tax payable by Quick Succession Relief. This is because Miss B's estate had been increased by a chargeable transfer made to her in the previous 5 years.

To calculate QSR, we use a **3 part formula**;

$$\text{IHT paid on previous transfer} \times \% \times \frac{\text{Increase in donee's estate as a result of 1st transfer}}{\text{Increase + IHT paid}}$$

The first part of the formula is the inheritance tax paid on the previous chargeable transfer, i.e. the IHT paid on the transfer of the asset to Miss B from Mr A's death estate. We then multiply this tax by a percentage as below:



100%	80%	60%	40%	20%

The relevant percentage depends on the time period between the date of the first chargeable transfer and the date of death. These percentages are also given in the tax tables provided with your course. IHTA 1984, s.141(3)

If the period between the date of the first transfer and the date of the death is less than one year, the relevant percentage is 100%. This reduces to 80% if the distance between the transfers is between 1 and 2 years, and so on. If there are more than 5 years between the date of the first chargeable transfer and the date of death, the percentage is zero, i.e. there is **no** quick succession relief.

The final part of the QSR formula is the fraction above. The top half of the fraction is the **amount by which the donee's estate increased as a result of the first chargeable transfer**. The bottom half of the fraction, is the increase in the donee's estate, plus any inheritance tax paid on the first transfer.

This is the most complex part of the QSR formula, and we will examine how it works in the illustrations that follow.

13.3 Wills and legacies

To understand the components of the fraction, we need to understand some general points about wills and legacies. Within a typical will, a taxpayer will leave legacies to beneficiaries in 2 different ways. Legacies could be "specific gifts" or they could be gifts of "residue". The "residue" of an individual's estate is the amount remaining **after specific legacies, expenses and taxes have been discharged**.

Specific legacies will either be "tax free" or they will be "tax bearing". A "tax free" gift is **not** the same as an exempt gift. A "tax free" gift means that the recipient of the gift (the beneficiary) receives the full amount of the gift and **somebody else will have to pay the inheritance tax**. Contrast this with an exempt legacy such as a gift to a spouse or a charity where there is **no IHT payable** at all. IHTA 1984, s.211

Unless the will specifies otherwise, **gifts of UK assets are tax free**. Therefore, if an individual receives a gift of UK quoted shares or a UK house under a will, he or she will receive the **full amount of the shares or the full value of the house, without having to pay any further inheritance tax on that gift**. The **tax on the gift is paid from the residue of the estate**.

Contrast this with a tax bearing legacy under which the **tax on the gift is paid by the recipient**. Unless the Will states otherwise, **gifts of non UK property are tax bearing**.
Therefore if an individual receives a gift of some foreign land or some foreign shares under a Will, any IHT on those assets is paid by the person receiving the property.

It is important that we are able to distinguish between tax free and tax bearing legacies, as this will help us in calculating the quick succession relief.

The person who is entitled to the residue of the estate (the "residuary legatee") will bear **two lots of IHT charges**.

1. IHT on tax free gifts is borne from the residue of the estate; &
2. IHT on the chargeable residue itself will be also paid out of the residue, and will be suffered by the residuary legatee.

Illustration 2

Mr A died in May 2008 leaving a house in Spain in his will to Miss B. The house was worth £200,000 at Mr A's death, and UK inheritance tax of £50,000 was paid in respect of the house.

Because Miss B has received a gift of a **non UK asset**, the gift is **tax bearing**. Therefore the IHT of £50,000 will be paid by Miss B.

Miss B died in October 2010. There are between 2 and 3 years between the date of Mr A's death and Miss B's death.

At the date of her death, the house in Spain was worth £300,000. The other assets in Miss B's estate total £435,000. Miss B made no lifetime transfers. We will calculate the inheritance tax payable on the estate of Miss B.

	£
Miss B death estate	735,000
Less: nil band (full)	(325,000)
Taxable	410,000
IHT @ 40% (before QSR)	£164,000

Miss B's estate has been increased by a chargeable transfer made to her in the previous 5 years, therefore quick succession relief is available. This will reduce the inheritance tax to leave a figure of actual IHT due.

QSR:

$$£50{,}000 \times 60\% \times \frac{\text{Increase in Miss B's estate as a result of Mr A's death}}{\text{Increase + tax}}$$

$$£50{,}000 \times 60\% \times \frac{200000 - 50000}{200000} \qquad = \underline{£22{,}500}$$

The IHT paid on the previous chargeable transfer is £50,000. As there are between 2 and 3 years between Mr A's death in May 2008 and Miss B's death in October 2010, the relevant percentage is 60%.

The increase in Miss B's estate as a result of Mr A's death **depends on who paid the inheritance tax of £50,000** in 2008. Mr A left Miss B a property in Spain. Gifts of non UK assets are **tax bearing** legacies, so the IHT of £50,000 would have been paid by Miss B.

Miss B's estate therefore increased by the value of the house in Spain (i.e. £200,000), but **from this Miss B paid inheritance tax of £50,000**. Therefore Miss B's estate increased by £150,000 as a result of Mr A's death.

On the bottom of the fraction, we have the increase in Miss B's estate of £150,000 plus the tax of £50,000, giving £200,000. The quick succession relief available in Miss B's death estate is £22,500.

	£
IHT	164,000
Less QSR	(22,500)
IHT due	141,500

Illustration 3

Assume Mr A died in May 2008, leaving a property situated in the **UK** to Miss B. Other details as in illustration 2. Miss B died in October 2010.

	£
IHT as before	164,000
Less QSR	
$£50{,}000 \times 60\% \times \frac{200000}{250000}$	(24,000)
Due	£140,000

The first two parts in the QSR formula are the same. However, because the original gift was a gift of a **UK asset**, the fraction will change.

The top of the fraction is the **increase in Miss B's estate as a result of Mr A's death**. As the gift was of UK property (i.e. a tax free gift), the IHT of £50,000 would have been paid **out of the residue of Mr A's estate**. Because Miss B does **not** have to pay the inheritance tax, the increase in her estate is simply the value of the property, i.e., £200,000.

On the bottom of the fraction is this increase of £200,000 plus the inheritance tax.

13.4 Additional points

There is no requirement for the gifted property to still be owned by the deceased at the date of death for QSR to apply. QSR is available if an individual's estate has been increased by a chargeable transfer in any of the 5 preceding years.

Therefore, **even if the gifted asset had been sold or given away by the deceased prior to his death, QSR would still be available**.

Quick succession relief applies where the first transfer is a **chargeable transfer**. A chargeable transfer is a gift whose value has been charged to IHT.

The first transfer will therefore either be a **transfer on death** (as it was in the previous examples) or it could have been **a potentially exempt transfer within 7 years of the death of the donor**. The only requirement for QSR is that the first transfer is chargeable to inheritance tax.

Illustration 4

Tim gave some UK shares to Philippa in July 2005. The shares were worth £345,000. This is a PET so there is no lifetime tax. Tim died in August 2008. Therefore the PET in July 2005 becomes a chargeable transfer in August 2008, and any tax on the PET will be borne by Philippa.

In May 2009, Philippa sold the shares for £400,000. Philippa died in May 2010. Her death estate is valued at £825,000.

We first calculate the tax payable by Philippa on the PET as a result of Tim's death;

Tax on PET (August 2008);	£
Gift	345,000
Less: AEs x 2	(6,000)
PET	339,000
Nil band 2008/09	(312,000)
Taxable	27,000
IHT @ 40%	10,800
Less: taper relief (3-4 yrs = 20%)	(2,160)
Tax due	£8,640

This tax is paid by Philippa.

We next calculate the tax on Philippa's death estate in May 2010, taking account of QSR.

Tax on Philippa's death estate;	£
Estate	825,000
Less: nil band	(325,000)
Taxable	500,000
IHT @ 40%	200,000
Less: QSR	
£8,640 x 20% x $\frac{345000 - 8640}{345000}$	(1,685)
Tax due	£198,315

QSR is available because Philippa's estate was increased by a chargeable transfer in the previous 5 years. Philippa was given shares by Tim in July 2005. Originally this transfer was a PET, but due to Tim's death this has become a chargeable transfer. The tax paid by Philippa on the PET was £8,640.

The first transfer took place in July 2005 and Philippa died in May 2010. The time period is therefore between 4 and 5 years. This gives a percentage of 20%.

The increase in Philippa's estate as a result of the gift from Tim is £345,000, less inheritance tax of £8,640. On the bottom of the fraction is the increase in Philippa's estate, plus the inheritance tax.

Example 1

Christine died in May 2008 leaving the whole of her estate of £345,000 to her daughter Kelly. Her only lifetime gift had been £90,000 to her nephew in July 2005.

Kelly died in March 2011 leaving an estate of £445,000. Kelly had made no lifetime gifts.

Calculate the IHT payable as a result of Kelly's death.

Example 2

Michelle inherited a painting worth £150,000 on the death of her father in April 2007. Tax of £8,000 was paid out of the residue of the estate.

Michelle gave the painting to her son in June 2008 when it was worth £235,000. This was her only lifetime gift.

Michelle died in February 2011 leaving an estate of £105,000 to her brother.

Calculate the tax payable as a result of Michelle's death.

Answer 1

(i) Tax on Christine's estate;

	£	£
Death estate		345,000
Nil band 2008/09	312,000	
Less: CTs in 7 years before death £(90,000 – 6,000)	(84,000)	
Nil band remaining		(228,000)
Taxable		117,000
IHT @ 40%		£46,800
Kelly's estate increases by: £(345,000 – 46,800)		£298,200

(ii) Tax on Kelly's estate

	£
Death estate	445,000
Less nil band (full)	(325,000)
Taxable	120,000
IHT @ 40%	48,000
Less: QSR $£46,800 \times 60\% \times \frac{298,200}{298,200 + 46,800}$	(24,271)
IHT due	£23,729

Answer 2

	£	£
Death estate (Feb 2011)		105,000
Nil band	325,000	
Less: CTs in previous 7 years £(235,000 – 6,000)	(229,000)	
Nil band remaining		(96,000)
Taxable		9,000
IHT @ 40%		3,600
Less: QSR $£8,000 \times 40\% \times \frac{150000}{150000 + 8000}$		(3,038)
IHT due		£562