

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 208: Indexation of Rate Bands

Summary

1. [Section 208](#) provides that the inheritance tax nil rate band (NRB) will rise in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from 2015-16. Automatic indexation of the NRB using the CPI will remain subject to override if Parliament determines a different amount should apply.

Details of the Section

2. Subsection (2) amends section 8(1) of the Inheritance Tax Act (IHTA) 1984 so that the increase in the CPI from one September to the next is used to calculate the increase in the NRB for the following year.
3. Subsection (3) amends section 8(2) IHTA 1984 replacing references to “retail prices index” with “consumer prices index”.
4. Subsection (4) replaces the definition of “retail prices index” in section 8(3) IHTA 1984 with a definition of “consumer prices index”.
5. Subsection (5) provides that automatic indexation of the NRB in line with the CPI takes effect from the calculation of the NRB for 2015-16. This will apply for chargeable transfers made on or after 6 April 2015 and will also be applied, where appropriate, under paragraph 1A of Schedule 2 to IHTA 1984 for potentially exempt transfers made before that date which fail on or after 6 April 2015.

Background Note

6. Currently, where the RPI for the month of September is higher than it was for the previous September, then, unless Parliament otherwise determines, the limit of the NRB increases from the 6 April of the following year by the same percentage as the percentage increase in the RPI.
7. Section 155(1)(b) and (4) of Finance Act 2006 provided for the limit of the NRB to be set at £325,000 for the tax year 2009-10.
8. Section 8 of Finance Act 2010 provided that indexation does not have effect by virtue of any difference between the RPI for the month of September in 2010, 2011, 2012 or 2013 and the previous September, thereby freezing the NRB up to and including 2014-15.