

## **Inheritance tax and cohabiting family members explained**

For married couples and civil partners, no inheritance tax at all is payable until both have died. Any amount of money, property etc can be passed, one to the other, entirely free of the tax.

Those whose relationship is platonic and based on close blood ties do not qualify to register as civil partners. (This despite the fact, incidentally, that, unlike marriages, civil partnerships, in law, have nothing to do with sex.) This puts those adult siblings and other family members who may have lived together as one close, inter-dependent unit for decades, at a very serious disadvantage, especially with regard to inheritance tax.

This is because, denied the right to pass on your share of a jointly owned property to the person you live with without incurring tax, that person may be faced with a large bill after your death. Sometimes – because of the dramatic rise in property prices over the decades – the bill can be so big that he/she will have to sell his/her own home, on bereavement, to pay the tax on the deceased's share of it.

If the situation in which long term cohabiting siblings and other close family members found themselves was already deeply unfair, the Conservative government made it even more so for those who do not qualify to register as civil partners, when it changed the inheritance tax rules in 2015.

The changes were announced in the 2015 Conservative Party manifesto and later fleshed out when the Conservatives formed the new government. The manifesto promised a new "main residence allowance" of £175,000 per person (over and above the current £325,000 inheritance tax allowance to which everyone is entitled). However, this turned out to apply only where a home was being passed on to direct descendants. Adult cohabiting siblings, for example - already excluded from the total deferral of inheritance

tax until after the 2nd death - were also to be excluded from this if they wanted to pass their joint home, one to the other on death.

In addition, for married couples and those in civil partnerships, the extra allowance would be transferable between them (as the £325,000 for which everyone qualifies, was already – again, for couples only). This meant that, as well as being able to pass everything to each other entirely free of tax, such couples could in future, after both had died, leave a home up to the value of £1,000,000 to any offspring, free of tax.

By contrast to all of this, siblings like Beatrice and Mary (featured on the sibling stories page of this site), who have lived together for 86 years, working all their lives, scrimping and saving and looking after their mother in their home until she died, aged 100, do not qualify for the right to pass on their savings and property, one to the other, free of tax. Neither are they eligible for the extra £175,000 allowance, which only those with descendants can use. They are in fact entitled to nothing above the £325,000 allowance to which every single person is entitled. They therefore live with the anxiety of knowing that, though they have lived together as one unit all their lives, when one of them dies, the other will have to spend the joint savings, intended for the old age care of the survivor, on inheritance tax on the deceased's share of their home and savings. Either that or face having to sell the home they both love, to pay the bill.

*"If you have worked hard during your life, saved, paid your taxes and done the right thing, you deserve dignity and security when you retire. We want Britain to be the best country in which to grow old." said the Conservative Party's 2015 manifesto.*

The situation for siblings who bring up children (again, see examples on the sibling stories page of this site) is a further issue. Siblings leaving the joint home one to the other, will have their estate taxed (at 40 per cent on anything above £325,000) when the

first sister dies and then all over again, at the same rate, when both have died. The 2015 manifesto pledge to “*take the family home out of tax*” will seem hollow to the children brought up in family units such as these because the government does not recognise them as families and the “family home” is not regarded or treated as a family home at all.

The government says that the difficulties faced by those excluded from inheritance tax relief are mitigated because, where a joint home is at stake, it will allow up to ten years for the surviving partner of the relationship to pay the tax. However, in many cases, because of the rise in house prices over the decades (particularly, but not exclusively, in London and the South East), the tax payable will be as much, or more than as much as, the original 25 year mortgage taken out decades ago and the person required to pay it will no longer be working and will have the expense of old age care looming. In many cases, it simply cannot be done and the home has to be sold.

It is for these reasons that the focus of the Family Ties Matter campaign is currently on persuading the government to reform inheritance tax rules to make them fair for those who live together permanently but are not treated by the government as a legal unit.

Catherine Utley. February 2019.