UK Tax Bulletin

December 2025

FIELD COURT TAX CHAMBERS

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Latest Rates of Interest

I have discontinued the rates of inflation chart on the grounds that the Retail Price Index is not particularly helpful. The CPI tends to be used more often.

The following are the latest rates of interest on overdue (and overpaid) tax:

Interest on overdue tax

Interest on all unpaid tax is charged at the same rate.

The formula is Bank base rate plus 4% which gives a rate of 7.75% which applies from 9th January 2026.

There is one exception: Quarterly instalments of corporation tax bear interest at 6.25% from 29th December 2025 and interest on overpaid instalments is 3.50%.

Repayment supplement

Interest on overpaid tax is paid at Bank base rate minus 1% which gives a rate of 2.75% from 9th January 2026

Official rate of interest:

From 6th April 2025: 3.75%

IHT: APR and BPR

You would need to have been on Mars, or having some kind of holiday, to have missed the announcement that the threshold for the 100% Agricultural Property Relief and Business Property Relief is being increased to £2.5m, and £5m for a married couple, when the changes take place on 6th April 2026.

I just thought I should mention it. Maybe there will be more. Who knows.

Value on Death: IHT

The recent case of *Richard Thomas v HMRC TC 9716* raised an interesting point about whether a tax repayment arising after death formed part of the estate of the deceased for IHT purposes.

This sounds a bit out of the ordinary (not to say boring) but stick with me because there is an important issue lurking – which I dare to say, may be interesting.

The executors said the income tax repayment did not form part of the estate because immediately before her death she had no enforceable right or entitlement to it. Accordingly, there was no "property" within the meaning of section 272 IHTA 1984 to which she was beneficially entitled at that time, and no such amount should have been included in her estate.

HMRC disagreed, despite the HMRC IHT Manual at 04030 which said:

> "we regard [property] as only including rights and interests that are legally enforceable. It does not extend to a mere hope or right that is not legally enforceable."

The FTT held that immediately before death the right to the tax refund was not part of Mrs Thomas's estate. However, the fact of her death caused her estate to be entitled to the refund - and rather like in *Marren v Ingles,* the right needed to be valued and brought into charge to IHT on her death. The judge went on to say:

> "At the point of death the amount of the tax refund was calculable. The open market value would be approximately equal to the value of the refund. "

I would respectfully question whether this is correct. In the real world, this would obviously be right – but this is tax. When it comes to valuing an asset for tax purposes, the real world takes a bit of a back seat.

The valuation of property for IHT is governed by section 160 IHTA as:

> "the price which the property might reasonably be expected to fetch if sold in the open market at that time"

So the question is, if there is a tax repayment of £1000, but it is not agreed with HMRC until later, how much would it have reasonably fetched if sold in the open market at the date of death.

We know from the extensive cases on valuing assets for tax purposes that we must consider a number of artificial assumptions including:

- A hypothetical willing but not anxious vendor;
- A hypothetical purchaser who is a prudent man of business;
- A market which includes everybody;
- The sale is not a forced sale, but one which must take place on that date;
- There is no opportunity for either party to delay the transaction.

I would suggest that it is self evident that nobody would pay £1000 for the right to receive this tax repayment. What is the point of that – paying £1000 for the right to receive £1000. Obviously any prospective purchaser would require a profit. (The case of *re Courthope* provides some guidelines).

And what about the risks involved. There is obviously no credit risk in respect of a tax repayment from HMRC – but we all know that it might take a while to receive it. (Don't we just). And there is the loss of interest on (or use of) the money, and the uncertainty about whether the debtor might challenge it, or otherwise cause difficulties.

There must inevitably be a significant discount from the full amount when determining the market value to be brought into account for IHT. I am not going to get into how much that discount should be – but it is for these reasons I feel the FTT took a rather too simplistic view and overstated the value chargeable to IHT.

Share Valuation

There is more. The recent Budgets have highlighted the importance of IHT business property relief and capital gains tax on Employee Ownership Trusts, both of which have been heavily curtailed.

The valuation of unquoted shares is a feature of both reliefs (and a lot else) and is going to be crucial in determining more tax liabilities in future. All the issues arising on the tax repayment in *Thomas* outlined above apply to the valuation of unquoted shares and there are going to be some serious arguments after 5th April 2026 about the value of shares qualifying for the much reduced business and property relief – and other reasons.

For unquoted shares the above artificial assumptions apply but are supplemented by a special provision in section 273 TCGA 1992 (and a very similar, but strangely not identical, provision for IHT in section 168 IHTA 1984) which is the basis for most of the valuations of unquoted shares likely to be encountered. Section 273 reads as follows:

> "For the purposes of a determination falling within subsection (1) above, it shall be assumed that, in the open market which is postulated for the purposes of that determination, there is available to any prospective purchaser of the asset in question all the information which a prudent prospective purchaser of the asset might reasonably require if he were proposing to purchase it from a willing vendor by private treaty and at arm's length".

What information is reasonably required is a huge subject all by itself, and it will depend on such things as the size of the holding, the assets of the company and the likely ball park sums involved - after all a purchaser would not require much

information if he is investing £1000 but he would want to know rather a lot if he is investing £5m. But just because a prospective purchaser might reasonably require information does not mean that it must be provided. There are laws against giving out price sensitive information and there are insider trading considerations.

I think we are going to be busy.

IHT and Pensions

The Finance Bill has clarified the Chancellors proposals on the taxation of pensions funds and in particular the IHT charge on undrawn pension pots.

The idea that my pension pot will be charged to IHT at 40% on my death, and would also be charged to income tax at 45% when the pension is actually paid out was so extreme that they could not be serious….could they? So the announcement that there would be a deduction for the IHT from the income tax was welcomed as a sensible relief.

The provisions in the Finance Bill are virtually incomprehensible, but it seems that the effect of this deduction will be a credit for the IHT - or at least most of it.

Clause 67 inserts new section 567B ITEPA 2003 which provides for a deduction from the taxable pension income being the lesser of:

a) The IHT paid, and

b) The income payment to the beneficiary

And any excess IHT is carried forward until it is used up.

So if the pension pot is £1000 and the IHT £400, there will only be £600 to be paid out as taxable pension income.

When it is paid out, the first £400 of pension payments will have a deduction of £400 (under (b) above) and the balance of £200 will be taxed as income. So a basic rate taxpayer will pay income tax of £40, a 40% taxpayer will pay £80 and a top rate taxpayer will pay £90.

We therefore end up with a total tax of £44 or £48 or £49 (that is a total tax rate of 44%,48% or 49%).

One of the conditions is that the personal representatives must "pass on the burden" of the IHT to the beneficiary – but that will be nearly always be the case because the sum paid out to the beneficiary from the deceased's estate will have been reduced by the IHT – which is the requirement under the proposed section 567B(5).

Not great, but not all that bad either. An awful lot of complication for not very much – although there will be a cash flow benefit for the Treasury as the IHT is paid up front.

Remittances

Last year I mentioned the case of *Alimahomed v HMRC TC 9178* which was about transfers from a foreign bank account containing foreign income or gains.

If I bring the money to the UK for my own use, or for the benefit of a relevant person, we all know that this is a remittance by reason of section 809L(2)(a) ITA 2007:

> "money or other property is brought to, or received or used in, the UK by or for the benefit of a relevant person".

But what about a payment to a non relevant person like a payment to a UK charity?

HMRC take a firm view that such a payment is a remittance on the grounds that a remittance in section 809L(2)(a) – see above - includes:

> "money…brought to the UK…by a relevant person. "

A relevant person can include the individual himself so if the money is "brought to the UK" by him it is brought by a relevant person and it therefore a remittance.

This was held to be correct by the FTT and the Upper Tribunal has now confirmed the interpretation. The legislation simply requires the money to be transferred to the UK by the individual. It is irrelevant whether he used or benefited from the

money in the UK.
But there was more. What if you have a foreign credit card which you use to buy things which are in (or brought to) the UK by or for the benefit of a non relevant person, and you pay your credit card bill with foreign income. HMRC and the FTT said that the use of a foreign credit card created a "relevant debt" and the discharge of a relevant debt from foreign income is a remittance.

Not so fast said the Upper Tribunal. We are not sure about this relevant debt stuff. Section 809L specifically provides that you cannot have a relevant debt unless the debt relates to:

a) Money or other property brought to, or received or used in, the UK by or for the benefit of a relevant person, or

b) A service provided in the UK to or for the benefit of a relevant person.

Unfortunately, the Upper Tribunal did not remake the decision but sent it back to the FTT to decide whether the debt to the foreign credit card company did relate to things benefiting a relevant person.

It's all a bit frustrating, but it will be interesting to see what they say next.

The remittance basis may have been abolished, but these issues are going to be around for ages – certainly for the rest of my professional life. (I am presently arguing a case on the meaning of a remittance in 2001).

Happy New Year

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Important Note