FINANCIAL GUIDE

A GUIDE TO

INHERITANCE TAX

HOW TO GIVE MORE TO YOUR
FAMILY AND LESS TO THE TAXMAN

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THE AIM of this guide is to give a brief outline of UK inheritance tax (IHT) and to highlight some of the opportunities available for IHT planning. An individual's liability to IHT is primarily governed by their domicile at the time a transfer of value takes place. A person domiciled in the UK is liable to IHT on the total value of their assets wherever in the world these are situated.

PREVENT UNNECESSARY TAX

In order to make provision, it is essential to have a strategy in place after you're gone. The easiest way to prevent unnecessary IHT tax payments is to organise your tax affairs by obtaining professional advice and having a valid Will in place to ensure that your legacy does not involve just leaving a significant IHT bill.

SIZE MATTERS

Effective IHT planning could save your beneficiaries thousands of pounds, maybe even hundreds of thousands depending on the size of your estate. At its simplest, IHT is the tax payable on your estate when you die if the value of your estate exceeds a certain threshold amount. It's also sometimes payable on assets you may have given away during your lifetime, including property, possessions, money and investments.

INHERITANCE TAX THRESHOLD

IHT is currently paid on amounts above the £325,000 'Nil Rate Band' threshold (£650,000 for married couples and registered civil partnerships) for the current 2014/15 tax year, at a rate of 40% – reduced to 36% if more than 10% of your estate is given to charity. If the value of your estate, including your home and certain gifts made in the previous seven years, exceeds the IHT threshold, tax will be due on the balance at 40%.

ASSETS HELD IN TRUST

Your estate includes everything owned in your name, the share of anything owned jointly, gifts from which you keep back some benefit (such as a home given to a son or daughter but in which you still live) and assets held in some trusts from which you receive an income.

Against this total value is set everything that you owed, such as any outstanding mortgages or loans, unpaid bills and costs incurred during your lifetime for which bills have not been received, as well as funeral expenses.

POTENTIALLY EXEMPT TRANSFERS

Any amount of money given away outright to an individual is not counted for IHT if the person making the gift survives for seven years. These gifts are called 'Potentially Exempt Transfers' and are useful for IHT planning.

Money put into a 'Bare' trust (a trust where the beneficiary is entitled to the trust fund at age 18) counts as a potentially exempt transfer, so it is possible to put money into a trust to prevent grandchildren, for example, from having access to it until they are 18.

CHARGEABLE LIFETIME TRANSFERS

However, gifts to most other types of trust will be treated as chargeable lifetime transfers. Chargeable lifetime transfers up to the IHT threshold are not subject to tax but amounts over this are taxed at 20%, with a further 20% payable if the person making the gift dies within seven years.

Some cash gifts are exempt from tax regardless of the seven-year rule. Regular gifts from after-tax income, such as a monthly payment to a family member, are also exempt as long as you still have sufficient income to maintain your standard of living.

EXEMPT FROM INHERITANCE TAX

Any gifts between husbands and wives, or registered civil partners, are exempt from IHT whether they were made while both partners were still alive or left to the survivor on the death of the first. IHT will be due eventually when the surviving spouse or registered civil partner dies if the value of their estate is more than the combined IHT threshold, currently £650,000.

If gifts are made that affect the liability to IHT and the giver dies less than seven years later, a special relief known as 'Taper Relief' may be available. The relief reduces the amount of tax payable on a gift.

GIFTS: THE 7-YEAR RULE

If you live for seven years after making a gift to someone, it's exempt from IHT regardless of the value. This is called a 'Potentially Exempt Transfer'.

- Within three years – the full amount of IHT is due
- Within three years to four years – 80% of the IHT is due
- Within four years to five years – 60% of the IHT is due
- Within five years to six years – 40% of the IHT is due
- Within six years to seven years – 20% of the IHT is due

If you continue to benefit from something you've given away, it will be exempt from IHT and is called a 'Gift With Reservation of Benefit'.

WEDDING AND REGISTERED CIVIL PARTNERSHIP GIFTS

EACH PARENT OF THE COUPLE CAN GIVE THEM CASH OR GIFTS WORTH UP TO **£5,000**

GRANDPARENTS CAN EACH GIVE UP TO **£2,500**

ANYONE ELSE CAN GIVE UP TO **£1,000**

ANNUAL EXEMPTION

You can give away up to £3,000 a year – you can also carry over unused allowance from the preceding year. These gifts will be exempt from IHT when you die.

SMALL GIFT EXEMPTION

You can make small gifts of up to £250 to as many people as you like (but you can't use this exemption with the £3,000 annual exemption for the same person).

WEDDING AND REGISTERED CIVIL PARTNERSHIP GIFTS

There are limits to the wedding and registered civil partnership gifts different people can give:

- each parent of the couple can give them cash or gifts worth up to £5,000
- grandparents can each give up to £2,500
- anyone else can give up to £1,000

You must make the gift on or shortly before the date of the wedding or registered civil partnership ceremony.

USING TRUSTS

As part of your IHT planning, you may want to consider putting assets in an appropriate trust – either during your lifetime or under the terms of your will. Putting assets in trust – rather than making a direct gift to a beneficiary – can be a more flexible way of achieving your objectives.

For example:

- you might want assets that will pass to a child to be held on trust until they are older
- you might want assets to eventually pass to your children, but to ensure that your spouse can benefit from them for the rest of his or her life

TAX TREATMENT OF TRUSTS

The tax treatment of trusts is complex and depends on such factors as the kind of trust, the value of the assets put into it and who the beneficiaries are. Changes to the rules mean that the tax treatment of many trusts is no longer as favourable as it used to be, but there are still circumstances in which they can help to reduce the overall level of tax payable.

You should take professional advice on whether trusts could be of benefit for your particular circumstances and requirements.

IT PAYS TO PLAN AHEAD

IHT is a complicated area and without appropriate planning you could end up leaving a significant tax liability on your death, considerably reducing the value of your estate passing to your chosen beneficiaries. To ensure that your family benefits rather than the taxman, it pays to plan ahead. As with most financial planning, early consideration and planning is essential. To review your situation and discuss your options, please contact us for further information.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE INHERITANCE TAX PLANNING OR TAXATION ADVICE.

Calculate how much IHT you may have to pay

To calculate how much IHT you may have to pay, add up the value of all your wealth, subtract your liabilities and the £325,000 'Nil Rate Band' allowance, and then multiply the remainder by 40%.

If you are married or in a registered civil partnership, add up your combined estates and reduce these by two 'Nil Rate Band' allowances of £325,000 each (£650,000) before applying the 40% rate to estimate your potential liability to IHT.

Estate assets

Property – main residence	£
Savings – current account/s, deposit account/s, premium bonds, Cash NISAs, other savings	£
Investments – shares/equities, unit trusts, investment trusts, Stocks & Shares NISAs, investment bonds, other investments	£
Additional assets – cars, holiday home/s, antiques, jewellery, works of art, boat, gifts of capital made within the previous seven years	£
Life insurance policies – policies not written in an appropriate trust	£
Total (A)	£

Estate liabilities

Mortgage/s	£
Loan/s/overdraft/s	£
Credit card/s	£
Other liabilities – outstanding bills, hire purchase, funeral expenses	£
Total (B)	£

Estate summary

Total assets (A):	£
Liabilities (B):	£
Estate value (A minus B):	£
IHT-free allowance (deduct from estate value): current £325,000 Nil rate band allowance (frozen until 5 April 2018), or if you are married (or in a registered civil partnership) £650,000	£
Net worth:	£
Inheritance Tax bill: (Net worth @ 40%)	£

In most cases, IHT must be paid within six months from the end of the month in which the death occurs. If not, interest is charged on the unpaid amount. IHT on some assets, including land and buildings, can be deferred and paid in instalments over ten years. However, if the asset is sold before all the instalments have been paid, the outstanding amount must be paid.

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IT'S YOUR LEGACY, MAKE SURE IT'S PROTECTED

We work with our clients to protect their assets, providing peace of mind that the things you've worked hard for are secure and can be enjoyed by your loved ones when you're gone. Inheritance tax is a complex area and you should seek professional advice to assess your needs and individual circumstances. To find out more about how we can help you protect your wealth, please contact us.

The content of this guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

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