PRIME ACCOUNTANTS GROUP

Inheritance Tax

Inheritance tax (IHT) is currently payable where a person's taxable estate is in excess of £325,000. Therefore, if you own your own house and have some savings, your estate could be liable.

The good news is that there are a number of allowances and strategies that may help to reduce your liability to IHT. This may include utilising the residence nil-rate band, which was introduced with the intention of enabling a 'family home' to be passed tax-free on death.

It is important to remember that planning to minimise your IHT liability is a team effort, and the sooner you enlist professional help and support, the better.

What does it mean for you – and your family?

When you die, tax will be payable on the combined value of your death estate and any gifts made in the preceding seven years which have not qualified for one or other of the lifetime gift reliefs.

The tax is payable from your estate, so if you want to make sure that the taxman's slice is kept to a minimum, you need to start planning now.

How we can help

We can help you put together a personal plan for minimising the IHT on your estate, using one or more of the following key strategies:

- gifts in your lifetime, including trusts
- a tax-efficient Will
- life assurance.

This guide provides information and tips on reducing your liability to IHT. For one-to-one advice, you need to contact us – we will be pleased to help.

Effective IHT planning

It could be said that the art of IHT planning is to give away as much as possible during your lifetime, while still keeping enough to ensure that you and your spouse can live a comfortable and fulfilling retirement.

The full rate of tax is 40% on the estate value in excess of £325,000. Taxable gifts made up to seven years before death are added back into your estate and tax is calculated on the inclusive value. But to the extent that such lifetime gifts made between three and seven years before death exceed the tax threshold, the associated tax is discounted by up to 80%.

To enable long-term objectives to be met, it is necessary to start making decisions about your finances and your family now. The earlier you start planning, the better.

What you need to consider:

Your assets and your estate

Your 'estate' means everything you own. This will include: your home and land; your business; shares and securities; cash; savings accounts; antiques; collections; and anything else with any value. Any legally incurred liabilities you have will be deducted, such as: mortgages; overdrafts; loans; outstanding bills; and even funeral costs. We can help you to calculate the value of your assets now, and estimate how this value may change over the coming years.

Your financial security

You need to make sure that you and your spouse are properly provided for, particularly in retirement. It would not make sense to give assets to your children only to find that in later life you need to ask for some or all of them back.

Your family's future needs

You need to think about what degree of control you would want your children to have over any assets you may transfer to them. You also need to work out how much your spouse would need if you were to die first. This would, of course, have to be reflected in your Will. In addition, you need to find out the intentions of parents or elderly relatives regarding their own assets.

IHT strategies

The nil-rate band

Perhaps the most important relief from IHT is the nil-rate band. This means that an IHT rate of nil is applied to the first part of your taxable estate, which falls within the £325,000 band. For married couples and civil partners, the unused percentage of the nil-rate band from the first death estate is carried forward and added to the nil-rate band available to the second.

The residence nil-rate band

In addition, the 'residence nil-rate band' (RNRB) applies where a residence is passed on death to direct descendants, such as a child or a grandchild. The RNRB rose to £150,000 for 2019/20, and is due to rise to £175,000 in 2020/21. It will increase in line with CPI from 2021/22.

The additional band can only be used in respect of one residential property which has, at some point, been a residence of the deceased. Any unused nil-rate band may be transferred to a surviving spouse or civil partner.

There will be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2 million (at a withdrawal rate of £1 for every £2 over this threshold). Please note, however, that this £2 million limit does not take into account any business or agricultural reliefs.

Four IHT planning pointers

One

Transfers between spouses
Transfers of assets between spouses are exempt from IHT. This includes both lifetime transfers and transfers made on death. However, other lifetime gifts may be more tax-efficient – and there are restrictions if one spouse is non-UK domiciled (contact us for more details).

Two

Lifetime gifts
Many smaller or regular lifetime gifts are exempt from IHT, and larger gifts may become exempt after seven years (talk to us about the rules), so a strategy of making gifts in your lifetime can substantially reduce your taxable estate on death. You can also take out life insurance to cover any IHT which might be due following your death within seven years of making larger gifts. However, potential capital gains tax must be taken into account with this option.

Three

Trusts
Trusts allow you to make gifts without giving the recipient complete control over the asset and/or the income it generates. Gifts into trust may result in an IHT liability, depending on the nature, timing and terms of the gift and the value of other chargeable gifts in the preceding seven years. Ten-yearly and exit charges may also arise. You can also create a discretionary trust in your Will to allow your trustees to decide how your assets should be distributed, given a (non-binding) letter of wishes and taking into account all relevant circumstances at the time. This option has the advantage of deferring all capital gains tax charges.

Four

Private pension funds
Unused funds in private pension plans can be passed directly to beneficiaries without being included in your chargeable estate at death. In addition to no IHT being due, the unused funds may, in some situations, be accessed free of income tax by beneficiaries. Therefore it may be better to spend non-pension assets in one's lifetime rather than access pension funds.

Your business

In general, a business you control will attract business property relief of 100%. Your business can be passed on with no IHT payable. Assets owned by you but used by a partnership in which you are a partner, or a company you control, attract business property relief of only 50%. Similar reliefs apply to agricultural property.

Your Will

A well-drafted Will can ensure that your wealth benefits the right people on your death – and it can also be structured to save tax. It is important to review your Will regularly, particularly following significant changes in tax law, such as the introduction of the RNRB.

Charitable giving

Generally, all gifts to charity are exempt from IHT. This includes outright gifts and transfers into charitable trusts, although foreign charities are excluded. It is worth noting that it can be more tax-efficient to make a tax-free gift from your estate than for a gift to come from a beneficiary's share of the after-tax estate. A reduced rate of 36% can apply to death estates, where 10% or more of the net estate is left to charity.

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