Maximise inheritance for your loved ones

No one wants to pay more tax than is necessary. This guide explains the basics of Inheritance Tax and outlines some key reliefs and other considerations for those seeking to understand how to effectively plan with regard to succession.

Inheritance Tax: the basics

- It is usually payable on death at the rate of 40%.
- It is sometimes payable earlier (for example, if you place assets in trust under certain circumstances).
- Every person has a nil rate band ("NRB"), under which no Inheritance Tax is payable. The current nil rate band amount is £325,000.
- The Government has introduced a second nil rate band called the "Residence Nil Rate Band" or "RNRB". This is an additional amount on which no tax is payable. It basically applies where you pass a residential property to descendants. You can also benefit from the RNRB if you have downsized or sold property in the past. The RNRB came into effect in April 2017 and the starting band was £100,000, increasing to £175,000 in 2020.If the estate is over £2 million, the RNRB is restricted by £1 for every £2 over the limit.
- If your estate passes to your spouse or civil partner, there is no IHT payable (unless they are not domiciled in the UK).
- If you are a widow or widower, any NRB which was not utilised on the death of your spouse/civil partner can be transferred to you. The RNRB is also transferable.

Certain assets are partially or wholly exempt from Inheritance Tax – more on that below.

So, what are the key reliefs? What planning should you consider and when?

Visit a solicitor – make a Will

As well as the obvious benefits of making a Will (such as choice of executors, selecting appropriate beneficiaries, etc), a Will can put in place effective structures and provisions to take advantage of Inheritance Tax reliefs and allowances. For example, estates can qualify from a reduced rate of Inheritance Tax (36% instead of 40%) where estate is left to charity.

Consider your assets

Certain assets carry valuable Inheritance Tax exemptions, for example:

- Business Property - shares in private trading companies owned for two years can attract 100% relief.
- Certain Alternative Investment Market (AIM) stocks held for two years are exempt from IHT.
- Agricultural Property – assets can qualify for 100% relief on agricultural value.

It is also important to consider succession in relation to any family or private businesses you may have. Again, there are tax planning opportunities here.

Exemptions for gifts

Certain gifts are exempt, as follows:

- Annual exemption of £3,000 - may be carried forward for one year.
- Small gifts exemption of £250 per person.
- Normal expenditure out of income - this very useful exemption allows regular gifts to be made out of excess income, subject to satisfaction of certain criteria.
- Gifts in consideration of marriage - £5,000 for gifts by each parent to their children. Grandparents may gift £2,500 each and other parties £1,000 each.
- Any gift between spouses/civil partners or to charities.

It is extremely important that the donor does not attach any strings to a gift otherwise HMRC will not recognise the gift.

Potentially exempt gifts

Gifts of any amount to individuals are exempt from IHT if the donor survives seven years from the date of gift. There may be IHT to pay if the donor fails to survive seven years, but taper relief applies to any tax payable on such gifts (20% taper each year after year three).

Gifts to trusts

Gifts to discretionary trusts up to the value of the nil rate band do not trigger an immediate IHT liability (and will not form part of the donor's Estate if they survive seven years from the date of the gift to trust). Growth in the trust assets is out with the donor's estate and trusts can be effective tax planning tools.

Charitable Benefits

The rate of tax can reduce from 40% to 36% if, broadly, 10% or more of your estate is left to charity.

Life Assurance

As an alternative (or in addition) to gifting assets during lifetime, a life assurance policy can be taken out and written in trust for the beneficiaries of your estate. Although this type of arrangement does not itself reduce the taxable estate (otherwise than by the payment of premiums), it creates a fund which the beneficiaries can use to pay the IHT bill.

KEY CONTACTS

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