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FACTSHEET

Inheritance Tax

Inheritance Tax (IHT) is an obligation that most of us will never have to personally pay. It is not a tax that becomes due when you inherit from others, but rather a tax payable by your estate after your demise and on certain gifts that you make during your lifetime.

Accordingly, planning to reduce any IHT liability will ultimately benefit your family or associates to whom you leave your estate.

Is IHT payable on all my estate?

Presently, if the total assets you leave that are subject to IHT exceed £325,000 then the excess (subject to any of the reliefs outlined below) will be taxed at 40%. A reduced rate of IHT of 36% applies where 10% or more of a deceased's net estate after deducting IHT exemptions, reliefs and the nil rate band is left to charity.

What are the reliefs?

The main relief is the nil rate band of £325,000. Also, all assets left to a spouse or civil partner are free of IHT.

The surviving spouse will also benefit from any unused nil rate band that arises if your £325,000 allowance is not fully utilised. Other reliefs include:

- Any legacies in your Will to charities or political parties can reduce the value of your estate subject to IHT.
- Certain business assets may also be excluded from your chargeable estate if they qualify for Business or Agricultural Property Relief. This will be a 50% or 100% reduction of the value of assets that qualify.

Main Residence Nil-rate Band

The IHT Main Residence Nil-rate Band (RNRB) became available from April 2017. The RNRB currently allows for a £175,000 per person transferable allowance for married couples and civil partners when their main residence is passed down to children after their death. Any unused portion of the RNRB can be transferred to a surviving spouse or partner in a similar way to the existing nil rate band.

The RNRB is in addition to the existing £325,000 IHT threshold. Taken together this means that parents can now pass on property worth up to £1 million free of IHT to their direct descendants. Estates with a net value of more than £2m will be subject to a reduction of £1 in the available RNRB for every £2 the net estate exceeds £2m.

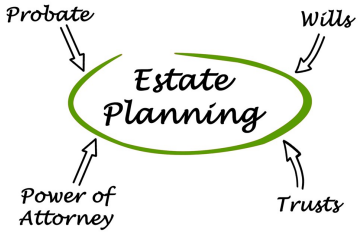
Can I just give my assets away before I die and avoid IHT?

The short answer is maybe.

There are many gifts that you can make on a regular basis that will not be caught in the IHT net. They include:

- An annual allowance of £3,000.
- Gifts made on marriage. A parent may gift up to £5,000 with no IHT liability and grandparents and great-grandparents up to £2,500. There is also a general limit for gifts on marriage of up to £1,000 (per donor).
- Gifts made from surplus income. Gifts which are made from surplus income which do not result in a fall in the standard of living of the donor are exempt from IHT. There is no published limit to this relief.

Other gifts will only be included in your estate if you do not live for seven years after the gift was made. A tapered relief is available if death occurs between three and seven years after the gift is made. This type of gift is known as a Potentially Exempt Transfer (PET). Any PET that has not reached the seven-year deadline at your date of death will be included in your estate.



Is it important to make a Will?

Yes, it is. Every person who has regard for their family and wants to maximise the amount of their estate that passes tax free to their survivors, should have a Will. It is also beneficial to review the terms of a Will from time to time to keep pace with changing legislation.

If you do not do this, you will die intestate and your family will have no control over who inherits your estate. The rules of intestacy rarely operate how you might expect. Intestacy can have unfortunate outcomes in cases involving single people, married people with children and couples who live together, but are not married or in a civil partnership.

What about trusts?

A trust is an obligation that binds a trustee (who can be an individual or a company) to deal with your assets - such as land, money, shares or even antiques - for the benefit of one or more 'beneficiaries'. The trustees are the ones who make decisions about how the assets in the trust are to be managed, transferred or held back for the future use of the beneficiaries.

There are three main situations when IHT may be due on trusts:

- When assets are transferred - or settled - into a trust.
- When a trust has been in existence for ten years.
- When assets are transferred out of a trust or the trust comes to an end.

HMRC are constantly scrutinising the way in which trusts are used to avoid tax, and so if you are contemplating the use of trusts to minimise IHT you should take professional advice.

What happens if you live abroad?

According to HMRC, if your permanent home (tax 'domicile') is abroad, IHT is only paid on your UK assets, for example property or bank accounts you have in the UK. It's not paid on 'excluded assets' such as:

- Foreign currency accounts with a bank or the Post Office
- Overseas pensions
- Holdings in authorised unit trusts and open-ended investment companies.

There are different rules if you have assets in a trust or government gilts, or if you're a member of visiting armed forces.

When you won't count as living abroad

HMRC will treat you as being domiciled in the UK if you either:

- Lived in the UK for 15 of the last 20 years
- Had your permanent home in the UK at any time in the last 3 years of your life.

Double-taxation treaties

Your executor might be able to reclaim tax through a double-taxation treaty if IHT is charged on the same assets by the UK and the country where you lived.

What is the best way to minimise IHT?

Everyone owns a different mix of assets and has varying family circumstances. Have regular planning meetings with your advisors to create a planning structure that is appropriate to your needs and periodically reviewed. We would be delighted to help.

Summary action list

- Keep a record of your assets so you can quantify the value of your estate and likely Inheritance Tax liability.
- Keep a record of any gifts that you make, the date, the donors name, and the amount of each gift.
- Review your family Wills periodically to make sure they still represent your wishes.
- Have you considered Power of Attorney options?
- Set up annual or bi-annual reviews with your tax advisor to ensure that any tax mitigation strategies are relevant based on your changing circumstances.

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