

INHERITANCE TAX

When someone dies Inheritance Tax may be payable. The value of all assets – property (including foreign property), investments, cash, insurance policies, household furniture, antiques, cars etc. – are added together. Tax is payable on any amount exceeding a threshold which is set each year and is currently £325,000 (The NIL RATE BAND) at 40%. This can amount to many thousands of pounds.

There are some exemptions, in particular gifts to spouses or civil partners and charities. Also life policy proceeds that have been made subject to the terms of a Trust for more than 7 years. There are also some exemptions available for Agricultural Property and Business Property. As these reliefs are very complicated you should seek detailed advice if you feel they may apply to you.

MARRIED COUPLES and CIVIL PARTNERS

No Inheritance Tax is payable on money that passes to a spouse or civil partner.

On the second death it is now possible to apply for the unused tax allowance of the first spouse/civil partner to be transferred and used on the second death. This is known as the 'Transferable Nil Rate Band'. This will mean being able to use 2 Nil Rate Bands and not have to pay tax on the first £650,000 of the estate. If on the first death any money was given to individuals other than the spouse/civil partner or if there have been any lifetime gifts the allowance may be lower.

LIFETIME GIFTS TO INDIVIDUALS

You can give away your assets whilst you are alive. The following are allowed and apply for each individual:

- £3000 in any tax year ('Annual Exemption'). This is a total sum. If you have not made any gifts in the previous tax year then the total is £6000 for one year only.
- £250 each tax year to many individuals. So, for example, if you have several grandchildren you could make a gift of this sum to each grandchild. But you cannot make the gift to the same person or persons who received any part of the Annual Exemption
- Gifts on marriage. £5000 to each child, £2500 to each grandchild, £1000 to anyone else.

- Gifts out of income where you can show the gifts are reasonable in proportion to the income you receive. This might include assisting with the education of a grandchild for example

You can also make much larger gifts at any time. These are known as Potentially Exempt Transfers (PET). If you then lived for 7 years after making the gift no tax will be charged on your death. If you died within the 7 year period the value of the gift is added to your estate on death and tax payable. There is a relief that tapers the tax from 40% by 10% each year after you have survived the gift by 4 years. You must make sure you do not give away more than £325,000 in any 7 years period otherwise tax is payable now.

LIFETIME GIFTS TO TRUSTS

Gifts into trusts are not regarded as PETs. They are Chargeable Transfers. If you value of the gift exceeds your NRB you have to pay tax on the excess at 20%. If it does not exceed the NRB part of your Nil Rate Band has been used. However, after 7 years from the date of the gift you have your full Nil Rate band again.

As the lifetime tax charge is less than the death tax charge for some people it is still worthwhile considering making gifts to Trusts.

Please ask for more details if you are interested in trusts.

RECORD GIFTS

It is strongly recommended that you keep a record of all gifts you make – date, amount, beneficiary – and keep the record with your papers even after the 7 year period has expired.

HOW TO AVOID IHT

IHT has been described as a voluntary tax. What people mean by this is that by careful planning it can be avoided. The main problem is that many people do not have sufficient capital available to give away their assets whilst they are alive and still leave themselves with enough capital to live comfortably because most of their capital is tied up in their house. But there are matters you may wish to consider

EQUITY RELEASE SCHEMES

It is worth mentioning such schemes briefly. You could raise capital on your house to make gifts. This would reduce the value of your estate at your death and the Inheritance Tax bill and still be safe and secure in your own home. We would not normally recommend such schemes as an IHT solution. Such schemes do need very careful consideration and if you are interested in this please contact us for further information, though we would also recommend that you have advice from an Independent Financial Advisor.

INVESTMENT BASED SCHEMES

Life Assurance Policies:-

- It may be worthwhile looking at existing life policies and see if these can be written in trust so the proceeds do not form part of your estate on death.
- You may also wish to look at taking out some new policies to benefit children or grandchildren with the premiums being paid from your income.

- You could arrange a policy that will pay a sum of money to cover the Inheritance Tax on your death.

Other Options: -

There is a range of investment and other options aimed at Inheritance Tax planning. When clients are looking at their long-term future it can be of benefit to have some Financial Services advice. We can arrange for an Independent Financial Adviser to provide you with a complimentary “financial health check” Please contact us if you wish to use this service and we will make the appropriate arrangements

DISCRETIONARY TRUST WILLS

Before the introduction of the Transferable Nil Rate Band all married couples and civil partners whose joint assets exceeded the annual exemption were advised to have a will incorporating a Discretionary Trust as this produced a saving of over £100,000 in tax. Though these wills no longer produce the tax saving there may still be advantages in having these wills and no need to rush to change them to a will leaving all the assets to the surviving spouse or civil partner outright. Also in cases where the surviving spouse remarries they can be an advantage as you may achieve an extra NRB.

Please see our separate information leaflet on ‘Married Couples/Civil Partners and Will Trusts’

If you have any questions please contact us:

Worcester office 01905 726789

Jean Newton
(jn@parkinsonwright.co.uk)

Laura Redding
(lpr@parkinsonwright.co.uk)

Cyril Arridge
(ca@parkinsonwright.co.uk)

Droitwich Office 01905 775533

Susan Penn
(sxp@parkinsonwright.co.uk)

Evesham Office 01386 761176

Laura Redding
(lpr@parkinsonwright.co.uk)

Worcester Office
Haswell House
St Nicholas Street
Worcester
WR1 1UN
worcester@parkinsonwright.co.uk

Droitwich Office
64 Friar Street
Droitwich Spa
Worcestershire
WR9 8EF
droitwich@parkinsonwright.co.uk

Evesham
4 Abbey Lane Court
Abbey Lane
Evesham, Worcestershire
WR11 4BY
evesham@parkinsonwright.co.uk