

# Inheritance tax

DRIVING LIFELONG PROSPERITY

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# Inheritance tax: the basics

Inheritance tax (IHT), in its current form, has been in existence since 1986, but death taxes have been around in some form since 1694 when probate duty, a tax on personal property in wills proved in court, was introduced.

As was the case then, there are lots of planning opportunities to ease the burden of IHT.

## WHAT IS IHT?

IHT is a tax levied on the value of an individual's estate on death (as well as on some lifetime gifts and trusts). Assets passed directly to a spouse or civil partner are exempt, but other legacies are generally charged at a rate of 40% above an individual's available allowances.

The allowances available can vary, but generally speaking each person has a nil rate band of £325,000 available to them (£650,000 if any unused allowance is available from a deceased spouse or civil partner).

Since 2017/18 there has been an additional main residence nil rate band and the details of this are provided later in this booklet.

Individuals who are UK domiciled or deemed domiciled are chargeable to IHT on their world-wide assets. Non-domiciled individuals are only charged to IHT on their UK assets.

## THE SCALE OF THE PROBLEM

IHT, for the majority of people who have a liability, will be the single largest lump sum tax liability that they will ever incur.

The latest data shows that around 25,000 estates were liable to IHT in a single year.

IHT receipts have increased over the last decade, mainly due to rises in asset prices. Residential property makes up the largest share of most estates and average house prices have risen by more than 30% in that period. It is expected that IHT receipts will reach £6.3 billion by 2023/24.

HAVE YOU GOT SURPLUS CAPITAL  
YOU ARE UNLIKELY TO USE?

## THE COST OF DOING NOTHING

IHT can have a real effect on how your estate is distributed on death, this is demonstrated through the following example.

The table below details how an estate would be distributed based on a married couple leaving everything to each other on first death and then to their two children:

IS YOUR LIFE ASSURANCE WRITTEN  
UNDER TRUST?

ESTATE SIZE ON SECOND DEATH	DISTRIBUTION TO 1ST CHILD AFTER TAX	DISTRIBUTION TO 2ND CHILD AFTER TAX	HMRC
£2,000,000	£800,000	£800,000	£400,000
£3,000,000	£1,030,000	£1,030,000	£940,000
£4,000,000	£1,330,000	£1,330,000	£1,340,000*

*\*In this instance, HMRC would be the largest individual beneficiary of your estate.*

# Inheritance tax: the numbers

## WEDDING GIFTS

Parents can make a wedding gift of £5,000 to their children IHT free.

Grandparents and great grandparents can make wedding gifts of £2,500 IHT free.

All other individuals can make wedding gifts of £1,000.

HAVE YOU USED YOUR ANNUAL GIFT ALLOWANCE FOR THIS YEAR AND LAST?

## ALLOWANCES

Nil rate band: £325,000 is the amount everyone can pass on IHT free.

Residence nil rate band: £175,000 is the extra allowance parents potentially qualify for by passing their home on to their children, step or foster children and grandchildren.

Married couples each qualify for these allowances. Transfers of assets between spouses are exempt from IHT.

## GIFT ALLOWANCES

Individuals can gift £3,000 each year IHT-free. Individuals can use last year's allowance, if this was not used.

Individuals can also gift £250 to as many people as they wish each year, IHT free.

Regular gifts out of income can also be made IHT free.

Gifts in excess of this are likely to be deemed 'potentially exempt transfers'.

The individual needs to live for a further seven years for the gift to be IHT free.

## IHT RATES


IHT is levied at a rate of 40% on chargeable estates.

This is reduced to 36% if the individual leaves 10% of their net estate to charity.

## RELIEFS

Business property relief: Investments in certain businesses qualify for 50% or 100% IHT relief. The business or asset must have been owned for two years prior to death.

Agricultural property relief: Certain agricultural land and buildings qualify for 50% or 100% IHT relief. The land or property must have been owned for two years if occupied by the owner, or seven years if occupied by someone else.



# So, what is it that stops people taking action?

## **IGNORANCE IS BLISS**

It is difficult to think about your own mortality and to put in place planning for a time when you are not around.

Family circumstances may also mean that there are difficult decisions to be made, but making these decisions early (and involving family in the discussions if possible or prudent) is often less stressful once you get the 'ball rolling'.

Many will simply do nothing, but this is often the worst possible course of action as there is little that anyone else can do to reduce the IHT problem.

We can, in some instances, gently introduce you to simple things that can be done to make a significant difference, so that you can get you and your family (should you wish) used to the experience.

## **I CAN'T AFFORD TO GIVE AWAY ALL MY MONEY!**

We can use tools that can illustrate the affordability of gifting assets to your family/friends and what, if any, effect this could have on your standard of living.

We can also tell you how your lifestyle would be affected in worse case scenarios based on any planning we recommend using cashflow modelling.

There are also options that will allow you to retain a right to an income or capital stream should it be needed.

## **THERE IS LOADS OF TIME**

The earlier you start, the less painful the process could be. The later you leave the planning, the more aggressive you might need to be in the future, so starting early, even if it is with 'baby steps', is always advisable.

HAVE YOU GOT A WILL IN PLACE? IF SO, WHEN DID YOU LAST REVIEW IT?



# How do I review my IHT position?

## STEP 1 - INITIAL MEETING

The first step is an initial meeting to discuss your circumstances in more detail and to get an understanding of your objectives.

As part of this, we can discuss any existing arrangements you may have in place.

This initial meeting is provided at no cost, and at no obligation.

## STEP 2 - QUANTIFYING THE LIABILITY

The next step is to understand whether an IHT liability is likely to be payable on your estate and, if so, how much this will be.

Through obtaining some basic details about your circumstances (e.g. assets; liabilities; will provisions) we are able to provide a summary of your current position and the IHT that would be payable on your estate.

## STEP 3 - PUTTING A PLAN IN PLACE

Once we know what the liability is likely to be, we can then discuss and recommend options to help mitigate/reduce this.

This process will include reviewing existing arrangements and making recommendations on the on-going suitability of these.

The key to any plan is you being at the heart of it. Our approach to IHT planning puts you first, and we ensure your affairs are arranged efficiently, and that you are the priority.

Once you are comfortable with this, we can then review what options there may be to ensure more of your estate goes to the people you want it to.

Being independent means we are not tied to any provider or product, allowing us to recommend the best possible solutions for your objectives from across the entire market.

Meanwhile, our cash flow modelling simulation will demonstrate the impact our planning will have on both the IHT liability on your estate and your future financial position, to provide you with confidence in the planning recommended.

## STEP 4 - REGULAR REVIEWS

Over time your circumstances change, meaning it is important our solutions are flexible and we regularly review these with you to ensure they remain suitable and in line with your objectives.

In addition, IHT legislation is subject to change, meaning further options or opportunities may become available.

Through regular review meetings we can ensure your affairs are continually arranged in the most efficient manner, commensurate with your objectives, and in line with the most up to date rules and legislation.

## GETTING IN TOUCH

Please call us today on 01242 680000 or email [andy.hogarth@hazlewoods.co.uk](mailto:andy.hogarth@hazlewoods.co.uk) to arrange your free initial meeting. We will confirm any information or documents you will need to have available during this meeting.



IS YOUR EXPRESSION OF WISHES  
IN CONNECTION WITH YOUR  
PENSION UP TO DATE?

# Case study

We recently helped a wealthy family reduce their IHT liability significantly.

The clients had a range of assets, including property, land, pensions, investments and some cash holdings. Their objectives were to pass on as much of their estate as possible to their children and grandchildren whilst ensuring they had sufficient income to maintain their standard of living.

As a starting point we restructured their income to cease drawing this from IHT efficient pensions, and instead draw this from funds that were potentially subject to IHT.

We were also able to restructure the client's investments to make these more IHT efficient, whilst ensuring they retained access to the funds, should they need to in the

future, due to a change in income requirements e.g. care costs.

As part of this, some of the investments were advanced to their children to help them get on the property ladder, which was one of the client's key objectives.

Finally, with the help of their family solicitor, we settled their land into a trust fund for the benefit of their children and grandchildren.

Some of the IHT planning resulted in instant reductions to the client's IHT liability, meanwhile the rest will take between two to seven years to be effective. Should all of the planning be successful, IHT savings in excess of £250,000 will be achieved.

## MEET THE TEAM



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