MAGEE GAMMON
CHARTERED ACCOUNTANTS

Guide to Inheritance Tax 2016/17

Inheritance tax (IHT) has been described as 'voluntary' for the very wealthy (because they can afford to give away wealth during their lifetimes), but a serious problem for the merely comfortable (because they need to keep personal wealth to fund their retirement). Large numbers of 'comfortable people are finding that historical increases in property values mean that their estates will be liable for IHT when they die.

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, life assurance policies or other assets, your estate could be liable.

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 the 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 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.

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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 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 your 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.

**in most cases for 'spouse' you should also read 'civil partner'*

IHT Strategies

The nil-rate band

Perhaps the most important IHT exemption 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 with the £325,000 band. The band has been frozen at £325,000 until 5 April 2021. An additional IHT nil-rate is to be introduced from April 2017 when a residence is passed on death to direct descendants.

Four IHT planning pointers

1. 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 may be complications if one spouse is non-UK domiciled (contact us for more details).

2. 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.

3. Trusts
Trusts allow you to make gifts without giving the recipient complete control over the asset and/or the income it generates. That control can be vested in the hands of the trustees (who might include you). Most gifts into trust will result in 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. It is no longer necessary for spouses and civil partners to use nil-rate discretionary trusts (see 'Your Will' overleaf).

4. Life assurance policies

Life assurance policies can be written into trust so that the proceeds do not form part of your estate on death. The most common assignees are spouses, family members, and trusts.

IHT strategies

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

Careful Will planning is essential for everybody. A well-drafted Will can ensure that the wealth you have built up during your lifetime benefits the right people on your death – and it can also be structured to save tax.

There is a concession for married couples and civil partners. With effect from second deaths on or after 9 October 2007 the unused percentage of the nil-rate band from the first death estate can be carried forward and added to the nil-rate band available to the second/ the combined threshold for couples is therefore set at a maximum of £650,000 for 2016/17. This arrangement applies no matter how long ago the first death occurred.

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 is 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% applies from April 2012 to death estates, where 10% or more of the net estate is left to charity.

There are many ways to reduce the IHT payable on your death, through lifetime planning and action – please speak to us if IHT is a concern.

We are living in an age of increasing IHT liabilities. What you do is your decision, but the sooner you decide to plan, the better – contact us now.

If you would like more advice on the contents of this article or other tax advice please call one of our experts on:

T. 01233 630000

This guide is for general information only. No responsibility is taken for any action taken or refrained from in consequence of its contents. Always seek professional advice before acting.

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