QualitySolicitors Barwells

Inheritance Tax

Inheritance Tax (IHT) was introduced in 1986 and is a tax both on lifetime gifts and on the ultimate gift you are deemed to make on your death. IHT is payable at 40% on death and at 20% on lifetime gifts. However, some gifts are exempt from the Tax and there are various other reliefs available to reduce the amount of IHT payable. This leaflet includes information on the exemptions and reliefs available and strategies for reducing IHT. It is therefore for general advice only and specific advice should be obtained before taking any particular course of action. Please note that the allowances and exemptions mentioned may be subject to change at short notice.

Who is Liable for Inheritance Tax?
IHT is charged on the worldwide assets of any individual domiciled in the UK, wherever resident and wherever the gift is made. Individuals domiciled outside the UK are subject to IHT in respect of assets situated in the UK, whether resident here or not. The question of domicile can be very complex and we would be pleased to provide advice on this area if required.

How can I Reduce my Inheritance Tax Liability?
IHT is to some extent a "voluntary" tax in that there are a variety of ways in which your liability can be reduced or mitigated as outlined below:-

Gifts during your Lifetime
By making immediate lifetime gifts (or transfers) you can ensure the value of your estate at the date of your death is reduced for IHT purposes. However, it is important to ensure that, by making such gifts, you do not lose your financial security during your lifetime. The following transfers are exempt from IHT:-

Gifts between Husband and Wife
This includes gifts made during your life as well as on death. There are some different provisions that apply if one is not domiciled in the UK and advice is recommended in those circumstances.

Annual Exemption
You can make a gift of up to £3,000 in any one tax year without incurring Inheritance Tax. You may also carry forward any unused exemption from a previous year, provided you use the current year's exemption first.

Small Gifts
In each tax year you can make a small gift of up to £250 to any number of individuals, but not to recipients of the annual gifts allowance.

Normal Expenditure out of Income
Gifts made out of your income, which are part of your normal expenditure are exempt, provided that after such gifts you are left with sufficient income to maintain your usual standard of living.

Wedding Gifts
You can give up to £5,000 to a child who is marrying, £2,500 to any grandchild or great-grandchild who is marrying and up to £1,000 to any other person in consideration of their marriage.

Maintenance of Family
Payments made for the maintenance of your spouse or ex-spouse or for the maintenance, education or training of a child are exempt, as are any payments made to provide reasonable provision for the care and maintenance of a relative "incapacitated by old age or infirmity".

Charities, Political Parties and Education Bodies
Gifts to charities are exempt as are gifts to certain national bodies such as the National Gallery. Gifts to recognised political bodies are exempt if you survive such a gift by more than one year.

Potentially Exempt Transfers (PETS)
Some lifetime gifts that are not automatically exempt can qualify as a PET. This is a lifetime transfer or gift, which is treated as if exempt when made, with no immediate IHT liability and if you survive 7 years from the date of making the gift, it is disregarded for the purposes of IHT. If you die within 7 years of making the gift, the value of the gift is added to your estate for the purpose of calculating the IHT. To qualify as a PET the gift must be made to another individual. You must take care not to retain any benefit in the asset given away as it may not then be effective for IHT mitigation or may be subject to the Pre-Owned Assets Tax charge.

QualitySolicitors Barwells

Tax Efficient Wills
On death a proportion of your estate benefits from a Nil Rate of IHT, currently £325,000, and it may also benefit from a further allowance called the Property Nil Rate Band (PNRB). This latter is only available when the deceased owned a property that has been passed to lineal descendants and can very complex in its execution. The total available Nil Rate Band is applied to all non exempt transfers made in the 7 years prior to the date of death and then to the value of your assets on death (your estate).

In 2008 the Chancellor introduced a significant change to Inheritance Tax by allowing any Nil Rate Band unused upon the first death to be transferable between married couples and those in civil partnerships. This has reduced the complexity of will making but the application of the various reliefs has become more complicated.

Asset Conversion
Certain assets qualify for 50% or 100% relief from IHT and the conversion of your estate into such assets will clearly reduce IHT. The reliefs available are as follows:-

Business Property Relief (BPR)
Property capable of attracting BPR, (subject to various qualifying conditions) can include unquoted shares in a company or an interest in a business. To qualify for the relief you must have owned the property for 2 years prior to the transfer of the property, whether that transfer is during your lifetime or upon death. Various investments are available which qualify for BPR and we can provide advice on such investments.

Agricultural Property Relief (APR)
There are some interests in agricultural property may qualify for 50% or 100% relief from IHT, although again there are various qualifying conditions

Asset Freezing
By freezing the value of an asset within your estate, you can ensure that the asset does not grow in value and can reduce the IHT payable. The simplest example of asset freezing is an interest free loan repayable on demand. The value of the sum loaned remains static in your estate and the borrower can invest the funds and receive all the capital growth. In addition there are a number of investments, which provide the benefits of asset freezing whilst still allowing access to the capital or income.

Preventing Inheritances from coming into your Estate
If you are the beneficiary of a deceased person's estate and have no requirement for the funds, you may vary or disclaim your entitlement, either in full or in part within 2 years from the date of death. This is a particularly useful arrangement for clients wishing to benefit their families on the death of their parents. Arrangements can also be made for you to benefit from the assets whilst keeping them outside of your estate for IHT purposes. You can also write trusts over death benefits in pension funds, death in service benefits, term assurance policies and accident policies. These arrangements ensure that the benefit does not pass into your estate and is not taxed.

Contact Details
If you would like any further advice on Inheritance Tax please do not hesitate to contact our Private Client Department.

6 Hyde Gardens, Eastbourne
Tel: 01323 435473 **Fax:** 01323 410288
Email: private.client-eb@barwells.com

2 Market Square, Hailsham
Tel: 01323 814010 **Fax:** 01323 814014
Email: private.client-hs@barwells.com

10 Sutton Park Road, Seaford
Tel: 01323 875025 **Fax:** 01323 890777
Email: private.client-sf@barwells.com

19 High Street, Newhaven
Tel: 01273 514213 **Fax:** 01273 516731
Email: private.client-nh@barwells.com

238 South Coast Road, Peacehaven
Tel: 01273 575015 **Fax:** 01273 582272
Email: private.client-ph@barwells.com