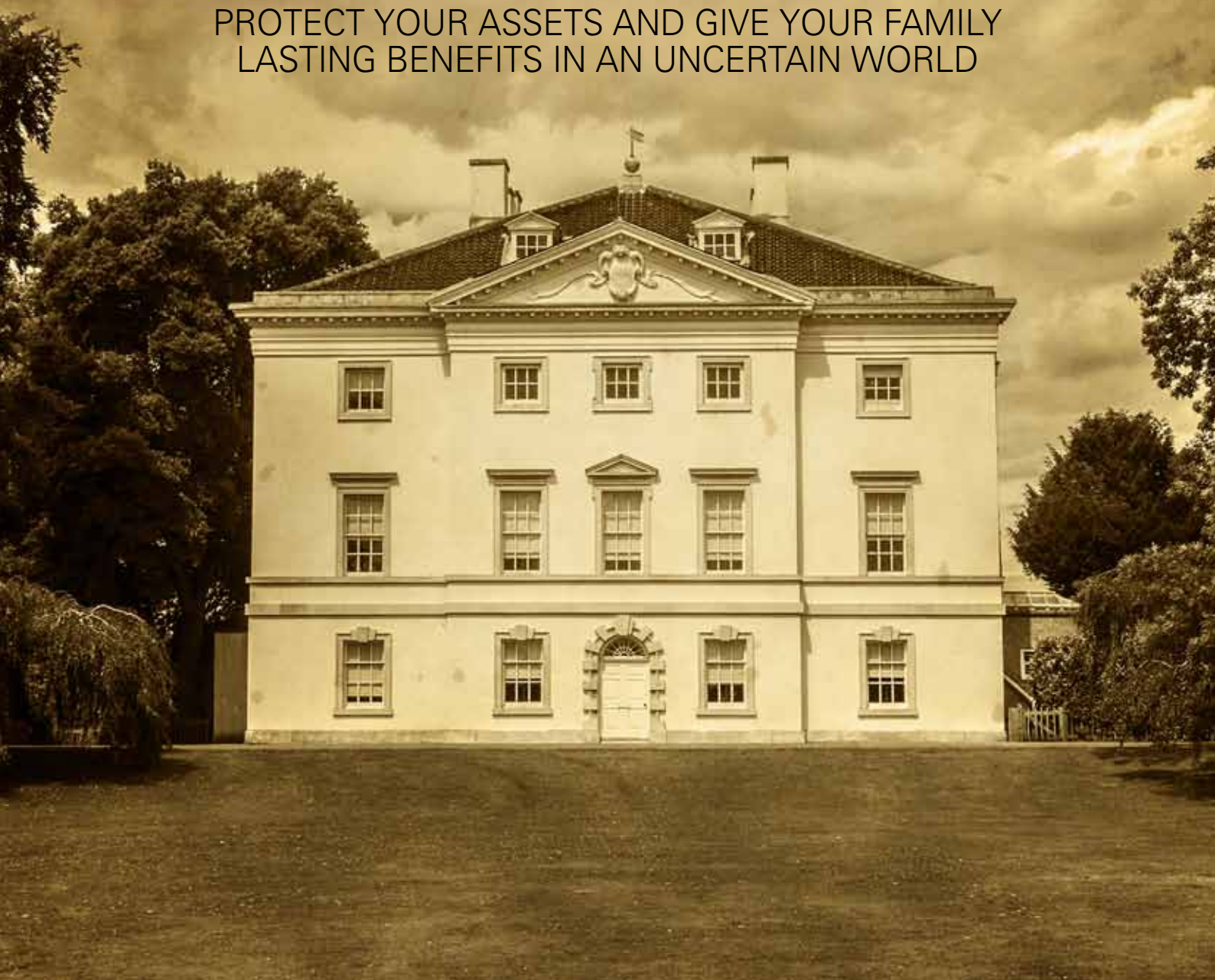


A GUIDE TO

INHERITANCE TAX

EFFECTIVE SOLUTIONS DESIGNED TO
PROTECT YOUR ASSETS AND GIVE YOUR FAMILY
LASTING BENEFITS IN AN UNCERTAIN WORLD



A guide to inheritance tax

EFFECTIVE SOLUTIONS DESIGNED TO PROTECT YOUR ASSETS AND GIVE YOUR FAMILY LASTING BENEFITS IN AN UNCERTAIN WORLD

Inheritance Tax (IHT) in the UK may be one of life's unpleasant facts, but with the appropriate IHT planning and professional advice, we could help you pay less tax on your estate. The aim of this guide is to provide a brief outline of IHT, a subject that was once something that only affected very wealthy people.

TAXING TIMES

The rapid rise in the property market in recent years has not been matched by a corresponding rise in the IHT threshold. The threshold is currently just £325,000 – any assets above this level are taxed at 40%.

Married couples and registered civil partners have a joint estate of £650,000 before any IHT is payable. The threshold usually rises each year but has been frozen at £325,000 for tax years up to and including 2017/18. Unmarried partners, no matter how long-standing, have no automatic rights under the IHT rules.

Your estate consists of all the assets you own including your home, jewellery, savings and investments, works of art, cars, and any other properties or land – even if they are overseas.

It's usually payable on death. But there are certain circumstances (if you put assets into certain types of trusts, for example) when IHT becomes payable earlier. Any part of your estate that is left to your spouse or registered civil partner will be exempt from IHT. The exception is if your spouse or registered civil partner is domiciled outside the UK.

NIL RATE THRESHOLD

Every individual is entitled to a 'Nil Rate Band' (that is, every individual is entitled to leave an amount of their estate up to the value of the nil rate threshold to a non-exempt beneficiary without incurring IHT). If you are a widow or widower and your deceased spouse did not use the whole of his or her Nil Rate Band, the Nil Rate Band applicable at your death can be increased by the percentage of Nil Rate Band unused on the death of your deceased spouse, provided your executors make the necessary elections within two years of your death.

GIFTING IT AWAY

You are allowed to make a number of small gifts each year without creating an IHT liability. Remember, each person has their own allowance, so the amount can be



doubled if each spouse or partner uses their allowances. You can also make larger gifts, but these are known as 'Potentially Exempt Transfers' (PETs) and you could have to pay IHT on their value if you die within seven years of making them.

Any other gifts made during your lifetime which do not qualify as a PET will immediately be chargeable to IHT, and these are called 'Chargeable Lifetime Transfers' (CLT).

GIFT WITH RESERVATION

If you make a gift to someone but keep an interest in it, it becomes known as a 'Gift With Reservation' and will remain in your estate for IHT purposes when you die. For example, if you gave your son



your house, but continued to live in it without paying a market rent, it would be considered a Gift With Reservation. But if you continued to live there and paid him a market rent each month, it would become a Potentially Exempt Transfer and move out of the IHT net, provided you survived for seven years. However, your son would be liable to pay income tax on the rent he received.

Where the total amount of non-exempt gifts made within seven years of death, plus the value of the element of your estate left to non-exempt beneficiaries, exceeds the nil rate threshold, IHT is payable at 40% on the amount exceeding the threshold.

This reduces to 36% if the estate qualifies for a reduced rate as

a result of a charity bequest. In some circumstances, IHT can also become payable on the lifetime gifts themselves – although gifts made between three and seven years before death could qualify for taper relief, which reduces the amount of IHT payable.

EXEMPT GIFTS

Some gifts you make during your lifetime are exempt from IHT. If you make a transfer to your spouse, this will always be exempt as long as they have a permanent UK home. These are the main exemptions:

Annual exemption

Up to £3,000 in a tax year. If you give less than £3,000 in one year, you can carry the balance forward to the next year.

Small gifts exemption

Gifts up to a total of £250 to each person in any tax year.

Marriage or registered civil partnership gifts

You can give each of your children up to £5,000, each grandchild up to £2,500 and any other relative or friend up to £1,000.

Normal expenditure out of income – gifts

If you can make gifts from surplus

income, these could be exempt from IHT. You need to establish a repetitive pattern of gifting and leave yourself enough income to maintain your standard of living.

Gifts for the maintenance of the family

This includes gifts to a current or former spouse or civil partner – and gifts for the maintenance, education or training of your child.

Gifts to certain institutions

Includes UK charities, certain political parties, national museum, universities, the National Trust and some other organisations.

Your executors or legal personal representatives typically have six months from the end of the month of death to pay any IHT due. The estate can't pay out to the beneficiaries until this is done. The exception is any property, land or certain types of shares where the IHT can be paid in instalments. Then your beneficiaries have up to 10 years to pay the tax owing, plus interest.

TAPER RELIEF

Taper relief applies where tax, or additional tax, becomes payable on your death in respect of gifts made during your lifetime. The relief works



on a sliding scale. The relief is given against the amount of tax you'd have to pay rather than the value of the gift itself. The value of the gift is set when it's given, not at the time of death.

WRITE A WILL

This is the first step in making effective plans. Whilst making a Will on its own does not reduce IHT, a Will makes sure your assets go to the people you choose quickly and with minimum effort. It also helps you to identify areas where you could take other action. If you die without a Will, your estate is divided out according to a pre-set formula and you have no say over who gets what and how much tax is payable.

You need to keep your Will up to date. Getting married, divorced or having children are all key times to review your Will. If the changes are minor, you could add what's called a 'codicil' to the original Will. This is a document which can have the effect of making small amendments to your original Will.

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THE GOVERNMENT LAYS DOWN STRICT GUIDELINES ON HOW MONEY IS TO BE PAID OUT IF YOU DIE WITHOUT MAKING A WILL.

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TRUSTS

Many people would like to make gifts to reduce IHT but are concerned about losing control of the money. This is where trusts can help. The rules changed in 2006, making some of them less tax effective, as a small minority will require you to pay IHT even before you have died, but if appropriate they should still be considered.

LIFE COVER

If you don't want to give away your assets while you're still alive, another option is to take out life cover, which can pay out an amount equal to your estimated IHT liability

on death. Make sure you write the policy in an appropriate trust so that it pays out outside your estate.

Policies written on a joint life second death basis – paying out when both of the couple are dead – can be the most cost-efficient way of mitigating an IHT liability.

ON YOUR DEATH

When you die, your estate has to be distributed one way or another. If you have a Will, your executors have to gain a Grant of Probate in England and Wales or Northern Ireland (a Grant of Confirmation in Scotland). If there's no valid Will, or the named executors in the Will

are unwilling or unable to carry out their duties, a Grant of Letters of Administration is needed. This is known as 'dying intestate'.

WHAT COULD HAPPEN IF YOU DON'T WRITE A WILL?

The Government lays down strict guidelines on how money is to be paid out if you die without making a Will. These could mean that a long-term unmarried partner ends up receiving nothing and the Crown gets all your estate.

NEW INTESTACY RULES AIM TO MAKE THINGS SIMPLER AND CLEARER

Significant changes to existing intestacy rules came into force on 1 October 2014 in England and Wales, with the aim of making things simpler and clearer. The consequences could be far-reaching for you and your loved ones, and while there are increasing entitlements for surviving spouses and registered civil partners, the changes highlight the importance of making a Will to ensure your wishes are carried out.

RADICAL RULE CHANGES

From 1 October 2014, the Inheritance and Trustees Powers Act 2014 radically alters the way in which the assets of people who die intestate are shared among their relatives. The biggest change will affect married couples or registered civil partnerships where there are no children. In the past, the spouse received the first £450,000 from the estate, with the rest getting split between the deceased's blood relatives. Under the new law, the surviving spouse will receive everything, with wider family members not receiving anything.

LIFE INTEREST CONCEPT ABOLISHED

Couples who have children will also be affected by the changes. Previously, the spouse of the deceased received the first £250,000 and a 'life interest' in half of the remainder, with the children sharing the other half. Under the new rules, the life interest concept

has been abolished, with the surviving married partner receiving the first £250,000 and also half of any remainder. The children will receive half of anything above £250,000 and will have to wait until they are 18 to access any funds.

NO PROTECTION FOR COUPLES

These changes go some way to improving the position for married couples and registered civil partners. However, they still leave couples who are not married or in a registered civil partnership with no protection. Where an individual in an unmarried couple dies without a Will, their partner is not entitled to receive any money from their estate.

The changes therefore highlight again how important it is to make a Will to ensure that your wishes are followed and that assets are distributed tax-efficiently.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE WILL WRITING, INHERITANCE TAX PLANNING OR TAXATION ADVICE.

GUIDING YOU THROUGH THE OPTIONS TO FIND THE RIGHT SOLUTION

IHT can be complicated and no one likes to think about their own mortality, so it is a subject that is easy to avoid. Professional advice on how to reduce your potential liability is therefore essential, and with our expert assistance, we will guide you through the options to find the right solution that fits your particular circumstances. To review your situation and discuss your options, please contact us for further information.

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WANT TO LOOK AT YOUR OPTIONS?

It's likely that over the course of your life, you will have built up money and assets that you will want to leave to your loved ones. If you think you've got a potential inheritance tax liability, then you'll want to know what options there are available to help reduce or even remove it. To find out more, please contact us.

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