



Inheritance tax - an introduction

When is inheritance tax payable?

Your family pays inheritance tax (IHT) on the value of the assets you own when you die and on any gifts made in the previous seven years.

Either you or your family may also have to pay IHT on other lifetime gifts.

How much is IHT?

The basic rate of IHT on death and on gifts in the previous seven years is 40%.

IHT on gifts more than three but less than seven years before death can be less than 40%.

There is 20% IHT on lifetime gifts to most trusts.

Are there any reliefs?

Yes, the following are normally free of IHT:

- Most gifts more than seven years before you die.
- The first £312,000 (the current nil rate band) given away in the seven years before you die or which you leave on your death.
- Up to a further £312,000 given away in the seven years before you die or which you leave on your death, if your deceased spouse or civil partner did not use their full nil rate band allowance.
- Any assets transferred outright between husband and wife.
- All gifts to UK charities.
- Small lifetime gifts, for example the first £3,000 in each tax year.
- Regular lifetime gifts you make from your income.
- Some categories of business and agricultural property.

So gifts in my lifetime are free of IHT?

Yes. One way to save IHT is to give away assets in your lifetime. If you live for at least seven years, the gift is free of IHT. But.....

Good. I'll put my home and my savings in the children's names now.

No. Don't do this without careful planning.

If you benefit from an asset you have given away, IHT is payable as if you still owned the asset given away. This is known as a gift with reservation of benefit (a GROB).

The golden rule is not to give away assets which you may need to maintain the standard of living that you want.

Oh! What planning steps should I take?

The first step is to prepare a list of your assets and liabilities, with approximate values. Include benefits under pension schemes and life policies and anything you expect to receive in the future.

If you plan to make gifts in your lifetime, you should also prepare an estimate of your income and expenditure.

Establish your priorities

How much will you and your spouse need for the rest of your lifetimes and for the lifetime of the survivor? Aim to keep enough income for the lifestyle you want and enough capital for emergencies and extras. Remember that a widow's pension is often substantially less than her husband's pension.

Are your children to inherit equally? Are some assets to go to only some of your children? If so, consider how the other children will be provided for.

Business interests

Check if business property relief is available. No relief is given to businesses mainly engaged in investment activities or dealing in land or stocks and shares. Might your business lose relief in the future? If so, think about a lifetime gift while the relief is available.

A gift of business assets worth up to £312,000 can be free of IHT immediately, even if you die in the following seven years and the business has then been sold, or no longer qualifies for relief.

If you have shares in a family company, you can avoid reservation of benefit problems by arranging for the company to put in place an agreement for you to be paid director's fees at a commercial rate before the gift is made. If you give shares to a trust you can remain a trustee and so keep effective control.

Will your business survive your retirement or death? Prepare a strategic plan and work towards it. Cross-options and insurance policies for non-family shareholders or partners can enable them to purchase your business interests and put cash in the hands of your family.

Lifetime giving

Can be very effective at minimising IHT, but beware of capital gains tax (CGT). You have to pay CGT on a gift of an asset as if you were selling it for its market value. CGT can be deferred ("held over") on some gifts but taper relief will be lost.

Use annual and special exemptions:

- The first £3,000 you give away each tax year;
- The previous tax year's £3,000 if unused;
- Gifts on marriage of £5,000 by each parent, £2,500 by each grandparent and £1,000 by others;
- No more than £250 to any one donee each tax year.

Married couples can transfer assets freely between themselves. Channelling gifts through the younger spouse may reduce the risk of IHT. Consider how to share assets in the most effective way (which may also save income tax or capital gains tax).

Give away assets likely to increase substantially in value. Even if you die within seven years the value for IHT will be frozen at the date of the gift.

If you have surplus income, consider regular giving. Regular gifts from spare income are free of IHT without limit.

Funding IHT from insurance and pensions

Remember you can secure an IHT saving from a lifetime gift by insuring against your death in the following seven years.

For further information, or to discuss your estate planning needs, please contact Barry Glazier, David Parkhouse, Richard Fairbairn, Jeremy Mills, Ann Corke, Michael Norton, Emily Copping, Natalie Gamble, Paula Shea or Mahendree Naidoo of our Tax Trust and Wills team who will be pleased to help you.

This will be much cheaper than insurance for your whole life.

Simple insurance on your life can still be worth investigating. For married couples, cover on joint lives, payable on the death of the survivor, is usually good value.

Always place any insurance on your life in trust for your family. A policy not in trust risks 40% IHT, so it will be worth only 60% of its value. The same policy, in a trust, may well be free of IHT on your death.

Most pension plans provide a significant lump sum if you die before you draw your pension. As with life insurance make sure that the lump sum will not be subject to 40% IHT.

Married couples should put insurance and pension benefits payable on the first death in trusts which escape IHT on the survivor's death. The survivor can still benefit from all the funds in trust.

Insurance company schemes

Beware the claims of insurance companies with schemes to save IHT. They are often more interested in selling a policy than in saving you IHT. Always obtain independent advice on a scheme before you sign up.

How can Lester Aldridge LLP help?

We have developed a number of techniques to help you make the maximum use of IHT reliefs. With proper planning you can save at least some, and perhaps all, of the IHT your family would have to pay.

We can even help you (without GROBs) to enjoy assets which will be free of IHT when you die.

Married couples can achieve this through well-drafted Wills. See our leaflet *Wills for married couples*.

Another option is to consider the use of a two year deed of variation for any assets you inherit. These assets can be put into trust in a way that allows you to benefit without the assets being treated as yours for IHT.

Are there any other complexities?

This guide can only provide a brief summary of some of the main features of IHT. As with other taxes, there are many complicated and detailed rules laid down by Parliament.