Inheritance planning

Inheritance tax can be an expensive liability for your loved ones to bear. However, careful tax planning during your lifetime coupled with the effective use of available reliefs and exemptions can reduce your exposure to inheritance tax.

Inheritance tax (IHT) is charged on a person's estate when they die, but can also be payable during their lifetime, most commonly on gifts to certain trusts. The rate of tax is 40% on death and 20% on lifetime gifts. All taxpayers are entitled to a nil rate band, currently set at £325,000, below which no IHT is payable. For deaths occurring on or after 6 April 2016 there is an additional nil rate band for the main residence where this is passed to a direct descendant such as children or grandchildren. The residential nil rate band is set at £175,000 in 2020/21 but is gradually tapered away to zero where estates are valued at more than £2 million.

If you are considering inheritance planning in order to mitigate IHT, you will need to consider one, or a combination of, the following strategies:

- Passing on your wealth during your lifetime ('lifetime giving').
- Minimising the chargeable value of your estate by utilising specific IHT reliefs.
- Providing for the tax during lifetime, perhaps by way of life assurance.

Whichever route or combination of routes you choose, professional advice should always be sought to ensure that your aims are achieved in the most tax-efficient manner.

Lifetime giving and exemptions

There are a number of practical considerations that need to be borne in mind when considering lifetime giving.

From a tax perspective, it is important to consider the way in which gifts are structured and the type of asset being gifted in order to ensure that a tax-efficient outcome is achieved.

Broadly speaking, lifetime gifts fall into one of three categories:

- Chargeable Lifetime Transfers (CLTs) - the most common of which is a transfer into a trust, and which can attract an immediate IHT charge of 20%.
- Potentially Exempt Transfers (PETs) - which occur if you make an outright gift to an individual or a certain type of trust and only attract an IHT charge if the donor does not survive 7 years from the date of the gift.
- Exempt transfers - every taxpayer has a £3,000 annual IHT exemption. However, in addition to this, certain transfers are specifically exempted from IHT, such as gifts in consideration of marriage, gifts to charity and gifts comprising normal expenditure out of income. These exemptions are valuable and we can advise you to ensure that they are fully and correctly used as part of your overall inheritance planning strategy.

IHT reliefs

There are a number of reliefs available to reduce the value of an individual's estate which may be chargeable to IHT.

Business Property Relief (BPR), for example, is an important IHT relief which applies to lifetime gifts and on death. In certain cases, 100% relief may be available to exempt 'qualifying assets' from the charge to IHT assuming various conditions are met. Qualifying assets may include a business, an interest in a business, or shares in an unquoted trading company. BPR can be restricted in certain cases and it is important that advice is sought if you plan to rely on its availability. We can advise whether your assets currently qualify for BPR or what sensible action could be taken to strengthen your claim for it.

Provision for IHT

This option can be useful as an alternative to, or in conjunction with, lifetime giving and maximising reliefs. A suitable life policy, which is appropriately structured, could be a very low risk and low cost way of providing for an expected IHT liability.

Wills

The importance of having a valid Will in place cannot be over emphasised. Without a Will, an individual's estate will be distributed in line with intestacy rules, which could lead to outcomes that were not anticipated by the deceased as well as being potentially inefficient from a tax perspective.

We can review your existing Will to determine its IHT efficiency and work with your solicitor to assist in any re-drafting if appropriate.

The value of investments and any income from them can fall and you may get back less than you invested.

Acceptable Tax Planning

We may provide tax planning services, tailored to a client's individual circumstances, for the purpose of mitigating their UK tax exposure through the use of effective and reliable methods, acceptable to HM Revenue & Customs, in a non-aggressive manner.

We provide advice about UK direct personal taxes only (income tax, national insurance [NIC], capital gains tax [CGT] and inheritance tax [IHT]).

We do not:

- provide tax advice associated with UK indirect taxes (such as value added tax [VAT], customs duties, stamp duty land [SDLT] tax or stamp duty reserve tax [SDRT])
- provide UK corporation tax advice
- provide tax advice relating to any overseas tax jurisdictions
- design, promote, or condone structures or arrangements which exploit tax legislation artificially in order to obtain a tax advantage.