Inheritance Tax Planing

Hawsons Wealth Management

## A voluntary tax you can avoid…


Inheritance tax is a death tax, charged on estates that are over certain limits. It is a voluntary tax, meaning if you plan effectively you can reduce/mitigate this. UK Inheritance tax is chargeable on worldwide assets. Each person has a 'nil rate band' which is the amount they are allowed to be worth before inheritance tax is chargeable. Currently this is £325,000 each. Anything over this is charged at 40% and usually payable before assets can be distributed from the estate. Husband and Wife would have two nil rate bands and therefore the first £650,000 is usually outside the estate.

In addition to the 'nil rate band' a new 'residence nil rate band' has been introduced. This is to be phased in and is currently £150,000 per person (it is to become £175,000 in the 2020/2021 tax year. The rules on this relief are extremely complex and seeking legal advice is always recommended to ensure you do qualify for this. The main thresholds to qualify are that your estate is worth no more than £2m (including any AIM investments held) and it is left via your will to direct descendants (son/ daughter/granddaughter/ grandson)

### Ways to reduce inheritance tax

- Make a will. It is important that you have an up to date will in place as failure to do this can result in your estate being distributed based on a set of rules (known as the law of intestacy). This could mean your estate is given to people you may not wish it to and you have no control over this nor the tax chargeable

- Give funds/assets away. This could be a gift to a trust or outright to another person. You must survive seven years from the date you make the gift for it to be fully excluded from your estate. Tax implications may arise if a gift is held within a certain type of trust for longer than the 10 years (known as periodic charges). There is a trust that may allow the settlor future access to the funds placed in it. (See our separate article on Flexible Reversionary Trust)

- Spend the cash. You can make regular gift payments out of surplus income and these are immediately exempt from IHT. These are known as gifts made as 'normal expenditure out of income'.

# Inheritance Tax Planning

- Annual gift allowance of £3,000. You can give away £3,000 each year and this is immediately outside of your estate. If you do not utilise this in one year you may make £6,000 in the next year. You cannot make more than that.

- Regular small gifts of up to £250 each time. You can give unlimited gifts of up to £250 each time and these are immediately out of your estate. This cannot be a gift to the same people who receive the £3,000 gift.

- If you have a child that is getting married you can gift them £5,000, if a grandchild or more distant descendent is getting married £2,500 and a friend or anyone else you know £1,000.

- Insure your life for the amount of the IHT bill. Remember to use a trust!

- Invest your money in AIM shares (Alternative Investment Market), which qualify for business relief if held for at least 2 full years at the date of death. AIM shares held at death that qualify for business relief are not chargeable to IHT and therefore this is a good way to plan for IHT but also retain control should you wish to access some money in the future (care home fees etc.). This is a high risk investment, however it has a shorter timescale until it is inheritance tax free.

- Maintenance payments to spouses, and ex-spouses, an elderly or infirm dependant relatives and children under 18 or in full-time education are fully exempt from inheritance tax.

- Finally, you can give Donations to charity, political parties, universities and certain other bodies recognised by the taxman (HM Revenue & Customs). These are immediately outside your estate. You can also leave a 10% donation to a registered charity in your will and this will then give you a reduction in your IHT payable of 4%. In other words you pay 36% IHT rather than 40%.

*Roy Jenkins famously said: "Inheritance Tax; - it is broadly speaking; a voluntary levy paid by those who distrust their heirs more than they dislike the inland revenue"*

*He may have a point!...*

t: 0114 229 6557
e: hwm@hawsons.co.uk
w: hawsons.co.uk/wealthmanagement