

## **Inheritance tax planning**

Planning to minimise the liability to IHT is a team effort involving you and your professional adviser.

To enable long-term planning to be set in place, it is important to carefully consider your planning options before making decisions about your financial planning and the distribution of your estate.

It is possible to transfer unused nil-rate band allowances between spouses or civil partners. These rules apply to allow a claim to be made to transfer any unused IHT nil-rate band on a person's death from the estate of their deceased spouse/civil partner.

The amount of the nil rate-band potentially available for transfer will be based on the proportion of the nil-rate band unused when the first spouse or civil partner died. If on the first death the chargeable estate is £150,000 and the nil-rate band is £300,000, then 50% of the nil-rate band is unused. If the nil rate band when the surviving spouse dies is £350,000, then that would be increased by 50% to £525,000.

### **Main residence and the nil-rate band**

With effect from 6 April 2017 there is a residence nil-rate band for an estate if the deceased's interest in a residential property, which has been their residence at some point and is included in their estate, is left to one or more direct descendants on death.

The value of the main residence nil-rate band for an estate will be the lower of the net value of the interest in the residential property (after deducting any liabilities such as mortgage) or the maximum amount of the band. The maximum amount will be phased in as follows:

- £100,000 for 2017 to 2018
- £125,000 for 2018 to 2019
- £150,000 for 2019 to 2020
- £175,000 for 2020 to 2021.

It will then increase in line with CPI for subsequent years.

There is also relief if the deceased has downsized during their life and thus the value of the home at date of death is lower than the nil-rate band residential enhancement. In that case it is possible to add other assets into the nil-rate band provided they are left to direct descendants on death.

Any unused nil-rate band will be transferred to a surviving spouse or civil partner. When added to the £650,000 existing nil-rate band (2 x £325,000) this could provide a total nil-rate band of £1 million for a married couple or civil partners.

### **When should I plan for IHT?**

Now! IHT is currently payable where generally a person's (IHT-taxable) wealth is in excess of £325,000 until the tax year 2020/21. Thus, if you own your own house and have some savings, life assurance policies, or business assets, your estate could be liable.

### **Why now?**

Most gifts made during your lifetime will be entirely exempt from IHT if you live for seven years after making the gift.

## **How does IHT work?**

When you die, IHT will be charged on your personal wealth, together with all or a proportion of your lifetime gifts made in the preceding seven years.

The full rate of tax is 40%, but this is reduced on a sliding scale for gifts made between three and seven years before your death. If you make substantial bequests to charity, not only are these exempt from IHT but they can also affect the rate paid on the remainder of your estate. To benefit you must leave at least 10% of your estate to charity, which can reduce the estate rate to 36%.

## **What do I need to consider?**

You must think about the following:

1. The value of your assets now, and how this may change with the effluxion of time
2. Your own financial security
3. Your family's future needs

## **What about my financial security?**

You need to make sure that you and your spouse are properly provided for, particularly in retirement. It would not make sense to give assets to your children only to find that in later life you need to ask for some or all of them back!

## **And what about my family?**

You need to think about what degree of control you would want your children to have over any assets you may transfer to them.

You also need to work out how much your spouse would need if you were to die first. This would, of course, have to be reflected in your Will.

In addition, you need to find out the intentions of parents or elderly relatives about their own assets.

## **How does IHT affect my business?**

In general, a business you control will attract business property relief of 100%. In other words, your business can be passed on with no IHT being paid.

Assets owned by you but used by a partnership in which you are a partner, or a company you control, attract business property relief of 50%.

Similar reliefs apply to agricultural property.

## **What can I do to reduce the IHT bill?**

1. Transfers of assets between spouses and civil partners are exempt from IHT, but other lifetime gifts may be more tax-efficient.
2. Lifetime gifts are potentially exempt from IHT, and there is no limit on such transfers, so this is an excellent way of transferring assets that you do not need to keep in your estate. It may be advisable to cover substantial gifts by insurance against death within seven years.
3. Trusts let you transfer assets out of your estate for IHT purposes, but enable trustees to exercise some degree of control over the capital or income (and you can be a trustee). There may be an IHT charge, but this would be at 20%, and then only if the transfer is over £325,000.
4. Life assurance policies (unless designed to cover IHT liabilities) should be assigned during your lifetime so that the proceeds do not form part of your estate on death. The most common assignees are spouses, family members, and trusts.

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