Menneer Shuttleworth

SHORT GUIDE TO INHERITANCE TAX

Inheritance Tax (or IHT) replaced Capital Transfer Tax, which itself replaced Estate Duty which was often described as "Death Duties".

IHT is a tax both on Lifetime Giving and a tax on your Estate when you die.

Lifetime Gifts Exempt from IHT

(1) Small Gifts of £250 per tax year (April — April) may be made to any one person e.g you could make gifts of £250 to say 20 relatives (total £5,000) with no tax consequences.

N.B. You cannot use your Small Gifts allowance together with any other exemption when giving to the same person.

(2) In addition to Small Gifts the sum of £3,000 may be given in any tax year in one amount or separate amounts. Any unused allowance from the previous Tax year can be carried forward to the current Tax year.

(3) Wedding gifts and civil partnership gifts may be given by each parent up to £5,000 in value. Similarly grandparents and great grandparents can gifts in value up to £2,500 each. Any one else can give a gift worth £1,000. The gift or a promise to make it has to be made shortly before the date of the wedding or civil partnership ceremony. If the ceremony is called off and you still make the gift or if you make the gift after the ceremony, without having promised it first, the exemption won't apply.

(4) Gifts to registered charities are exempt.

(5) Gifts out of income — made as part of normal expenditure, which means a pattern of established giving so long as lifestyle is not affected

Potentially Exempt Transfers or (P.E.T.)

A gift of over £3,000 is a P.E.T. If the donor survives 7 years from the date of the gift then no tax will be payable. If the donor dies within the 7 year period there may be some tax relief.

IHT on Death

The tax is paid on the value of assets (ie the house, the contents, savings etc) on death.

The value of non exempt Lifetime Gifts i.e. not fully exempt PETS for example is added to the value of assets on death, for the purpose of calculating the IHT due.

The exemption from IHT (currently £325,000 – 2011) is deducted and the remainder of the assets are taxed at 40 per cent. If we assume the value of taxable Estate is £512,000 having deducted £325,000, the surplus of £187,000 is taxed at 40 per cent, producing a tax bill of £74,800 leaving £437,200 for the beneficiaries.

IMPORTANT POINTS

Firstly property passing from husband to wife or vice versa is tax exempt. Secondly gifts to charities are exempt from tax.

There are also reliefs from tax including for example Business and Agricultural Property.

Reducing Tax

(1) If you can afford it take advantage of the seven year rule and give your property away as early as you can but remember you cannot ask for it back!

If you try and reserve a right over property given away this arrangement would be ineffective to reduce or eliminate IHT.

(2) If you are concerned about just giving assets away and losing control you could set up a Trust for example.

(3) Since October 2007 on the second death of a married couple any unused Nil Rate Band exemption remaining after the first death can be carried forward for the benefit of the estate of the second spouse.

REMEMBER

If simple steps are taken considerable tax savings can be made without incurring substantial fees in setting up a complicated scheme.

For further advice please contact us for a discussion.

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