Pennymatters
THE MODERN APPROACH TO FINANCIAL ADVICE

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FACTSHEET

Wealth preservation

Reducing Inheritance Tax means taking action now

Without professional advice and careful financial planning, HM Revenue & Customs (HMRC) can become the single largest beneficiary of your estate following your death. A recent survey about Inheritance Tax (IHT)[1] shows that wealthy Britons over the age of 45 are either ignoring estate planning solutions or they have forgotten about the benefits these can provide. Only 27% of those surveyed have taken financial advice on IHT planning, despite all of them having a potential IHT liability.

60% of people surveyed want to leave assets to their spouse or registered civil partner, and 29% would like to leave an inheritance to younger relatives such as nieces, nephews and grandchildren, but the largest single beneficiary from people's estates is still HMRC. To highlight this point, HMRC revealed they received IHT payments to the value of £4,670,000,000 (that's £4.67 billion) in the 2015/16 tax year alone.

HOW MUCH COULD YOUR ESTATE PAY?

The level of IHT your estate will pay depends on the amount your estate is worth and the tax allowances in place at the time. The current IHT allowance of £325,000 is set to remain level until 5 April 2021. Your estate will normally pay IHT on anything above that at 40%. If you leave any assets to your spouse or registered civil partner, they won't have to pay IHT – it can be added to their estate and settled on their death. In the event your full IHT allowance isn't used on your death, the remaining proportion will pass to your spouse or registered civil partner to increase their IHT allowance.

From 6 April 2017, on top of the £325,000 allowance, a new allowance was introduced for people owning their own home. This Residence Nil Rate Band (RNRB) provides an additional £100,000 allowance to be applied against the deceased's main residence, as long as it is left to a direct descendant and the estate is valued at less than £2,000,000. Beyond that figure, the RNRB (and any transferred RNRB) will be gradually withdrawn. Like the main nil rate band, any unused proportion can be taken on by the surviving spouse or registered civil partner.

REDUCE IHT AND MAXIMISE THE WEALTH YOU PASS ON

MAKE A WILL

Having a Will is arguably one of the most important things you can do for yourself and your family. Not only can a Will legally protect your spouse, children and assets, but it can also spell out exactly how you would like things handled after you have passed on.

If your estate is worth more than the current IHT threshold, when you die and it passes to a non-exempt beneficiary (such as a child) or doesn't qualify for relief as an agricultural or business asset, then IHT at currently 40% will have to be paid on the excess.

APPRAISE YOUR ASSETS

IHT is a tax payable on the value of your assets when you die. It covers your estate, which can include your home, savings and investments, jewellery, cars, art, other properties (including holiday homes abroad), and proceeds from life insurance policies not written in an appropriate trust.

POTENTIALLY EXEMPT TRANSFERS

If you're in reasonably good health, you could think about making an outright gift to someone you love. If you live for seven years after making the gift, it will usually be free of IHT.

THINK ABOUT GIVING

You can give away up to £3,000 each year as either a single gift or several small amounts.

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If you haven't used this in any tax year, you can carry it forward for one year. This will give you an annual exemption of £6,000 in the next tax year. For a couple, this could add up to £12,000 in one tax year, all free of IHT.

CONSIDER ESTABLISHING A TRUST

Another way you can reduce your IHT is to put your money into a trust. This enables you to make a gift without losing control of the money, although care is needed if you still need to be able to access the money for yourself.

Some trusts still attract IHT but are worth considering nonetheless. There are three main types of trust that can assist you with any IHT planning you are considering. If this is the case, please speak to us or your legal representative regarding placing money under trust and how it could help you.

TAKE OUT LIFE INSURANCE

If you don't want to give your money away while you are still alive, taking out life insurance could be an option. You may be able to set up a policy to pay out an amount equal to your estimated IHT bill.

It's possible to set up the policy in the form of an appropriate trust to remain outside your estate. It will pay out to the trustees to pass on to your nominated beneficiaries, giving them the money to pay the IHT due.

GIFTS FROM MONTHLY INCOME

You can make regular gifts from your income after tax without paying IHT. This is the money you use for normal living expenses. You must make sure you only pay money from your income and not any savings or investments you have.

GIFTS TO QUALIFYING CHARITIES

One way you can instantly reduce your tax rate to 36% is by leaving at least 10% of your estate to charity.

All gifts to qualifying charities and political parties are free of IHT.

PROTECT YOUR PENSION

Maintaining your money purchase pension pot is another way to protect your family's inheritance. Unlike Individual Savings Accounts (ISAs) and other savings vehicles, pensions are not normally subject to IHT and can be passed to loved ones on death. Spending down other taxable areas of your estate before calling on your pension makes sense. ■

HAVE YOU PRESERVED AND PROTECTED YOUR LEGACY?

There are many things to consider when looking to protect your family and assets. Whatever your priorities are, the sooner you start thinking about IHT planning, the more you can do. To arrange a meeting to review your situation or discuss how we can help guide you through this highly complicated area of wealth preservation, please contact us.

Source data:

[1] Survey conducted by Canada Life of 1,001 UK consumers aged 45 or over with total assets exceeding the individual Inheritance Tax threshold of £325,000 carried out in September 2016.