

Inheritance tax planning

Capital Tax Factsheet | www.rousepartners.co.uk/factsheets



An overview of
the latest changes and
developments.

rouse
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Inheritance tax: A summary

At Rouse Partners LLP we can help people in the Buckinghamshire area with all aspects of inheritance tax planning.

Planning to minimise the liability to inheritance tax (IHT) is a team effort involving you and your professional adviser. To enable long-term objectives to be set, it is necessary to make decisions about your finances and your family.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk

When should I plan for IHT?

Now! IHT is currently payable where a person's wealth is in excess of £325,000 (2019–20). 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.

What do I need to consider?

You must think about the following:

1. The value of your assets now, and how this may change as time goes by
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!

IHT: main residence nil-rate band

A transferable nil-rate band has been introduced in order to take the family home out of IHT for all but the wealthiest. This will apply when a main residence is passed on death to one or more descendants (including a child, stepchild, adopted child or foster child) of the deceased and their descendants.

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

The qualifying residential interest is limited to one residential property but personal representatives are able to nominate which residential property should qualify if there is more than one in the estate. A property which was never a residence of the deceased, such as a buy-to-let property, will not qualify.

The allowance takes effect for relevant transfers on death on or after 6 April 2017. It will apply to reduce the tax payable by an estate on death; it will not apply to reduce the tax payable on lifetime transfers that are chargeable as a result of death. It has been set at £150,000 for 2019–20, rising by £25,000 to £175,000 for 2020–21.

This nil-rate band is also available when a person downsizes or ceases to own a home on or after 8 July 2015, and assets of an equivalent value (up to £175,000 in 2020–21) are passed on death to direct descendants.

To ensure that the wealthier estates continue to make a greater contribution to IHT receipts, there is a tapered withdrawal of the main residence nil-rate band for estates with a net value of more than £2 million (at a withdrawal rate of £1 for every £2 over this threshold).

And what other measures affect 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 (2019–20).
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.
5. A reduced rate of 36% applies to death estates where 10% or more of the net estate is left to charity.

Concession for couples

The IHT standard threshold of £325,000 (2019–20) defines the upper limit of what is commonly known as the IHT nil-rate band.

There is a concession for married couples and civil partners. With effect from second deaths on or after 9 October 2007 the unused percentage of the nil-rate band from the first death estate can be carried forward and added to the nil-rate band available to the second. This combined threshold for couples is therefore set at a maximum of £650,000 for 2019–20.

This arrangement applies no matter how long ago the first death occurred.

Example

- ▶ On the first death none of the original nil-rate band was used because the entire estate was left to a surviving spouse. Then if the nil-rate band when the surviving spouse dies is £325,000 that would be increased by 100% to £650,000
- ▶ If on the first death the chargeable estate was £107,500 when the nil-rate band was £215,000 (1997–98), then 50% of the original nil-rate band would be unused. If the nil-rate band when the surviving spouse dies is £325,000, then that would be increased by 50% to £487,500.

How we can help

This fact sheet shows that we are living in an age of IHT planning opportunity. But remember, successful IHT planning has to be a team effort. If you would like advice on inheritance tax planning, please contact our specialist team.

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

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