Inheritance Tax Planning

Reduce it, avoid it, plan for it

FREE FACTSHEET

Since March 2008, when we launched UK Inheritance Tax Planning .com, over 7500 people have visited this site as part of their research into Inheritance Tax Planning. Many people visit this site and the associated links as a result of a recommendation from a previous visitor. As part of their Inheritance Tax Planning most people want to: Avoid Inheritance Tax or Reduce Inheritance Tax.

This can be achieved by getting good Inheritance Tax Planning advice & effective financial planning.

Our aim is for you view UK Inheritance Tax Planning .com as a source of reliable, trustworthy information.

Our goal is to deliver the highest standards of customer service to ensure you receive the advice you need.

We have now updated ukiht.com to include information on the Conservative Party's proposals for a £1m Inheritance Tax Nil Rate Band and the implications for Inheritance Tax Planning.

For further information:
Please view our website at:
www.ukiht.com
or, email us at:
info@ukiht.com

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Why do I need Advice on Inheritance Tax Planning?

You might consider taking advice on Inheritance Tax Planning to:

- Keep your assets within your family
- Protect your Nil Rate Band if you were to die and your partner re-marry
- Protect assets passed to children / grandchildren from the risk of them becoming bankrupt or divorced
- Protect your assets from the need to fund long term care in later life
- Reduce Inheritance Tax
- Avoid Inheritance tax

Reduce it

Three good reasons:

- 70% of people die without making a Will
- 82% of life policies are not in trust
- £3.6bn paid in Inheritance Tax in 2006/07

Inheritance Tax is payable at 40% of the value of an estate over the nil rate band(s). For a couple with an estate valued at £800,000 this could result in an Inheritance Tax bill of £60,000. For a couple with an estate valued at £2,000,000 this could result in an Inheritance Tax bill of £540,000. Getting good advice & effective financial planning could help significantly reduce Inheritance Tax payable.

For the Tax Year 2009/10 the following exemptions for Inheritance Tax apply to every individual:

Definition	Amount of Exemption
▪ Nil Rate Band	▪ £325,000
▪ Gifts to Spouse / Civil Partner	▪ Unlimited
▪ Gifts to other Individuals	▪ £3000 in total
▪ Gifts to UK Charities	▪ Unlimited
▪ Regular Gifts out of Income	▪ Unlimited
▪ Gifts in Consideration of Marriage / Civil Partnership	▪ £5000 made by Parent ▪ £2500 made by Grandparent ▪ £1000 made by anyone else
▪ Small Gifts	▪ £250 to any number of different recipients

Pre-Budget Report 9 October 2007

As a result of the change made in this announcement a married couple, or civil partnership, can carry forward any unused Inheritance Tax nil-rate band on the first death for use on the death of the surviving spouse / civil partner.

Tax Year	Nil Rate Band
▪ 2008 / 2009	▪ £312,000
▪ 2007 / 2008	▪ £300,000
▪ 2006 / 2007	▪ £285,000
▪ 2005 / 2006	▪ £275,000
▪ 2004 / 2005	▪ £263,000

The Conservative Party's proposals for Inheritance Tax

The proposals are for a £1m Nil Rate Band with the ability to transfer this to a spouse or civil partner, creating the possibility for couples to transfer up to £2m free of Inheritance Tax on death. Although this is likely to reduce Inheritance Tax for a number of estates there are three key Inheritance Tax Planning reasons why everyone should still take advice when deciding how their estate is to be handled after their death:

- **Control** – Who gets the money / assets
- **Flexibility** – Making use of the new flexibility introduced by the higher Nil Rate Band and, safeguarding against future changes introduced by another government in the years ahead
- **Protection** – Making sure you don't end up paying c100% tax

Avoid Inheritance Tax

There are three courses of action to take:

Step 1 – Draw up a Will ensuring it is written correctly to save the maximum amount of tax.

Step 2 – Transfer assets through the use of lifetime gifts.

Step 3 – Create an IHT-efficient fund to enable beneficiaries of an estate to meet the tax liability without disturbing family wealth.

The Will

Failure to make a Will sees your assets distributed according to intestacy rules.

- It is important to ensure any existing Will is up to date and Inheritance Tax efficient.

Lifetime Gifts

Gifting is an effective way of reducing your Inheritance Tax liability.

Gifting some of your possessions directly to beneficiaries will remove that item from your estate. In this instance the gift must be absolute with you retaining no interest in it whatsoever.

Three types of Gift:

- Exempt Transfers – The Gift becomes exempt from Inheritance Tax on Death e.g transfers between spouses / civil partners or donations to charity.
- Potentially Exempt Transfers – The exemption applies if the Gift is given seven years before death.
- Chargeable Lifetime Transfers – Gifts into a discretionary trust which become immediately subject to IHT, where the gift exceeds the nil rate band, at a rate of 20%.

Trusts

A trust is a legal obligation called upon by a particular person (Trustee) to deal with someone's estate, in a particular way, for the benefit of the Beneficiaries.

Examples of reasons for setting up a trust:

- Passing money tax efficiently between generations thus avoiding Inheritance Tax
- Providing a gift to a child but remaining in control of it until they are suitably responsible
- To reduce the Inheritance Tax liability on the death benefits from pension plans & life assurance policies

UK Inheritance Tax Planning

In order to safeguard an inheritance so that it is not taxed unnecessarily and it is received safely in the hands of the intended beneficiaries effective estate planning will need to consider things like:

Control – If someone left all their assets on death to their spouse / civil partner, along with their unused Nil Rate Band, they will have given over complete control. If the spouse / civil partner re-marries or alters their plans, the assets may end up with a new family, or perhaps, part of a future divorce settlement.

Similarly, if the Nil Rate Band is not "used" by the first to die of a couple, it will be completely lost if the survivor re-marries.

Again, if someone wants to leave assets to a child or grandchild the assets themselves are not ring fenced and could be at risk if the recipient subsequently became bankrupt or divorced. On this basis it may be necessary to consider the use of a Trust.

Flexibility – Using a Trust may ensure assets reach and stay with the intended beneficiary. It may also be possible for the person making a Gift to maintain an interest as a beneficiary and this still be effective for Inheritance Tax Planning.

Protection – Using a Trust can help move assets outside of an estate. On this basis they may be able to help reduce the risk assets are exposed to in respect of long term care.

Currently, local authorities can take 100% of all the assets in excess of £22,250 (England & Northern Ireland) to cover the cost of care.

There are a number of packaged trust arrangements that can help a large number of individuals.

These are offered by various financial institutions. Some examples are:

- **Discounted Gift Trusts** – These are designed for people who do not need access to their capital and want to pass it to their families free from Inheritance Tax, but want to retain the right to draw a regular income.

  The Discounted Gift Trust works by making a gift into a single premium insurance bond for your chosen beneficiaries, fixing the level of income you want to draw until your death.

  The gift is a Potentially Exempt Transfer so if you survive seven years the insurance bond does not count as part of your estate.

- **Loan Trust** – These are designed for people who want to retain the right to draw on their original capital as well as income.

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You (Settlor) make a loan payment to the trust. The trust then pays back the loan, usually in monthly instalments over 20 years.

Any growth from investments within the trust is immediately outside the estate for Inheritance Tax purposes. The outstanding loan amount would form part of your estate for Inheritance Tax purposes.

On death the outstanding loan can be assigned to your beneficiaries or the loan called in and the monies distributed in accordance with the terms of your Will.