



Personal Tax

Inheritance Tax

With house price inflation, more and more people are now becoming exposed to inheritance tax. This tax is levied on a person's estate when they die, and also on certain gifts made during their lifetime.

There are ways of alleviating the burden of inheritance tax. This fact sheet discusses the main opportunities for minimising the impact of the tax, but as everyone's personal circumstances are different, it is vital that you seek professional advice that is specific to you.

When does Inheritance Tax take effect?

When a person dies and their estate exceeds £325,000*, Inheritance Tax (IHT) becomes due on their estate. The rate of IHT is 40%. Therefore, it may become necessary to sell some of the inherited assets to raise money for the tax bill.

*Inheritance Tax threshold for 2009/10.

Any lifetime gifts made by the person who has died will also be subject to IHT, unless they were gifted more than seven years prior to their death. Most gifts made more than seven years before death will escape tax. Therefore, if you plan in advance, gifts can be made tax-free and the result will be a substantial tax saving. Some lifetime gifts are treated as chargeable transfers, but, again, as long as the donor survives seven years after the gift, it will be exempt from tax.

The rate of inheritance tax is 40% and 20% on lifetime chargeable transfers. For 2009/10 the first £325,000 is exempt from tax and is known as the 'nil rate band'.

Inheritance Tax on lifetime gifts

Lifetime gifts can fall into one of three categories:

- A transfer to a company or a trust is immediately chargeable.
- Exempt gifts will be ignored both when they are made and also on the subsequent death of the donor.

- Any other transfers will be potentially exempt transfers (PETs) and inheritance tax is only due if the donor dies within seven years.

Inheritance Tax on lifetime gifts

The main Inheritance Tax charge is likely to arise on death and is charged on the value of the estate. Also:

- Potentially Exempt Transfers (PETs) made within seven years become chargeable.
- There may be an additional liability because of chargeable transfers made within the previous seven years.

Estate Planning

Estate planning involves making lifetime transfers to utilise exemptions and reliefs or to benefit from a lower rate of tax. However, careful consideration needs to be given to other factors. For example, a gift that saves Inheritance Tax may unnecessarily create a capital gains tax liability. The prospect of saving Inheritance Tax should not jeopardise the financial security of those involved.

Use of Potentially Exempt Transfers (PETs)

Wherever possible, gifts should be made as PETs rather than chargeable transfers, as the gift will be exempt from Inheritance Tax if the donor survives seven years. Once seven years has elapsed a gift is no longer taken into account for Inheritance Tax purposes.

Annual Exemption

£3,000 may be given away each year by an individual without there being an Inheritance Tax charge. You may be able to carry forward an annual exemption to the next year, but not thereafter.

Transferable nil rate band

New rules have been introduced which allow any nil-rate band unused on the first death to be used when the surviving spouse dies. The transfer of the unused nil-rate band from a deceased spouse, irrelevant of the date of death, may be made to the estate of their surviving spouse who dies on or after 9 October 2007.

The amount of nil-rate band available will be based on the proportion of the nil-rate band that was unused when the first spouse died.

Gifts between Husband and Wife

Generally, a gift between husband and wife is exempt. It may be beneficial to use the spouse exemption to transfer assets to ensure that both the husband and wife make full use of lifetime exemptions, nil rate band and potentially exempt transfers.

Small Gifts

Gifts not exceeding £250 per tax year per recipient can also be given but cannot be used to cover part of a larger gift.

Expenditure out of Income

Gifts made out of income, which are typical and habitual and do not impact on the standard of living of the donor are exempt. It must be proven that these are consistent payments.

Family Maintenance

A gift for family maintenance does not give rise to an Inheritance Tax charge and would include the transfer of property made on divorce (under a court order), gifts for the education of children or maintenance to a dependent relative.

Wedding Presents

Gifts in consideration of marriage are exempt up to £5,000 if made by a parent.

Using Trusts

Trusts can provide an effective means of transferring assets out of an estate whilst allowing flexibility in the ultimate destination and permitting the donor to retain some control over assets. Provided that the donor does not obtain any benefit from the trust, the property is removed from the estate.

How we can help you – New Wills & Probate Service

Howsons can completely review your exposure to inheritance tax and offer solutions to alleviate its effects. This could include reviewing and constructing arrangements made in a will, considering issues such as lifetime gifts, trusts and ensuring that all reliefs are claimed including business and agricultural property relief.

We have recently launched a Wills & Probate Service and can specifically assist you with:

- Tax advice to try and minimise the tax payable on death and during the administration period.
- Instruct a lawyer on your behalf to draw up a Will to reflect your wishes.
- Accept appointments as Executors in your Will to work alongside your family.
- Help in identifying assets and liabilities of the Estate and provide a full valuation for Probate purposes.
- The probate application and obtaining the Grant of Probate of Letters of Administration.
- Completion of the Inheritance Tax return and negotiating with HMRC regarding all Inheritance Tax liabilities.
- Administration of the Estate to include collecting all assets, settling all liabilities and legacies and completion of the complex tax forms.
- Preparation of detailed Estate accounts and liaising with the family and all beneficiaries.
- Advice to beneficiaries in connection with estate planning and deeds of variation as appropriate.

Our approach will not be driven by tax saving alone; personal wishes and considerations are always taken into account.

Why effective tax planning is essential

Howsons can provide effective tax planning to help to avoid a hefty tax bill. We can ensure that your hard earned money, thrift and investments are passed onto your nearest and dearest.

Call our Tax Specialists for more help

We have offices throughout Staffordshire and North Shropshire. Our Tax specialists are:

Stoke Office - 01782 848838

Vicky Hulse

Leek Office – 01538 393600

Seaton Kennerley

Uttoxeter Office – 01889 563550

Stephen Eardley

Newport Office – 01952 813330

Mervyn Davies

To email: initialsurname@howsons.com

(N.B. When addressing the Leek Office please replace .com with .net)

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