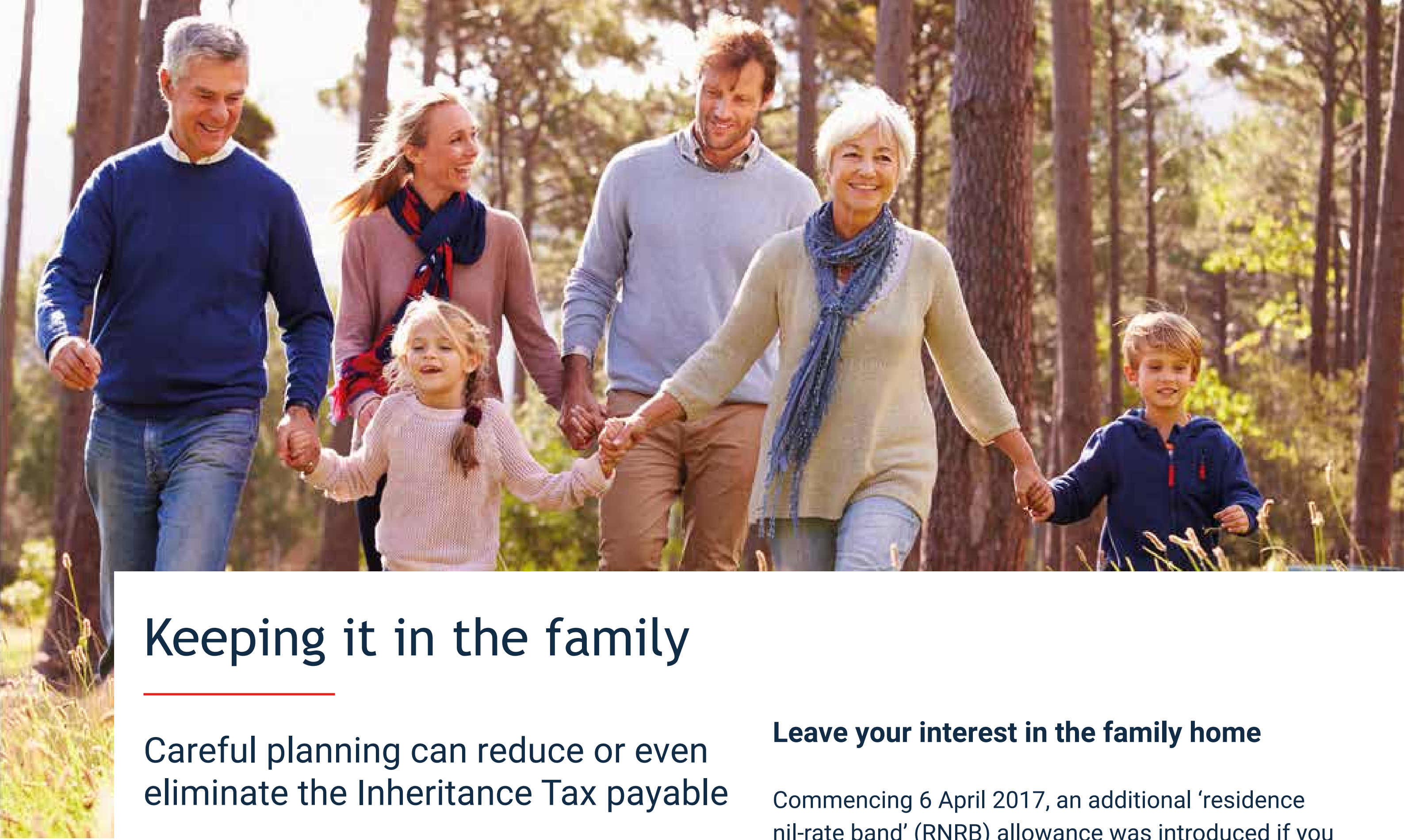

Keeping it in the family

Careful planning can reduce or even eliminate the Inheritance Tax payable

Intergenerational planning helps you put financial measures in place to benefit your children later in life, and possibly even your future grandchildren, so it's important to start planning early.

You may want to keep an element of control when passing on your assets. You may want your money to be used for a particular reason, such as paying for school or university fees or for a first property deposit. Or you may just want to make sure your money stays within the family.

Without appropriate provision, Inheritance Tax could become payable on your taxable estate that you leave behind when you pass away. Your taxable estate is made up of all the assets that you owned, the share of any assets that are jointly owned, and the share of any assets that pass automatically by survivorship. Careful planning can reduce or even eliminate the Inheritance Tax payable.

Inheritance Tax is not payable on the first part of the value of your estate – the 'nil-rate band'. The nil-rate band is currently £325,000. If the total value of your estate does not exceed the nil-rate band, no Inheritance Tax is payable. Outstanding debts and funeral expenses can be deducted from the value of your estate.

Leave your interest in the family home

Commencing 6 April 2017, an additional 'residence nil-rate band' (RNRB) allowance was introduced if you leave your interest in the family home to direct descendants (such as children, step-children and/or grandchildren). This only applies to your main home but can be available even if that home had been sold after July 2016.

The RNRB is being phased in gradually. For the 2018/19 tax year, the maximum additional allowance is £125,000, increasing your total Inheritance Tax allowance to £450,000 (£900,000 for a married couple). The maximum allowance will rise by £25,000 each tax year until it reaches £175,000 in 2020. This will give you a potential total Inheritance Tax allowance of £500,000 or £1 million for a married couple. For estates worth more than £2 million, the tax relief is tapered away.

There are legitimate ways to plan to reduce the amount of Inheritance Tax you may have to pay. We can advise you on the ways that you may mitigate any exposure, including these:

Make a Will

Dying intestate, or dying without a Will, means that you may not be making the most of the Inheritance Tax exemption which exists if you wish your estate to pass to your spouse or registered civil partner. For example, if you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate, and this might trigger an Inheritance Tax liability.

Passing on our assets to our loved ones

Being wealthy can have its benefits, and its challenges too. When we die, we like to imagine that we can pass on our assets to our loved ones so that they can benefit from them. In order for them to benefit fully from our assets, it is important to consider the impact of Inheritance Tax. If you would like to review the potential impact on your estate, please contact us.

Make lifetime gifts

Gifts made more than seven years before the donor dies, to an individual or to a bare trust, are free of Inheritance Tax. So, it might be appropriate to pass on some of your wealth while you are still alive. This will reduce the value of your estate when it is assessed for Inheritance Tax purposes, and there is no limit on the sums you can pass on.

You can gift as much as you wish, and this is known as a 'Potentially Exempt Transfer' (PET). If you live for seven years after making such a gift, then it will be exempt from Inheritance Tax, but should you be unfortunate enough to die within seven years, then it will still be counted as part of your estate if it is above the annual gift allowance. However, the longer you survive after making the gift (subject to surviving at least three years), the lower the Inheritance Tax charge:

- If you survive between three to four years from the date of the gift, the Inheritance Tax charge on the gift is reduced by 20%
- If you survive between four to five years from the date of the gift, the Inheritance Tax charge on the gift is reduced by 40%
- If you survive between five to six years from the date of the gift, the Inheritance Tax charge on the gift is reduced by 60%
- If you survive between six to seven years from the date of the gift, the Inheritance Tax charge on the gift is reduced by 80%

You need to be careful if you are giving away your home to your children with conditions attached to it, or if you give it away but continue to benefit from it. This is known as a 'Gift with Reservation of Benefit'.

Leave a proportion to charity

Being generous to your favourite charity can reduce your tax bill. If you leave at least 10% of your estate to a charity or number of charities, then your IHT liability on the taxable portion of the estate is reduced to 36% rather than 40%.

Set up a trust

As part of your Inheritance Tax planning, you may want to consider putting assets in trust – either during your lifetime or under the terms of your Will. Putting assets in trust – rather than making a direct gift to a beneficiary – can be a more flexible way of achieving your objectives.

Family trusts can be useful as a way of reducing Inheritance Tax, making provision for your children and spouse, and potentially protecting family businesses. Trusts enable the donor to control who benefits (the beneficiaries) and under what circumstances, sometimes long after the donor's death.

Compare this with making a direct gift (for example, to a child) which offers no control to the donor once given. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of and in the best interest of the beneficiaries, in accordance with the trust terms. The terms will be set out in a legal document called 'the trust deed'.