



Ian Bowyer
Partner
T +44 (0)20 7242 0631
E ibowyer@greenwoodsgrm.co.uk

The Facts

The value of an individual's estate may be subject to inheritance tax ('IHT') on their death. There are a number of exemptions and reliefs available which may reduce the overall bill, but often tax planning needs to be reviewed regularly during the individual's lifetime.

Despite falling house prices and a turbulent stock market in recent years, there has been a steady increase in the number of estates paying IHT as highlighted by HM Revenue & Customs' statistics (released 31 July 2012).

What is IHT?

It is a tax usually paid on an estate when someone dies, but it can also be payable on trusts or gifts made during a person's lifetime.

The majority of estates do not pay any IHT, because the estate is less than the nil rate band (the amount which is taxed at zero percent).

IHT is payable at 40% on the amount over the nil rate band. It can be paid at a reduced rate of 36% on some assets if you leave 10% or more of the net value of your estate to charity in your Will.

What is the Nil Rate Band?

In the current tax year (2018/19) the nil rate band is £325,000. This is frozen until 2021.

Assets passing to a UK domiciled spouse or civil partner are exempt from IHT, this is known as the 'spouse exemption'. Since 9 October 2007, any unused part of a nil rate band can be transferred to the estate of the surviving spouse or civil partner. This is known as the transferable nil rate band.

The residence nil rate band will also apply if your interest in a property in which you have at some point resided is left to a lineal descendant. In other words, provided you leave your interest directly to your child or children, your estate can claim a further exemption between £125,000 and £175,000 (depending on the year of death). The residence nil rate band can be transferred to the estate of the surviving spouse or civil partner provided the surviving spouse dies after April 2017.

For example: Mr and Mrs Jones have assets between them of £1m. Mr Jones dies in 2015 leaving his entire estate to Mrs Jones. There is no IHT payable because of the spousal exemption.

Mrs Jones dies in 2017 leaving her estate to her children.

The executors for Mrs Jones can claim the following exemptions:- £325,000 of unused nil rate band from Mr Jones, £325,000 of unused nil rate band from Mrs Jones, £100,000 of the transferable residence nil rate band from Mr Jones, £100,000 of the residence nil rate band from Mrs Jones. The estate will pay tax at 0% on the first £850,000 (£325,000 + £325,000 + £100,000 + £100,000) and 40% on the remaining £150,000, giving a tax bill of £60,000.



Kerri Pellington-Woodrow
Partner
T +44 (0)1733 887675
E kjpellington-woodrow@greenwoodsgrm.co.uk



Clare Harris
Associate
T +44 (0)1223 785289
E ceharris@greenwoodsgrm.co.uk

Who is responsible for paying IHT?

IHT is payable by different people, depending on the circumstances. Typically the executor/personal representative will pay it using funds from the deceased's estate. Trustees are responsible for paying it on trust assets. Sometimes people who have received gifts or inherited from the estate pay it, but this is less common.

What steps can you take to reduce your IHT bill?

Careful and on going tax planning during your lifetime is an important factor.

Gifting assets away during your lifetime into trust or giving gifts outright to individuals has the effect of reducing your estate as long as you survive seven years from the date of the gift. Such a gift is called a 'potentially exempt transfer' (commonly shortened to 'PET'). Should you not survive seven years, the value of the gift is added back into your estate for IHT purposes.

If the total gifts amount to less than the nil rate band, no tax will be due on them but they will have used up a part, if not all, of the nil rate band available to the estate. Taper relief may be available if you have survived more than three years from the date of the gift.

Tax planning also involves using the available exemptions and relief. There are a number of exemptions and reliefs from IHT including:

- **Annual Exemption** – an individual can give away up to £3,000 each tax year. If not used or fully used in one tax year, the unused part may be carried forward for one tax year only.
- **Spouse Exemption** - all outright gifts to spouses/civil partners are exempt from IHT, whether made during lifetime or on death. Both spouses/civil partners must be either domiciled in the UK or non-domiciled. The spouse exemption is limited to the nil rate band, (£325,000 for tax year 2018/19) if the person making the gift is UK domiciled and the recipient is non-domiciled.
- **Charity Exemption** - all outright gifts to qualifying UK charities, whether made during your lifetime or on your death, are exempt from IHT.
- **Small Gift Exemption** - gifts of no more than £250 to any recipient per tax year. The number of individuals is unlimited but they cannot be individuals to whom you are also gifting a large amount, for example, a gift on marriage.
- **Wedding and Civil Partnership Gifts** - a parent may give £5,000, a grandparent may give £2,500 and anyone else may give £1,000 free of IHT.
- **Gifts out of income** - any regular gifts made out of excess net income are exempt from IHT. These gifts must not affect your normal standard of living; otherwise HM Revenue & Customs will deny the claim for this relief. For example, if your income is £60,000 per year but you only use £50,000 per year to maintain your normal standard of living, you can gift the balance (£10,000) without it affecting your estate for IHT purposes. Detailed records must be kept.

How can Greenwoods GRM help?

Inheritance tax is a complicated area. Failure to get it right can incur penalties and interest. Our team can provide you with further information and advice on this area, suited to your personal circumstances. Contact +44 (0)1733 887665 and ask to speak to a member of our Private Client Team.

Whilst Greenwoods GRM LLP stands by the views and advice given in this document, the fact that two situations are rarely the same means that you should seek legal advice before relying on its contents.

Follow us:



@GreenwoodsGRM



Greenwoods GRM LLP
Monkstone House
City Road
Peterborough PE1 1JE
T +44 (0)1733 887700

Compass House
Vision Park
Cambridge CB24 9AD
T +44 (0)1223 785300

1 Bedford Row
London
WC1R 4BZ
T +44 (0)20 7242 0631

E info@greenwoodsgrm.co.uk
W www.greenwoodsgrm.co.uk