

Inheritance Tax Planning

What is inheritance tax?

Inheritance tax is a tax which arises on the death of an individual. It is a tax on the estate, or total value of the money and property, of a person who has died.

IHT is affecting a rapidly growing number of people, and this is largely due to the increase in the value of residential property. Examples of assets that would form part of an estate are: your home, its contents, your car, your bank and building society accounts, any stocks and shares, your jewellery, any antiques you have collected and any other investments you have accumulated over your lifetime, including your share of any jointly owned assets.

A large proportion of your wealth or estate, including any of the above, might have to be sold in order to meet the IHT liability on death if the proper steps have not been taken to protect your wealth.

An estate will be subject to IHT if, on death, it exceeds the individual Nil Rate Band. This figure is currently frozen at £325,000, it will remain at this amount until the tax year 2014/15. Since October 2007, it has also been possible to use any unused proportion of a Nil Rate Band from a deceased spouse or registered civil partner.

IHT is often called a 'voluntary tax' as there are so many ways to avoid it.

How do you determine your IHT exposure?

The calculation is fairly simple. If you add up the value of all the assets remaining on death, subtract the Nil Rate Band and what is left is taxed at 40%. There are a number of IHT exemptions and reliefs that can be applied to specific assets, lifetime gifting and on death. These include a spouse exemption which allows gifts between spouses or civil partners to be tax free and a relief from tax for certain business and agricultural assets. Another example is charitable donations of any size.

What happens if you die without having planned for IHT?

Following your death, your estate is left in the control of your legal personal representatives. These are either those people you have nominated to carry out the instructions of your will, your 'executors', or, if no will was written, 'administrators' under the laws of intestacy. Before they are able to distribute your estate, they have to obtain a document, known as a **Grant of Probate**, from the Probate Registry. Probate will not be granted until the Registry has full details of your estate, the current value of your assets and confirmation that any IHT due has been paid. This usually needs to be paid within six months. There is an exception when paying IHT in respect of land, property or certain business assets. In this instance it is possible to pay the bill in instalments over a period of 10 years. On the subsequent sale of this asset, however, the outstanding IHT must be paid in full.

How does the bill usually get paid?

As a Grant of Probate is usually required before the assets of the estate can be accessed, this could mean that your personal representatives have to use their own funds, or even take out a short-term loan, to pay the IHT bill.

What can be done?

It is possible to ensure that as much of your estate as possible stays out of HMRC's grasp. IHT planning is all about passing as much of the proceeds of an estate as possible to chosen beneficiaries rather than to HMRC. It is also about maintaining flexibility and control over any arrangements that are made.

Will

Writing a will gives you the opportunity to ensure that your estate passes to the beneficiaries in a tax-efficient manner and ensures that your assets are distributed as you see fit. If you fail to make a will you will see your assets distributed according to Intestacy rules.

If you would like to discuss any of the above in more detail please do not hesitate to contact us.

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