Estate Planning

Chiltern CONSULTANCY
INDEPENDENT FINANCIAL ADVISERS

The Chiltern Guide to Estate Planning

Passing wealth down the generations has been a family objective for centuries.
In recent times the taxation burden on inherited wealth has affected more and more individuals and become of increasing concern.
We work with clients to find the most suitable lifetime planning solutions for them from the many options available to mitigate the impact of inheritance tax.

Inheritance Tax

Inheritance Tax (IHT) is essentially, a tax levied on certain transfers of assets to other people or trusts.
It is most commonly paid in respect of an individual's estate on death, but it can also apply in respect of certain transfers of assets during life.
Under current legislation, IHT is often perceived as a voluntary tax.
This is because with careful planning, it is possible to reduce or remove any liability altogether.
If an individual dies when they are "domiciled" or "deemed domiciled" in the UK, then Inheritance Tax applies in respect of all of their property, wherever situated.

The tax liability

It is a mistaken assumption that you need to be particularly wealthy to incur a substantial Inheritance Tax liability. When you die, the value of your taxable estate is calculated.
This is the total value of all your possessions and assets, less any available exemptions and reliefs.
If the taxable estate exceeds the nil rate tax band (NRB) of £325,000 (2015/2016)then anything over that sum is taxed at 40% or 36% if 10% of the net estate is left to charity.
Following the Finance Act 2008, if the first spouse or registered same sex partner to die has not used all of his or her NRB, the percentage unused can be claimed to enhance the survivor's NRB allowance at their death. This means that the NRB available on the second death can be enhanced by as much as double its value.
According to figures from the Office for National Statistics (ONS) the total amount of inheritance tax paid in 2012/13 was around £3.14 billion; an eight percent rise on the previous year.
This increase can be partly explained by the revival in values of asset prices such as property and share based investments.
It can also be partly explained by the decision to freeze the inheritance tax threshold at £325,000.
It has been at this level since April 2009 and the summer budget on 8th July 2015 confirmed it will remain in place until 2021.
This combination is likely to see even more estates paying inheritance tax and in fact The Office of Budget Responsibility estimates an IHT yield of £5.8 billion for 2018-19.

Succession Planning

Given the above data it is hardly surprising that many people seek ways to reduce the amount of inheritance tax their estates will pay so that more wealth is left to family members.
There are many ways to achieve a reduction in the value of an estate but the key element is planning appropriately so that post planning there is enough left to live on for the rest of one's life. It may not just take one planning exercise but a series of measures carried out over many years.

Lifetime Gifts

The simplest method of reducing the value of a taxable estate is to give away surplus cash and assets, then to survive for a period of seven years.
This can be to individuals or to a trust arrangement. It must be an outright gift to be effective; it cannot be made' with strings attached'. For example, the gift of a house subject to continuing occupation at less than a commercial rent is likely to be ineffective. When a gift is made, it will normally be exempt, relieved, or potentially exempt. Lifetime Transfers into most types of trust are chargeable, not just discretionary. One exception being bare trusts

Exempt transfers

Exempt transfers are those, which can be made without a tax liability.
The more important include: Spousal exemption - transfers between spouses and registered civil partners whether during life or on death are exempt from Inheritance Tax (IHT)
Annual exemption - lifetime transfers of up to £3,000 per tax year are exempt from IHT.
If the whole of the £3,000 is not used in any tax year, the balance can be carried forward to the next tax year.
Small gifts exemption – Outright gifts of up to £250 to any number of people are exempt from IHT
Normal expenditure out of income – Lifetime gifts which are of a regular nature, and made from income without affecting the donor's lifestyle, qualify for a normal expenditure out of income exemption
Marriage gifts exemption – Gifts made by certain people in consideration of a marriage taking place are exempt. These are as follows;- From a parent: £5,000, From a grandparent: £2,500, From others: £1,000

Assets not subject to Inheritance Tax

Certain assets attract relief and are not subject to IHT if they have been owned for two years.
The more important include: Business Property Relief -100% reliefs are available in respect of a sole trader's business, the interest in a business of a partner, or a shareholding in an unlisted company.
Each business must carry on a bona fide trading activity. Land, buildings, machinery, or plant that is owned personally by an individual, or a controlling shareholder, qualifies for 50% relief.
It must be used for business purposes by a company, which he controls, or a partnership in which he is a partner. Agricultural Property Relief -100% relief is available in respect of the agricultural value of land and farm buildings subject to certain tests

Potentially Exempt Transfers (PETs)

This is a term, which describes certain types of gift, which, subject to certain conditions, will not incur an immediate liability to IHT. Specifically, gifts between individuals, or into certain trust arrangements are termed PETs. A PET made at least seven years before the death of the donor becomes an exempt transfer. If death occurs within 7 years, then the gift is reckonable within the donor's estate, subject to any taper relief and the donor's nil rate band.
Taper relief is a reduction in any tax payable in respect of the gift, the relief increases from 20% at three years to 100% after 7 years.

Chargeable Lifetime Transfers (CLT)

These are transfers, which are neither exempt, nor potentially exempt.
The most common chargeable transfers are lifetime gifts into discretionary trusts.
A transfer will be chargeable if it (together with any cumulative transfers made within the last seven years) exceeds the donor's Inheritance Tax nil rate band.
Tax is payable at 20% on the excess value of the gift over the nil rate band and there will beno further Inheritance Tax to pay if the person making the gift survives for 7 years. If death occurs within 7 years, then tax at death rates may apply to the transfer retrospectively.
Credit will be given for the tax already paid.

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To arrange an informal, no obligation meeting at home, your workplace or at our office in High Wycombe, please contact us

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PLEASE NOTE:
The above information is for guidance purposes only and gives just a small description of this diverse topic.
Any planning to mitigate inheritance tax really should be done with the help and advice of a specialist in this field.
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