Advice on Inheritance Tax

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"In this world nothing can be said to be certain, except death and taxes", Benjamin Franklin 1789

It has been said Inheritance Tax (IHT) is a voluntary tax as there are steps that can be taken to avoid it, or at least lessen the impact. Through careful planning, you really can keep it in the family.

According to the Annual Tax Action Report 2016 produced by unbiased.co.uk, "The UK could have saved around £595 million more through some simple estate planning." At Bridge Investments we want to help you ensure your financial arrangements are as tax efficient as possible.

Some facts and figures

- IHT is payable on death and is charged on estates over the tax-free allowance of £325,000 (frozen until April 2021) per person. Married couples and civil partners can pass any unused allowance on to one another. From April 2017, each individual will be offered a family home allowance, so they can pass their home on to their children or grandchildren tax-free after their death. The family home allowance will be phased in and added to the existing £325,000 Inheritance Tax threshold, meaning the total tax-free allowance for a surviving spouse or civil partner will be up to £1 million by 2020-21.
- The allowance will be gradually withdrawn for estates worth more than £2 million. This is based on the value of the estate before reliefs such as business property relief and agricultural property relief.
- If the estate (including any assets held in trust and gifts made within seven years of death) is more than the threshold, Inheritance Tax will be due at 40 per cent on any amount over the threshold. People who leave 10 per cent or more of their net estate to charity can choose to pay a reduced rate of Inheritance Tax of 36 per cent.
- IHT is payable on everything you have of value when you die, including: your home, jewelry, savings and investments, works of art, cars and any other properties or land (including overseas).

I think I will go over the threshold, what can I do?

On a positive note there are a number of exemptions we can advise you on. These will allow you to pass on assets both while you are living and in death, without being liable for inheritance tax. There are also a number of trusts that can help you to minimise your IHT liability.

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Tax rules are subject to changes in legislation. The table below covers some exemptions and financial solutions to inheritance tax. At Bridge Investments we can advise you based on your individual circumstances and keep you appraised of changes in tax regulations.

Exemptions and Financial Solutions	And The Rules That Apply
Gifts	Annual Exemption up to £3,000 p.a. - exempt from IHT when you die. Part of this can be carried over into the following year but after that it expires. Small gifts – up to £250 p.a. to as many people as you like in any one tax year. Note it is not possible to claim the £250 as part of a larger payment. Wedding gifts/civil partnership ceremony gifts - parents up to £5,000 each, grandparents up to £2,500 and anyone else £1,000. This must be promised shortly before the ceremony. Regular gifts or payments that are part of your normal expenditure - these gifts only qualify if you have enough income left after making them to maintain your normal lifestyle. These include: regular gifts for Christmas and birthdays, or wedding/civil partnership anniversaries and maintenance payments. Gifts given more than 7 years before death are exempt, and those made more than 3 years before death, but less than 7 years, are subject to a lower charge, which reduces on a sliding scale. If you die within seven years: If the total value of gifts is less than the Inheritance Tax Threshold, then the value of the gifts is added to your estate and any tax due is paid out of the estate. If more than the Inheritance Tax Threshold, it will be paid on its value, either by the person receiving the gift or by the representatives of the estate. (See Property below)
Property	If the estate passes to your spouse or civil partner there is no inheritance tax payable. Inheritance Tax when passing on property (even after 7 years) You can continue to live in your home as your primary residence after giving it away, provided you pay a market rent to the new owner. Bear in mind that the new owner may have to pay Income Tax on the rent you pay them. If you don't pay a market rent, the gift will be considered a 'gift with reservation of benefit' and the house may be subject to Inheritance Tax.

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Exemptions and Financial Solutions continued	And The Rules That Apply
Business Property Relief	Business Property Relief (BPR) was introduced by the government in the 1976 Finance Act. BPR offers 3 key advantages over traditional IHT planning products. The first is speed. Investment in BPR products are exempt from IHT after two years (provided that the investments are still held at time of death). The second is simplicity. No need for medical underwriting, or legal trust structures, and finally, control. Unlike some IHT solutions, you retain access to your money. If your circumstances change, and you need to dispose of the holding, you can (although money withdrawn cannot be protected from IHT).
Trusts	If you want to make provisions to minimise your future IHT bill and not lose control of your estate, then a trust could be the answer. Inheritance Tax may be due when assets are put into a trust. How much depends on the type of trust and value of the assets in it, the value and timing of the transfer and whether the donor continues to benefit from the gift.
Life Cover	Life cover can pay out an amount equal to your estimated IHT liability on death. Policies are normally written into Trust, so that the sum assured is paid into the Trust and does not form part of your Estate for Inheritance Tax purposes. This is not generally a vehicle to avoid tax but to cover it. Note: If the policy is not written into Trust the sum payable will be liable for Inheritance Tax itself.
Pensions	Contributing to a pension for a child/grandchildren can reduce IHT liability by using your annual personal allowance, and additionally your child/grandchildren will benefit from tax relief. If they've got no income, you can pay in up to £2,880 a year - which becomes £3,600 with tax relief. Regular contributions can be offset against normal expenditure. Contributing to your own pension: ♦ Your pension fund will grow free of capital gains tax. ♦ When you die any contributions you have made plus any tax relief received will be paid to your beneficiaries outside of your estate, free of IHT.
Charity Contributions	To qualify for the reduced rate of 36% you must leave at least 10% of the net value of your estate to a qualifying charity. The charity needs to be recognised by HRMC to qualify.
Other Tax Vehicles	You can invest your annual IHT exemption in Child Trust Funds (for children born between 1 September 2002 and 2 January 2011) or National Savings & Investments Children's Bonus Bonds.

Bridge Investment Partners Ltd. are authorised and regulated by the Financial Conduct Authority.

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