

Inheritance Tax

An Overview

Inheritance Tax (IHT) is often called a “voluntary tax” and is currently part of a much wider political debate. The thresholds for exemption from paying IHT have not risen with increasing individual wealth, so that currently, there are more people over the threshold than ever before, primarily due to the value of property at death. There have been promises of a threshold of £1m, but there is also a reluctance to change IHT as it is an easy tax to collect.

- Inheritance tax is payable at 40%
 - Payable when a deceased person’s estate exceeds the current level of IHT threshold (6th April 2010 £325,000).
 - Generally it is expected that the payment of IHT tax is minimised by good pre death planning.
 - The main cause of IHT payments is due to the value of property continuing to rise above the annual increase of IHT level over the last few years.
 - The tax payable is agreed during the process of Probate. Once calculated the value is set, and becomes payable (6 months after the end of the month that the death occurred) and interest is payable if payment is not made.
 - No allowance is made for any changes in the value of assets during the 6 months before the tax is due, therefore if a house value rises or falls, or share prices soar or tumble, no changes will be made.
 - The executor or administrator (also known as the ‘personal representative’) is liable to pay any inheritance tax due on an estate.

- Making a will is essential where property is owned.
 - Prevents any family disagreements.
 - Clearly states what is required of the executor.
 - May prevent the payment of IHT.

- Why is IHT sometimes paid and not prevented?
 - There is no realisation that property values have increased.
 - There is a reluctance to pass money/estate to their family in case of the need to have funds for nursing home expenses when they retire.
 - Each spouse is at less than IHT level, but when one spouse dies and leaves everything to the surviving spouse, their combined estate goes over the nil rate bands.

- Annual Gifts are available that are exempt from IHT:-
 - £3000 to a single person or £6000 if unused allowance from the previous year.
 - When a person gets married, each parent can give £5000, Grandparents £2,500 and other people £1000 to the person as a wedding gift.
 - Any level of gifts to charities, political parties or for the public benefit such as museums or national trust.
 - There are no limits to small gifts of £250 per person (Max of £250 total in same year).
 - Regular payments of any amount can be made from a benefactor's monthly income (not capital); for example a £200/mth payment towards university costs for grandchildren.

- The 7 year Rule – maybe reviewed at the next Budget
 - Assets must be freely and completely given away with no continuing benefit, i.e. no rentals paid etc.
 - The person gifting the assets must live longer than 7 years from the date of the gift.
 - Assets other than Money could attract a charge to Capital Gains Tax.

- Tapering Relief is a way of reducing the effect of IHT depending on how long an asset has been gifted: -

○ No more than 3 years	% IHT	100
○ 3 to 4 years	% IHT	80
○ 4 to 5 years	% IHT	60
○ 5 to 6 years	% IHT	40
○ 6 to 7 years	% IHT	20

- Potential Exempt Transfers (P E T).
 - Problems will occur when passing an asset to a benefactor, in particular property, where occupancy is then maintained at a rent lower than commercial value.

- Capital Gains Tax.
 - Assets passed to beneficiaries at less than the current market value could attract Capital Gains Tax. This is an important consideration when considering setting up a Trust.
 - If CGT is payable, this is paid by the benefactor.

- Trusts, there are four main types:-
 - *Bare Trust* is used mainly to pass assets to a minor until they reach a certain age. It is simple to administer but has limitations as to tax benefits.
 - *Interest-In-Possession Trust* generally used to give spouses use of an asset to be passed onto others upon their death. Tax levels are at the higher Trust rate.
 - *Discretionary Trust* is a trust where the trustees have discretion about the level of benefits and who may be the beneficiaries. The tax levels on these trusts are at the higher Trust Tax rate.
 - *Accumulation-and-Maintenance Trust* is a type of discretionary trust generally set up for children. It contains specific rules as to the treatment of interest and disposal of assets, and is more favourable to tax treatment than a discretionary trust.
 - Trustees are nominated to act for, and administer the Trust according to the terms laid down in the Trust Deed.

There is a Probate and Inheritance tax Helpline on **0845 3020 900**.

A range of leaflets can also be obtained
you can get them free,

- on the internet at www.inlandrevenue.gov.uk
- by e-mailing ir.purchasing@gt.net
- by calling the Borderline on 0845 234 1000
- By fax on 0845 234 1010.

There is also an excellent glossary of terms on the HMRC website at

<http://www.hmrc.gov.uk/cto/glossary.htm>

Inheritance tax (IHT) is administered by Inland Revenue Capital Taxes. There are three branches that deal with IHT and their addresses are below. When contacting the offices a reference number is generally needed (via Probate). If that is not known, the full name of the person who has died ('the deceased') and the date of death are required.

Nottingham

Inland Revenue Capital Taxes
Ferrers House
PO Box 38
Nottingham
NG2 1BB

Edinburgh

Inland Revenue Capital Taxes
Meldrum House
15 Drumsheugh Gardens
Edinburgh
EH3 7UG

Belfast

Inland Revenue Capital Taxes
Level 3, Dorchester House
52-58 Great Victoria Street
Belfast