

Inheritance Tax Guide



Introduction

Inheritance tax (IHT) is a tax based on the value of the assets in your estate at the date of death and on certain gifts you make during your lifetime. As IHT specialists we are very aware that the subject of inheritance and the tax implications that accompany it is one that many people prefer not to think about. Consequently, the situation regularly occurs in which beneficiaries are required to pay substantial amounts of inheritance tax on an inherited estate due to a lack of planning while the estate owner was still alive. So we have decided to try to address this to some extent by creating the Perrys inheritance tax guide.

The purpose of this document is to provide an overview of current inheritance tax regulations, to help you to understand your current tax position and to explain how any potential liability can be minimised. With this in mind we include an IHT questionnaire on the last two pages of this document. Completion of this will enable us to assess the likely value of any estate and to estimate your current exposure to IHT, as well as identifying the planning opportunities that may be available to you.

As part of any IHT planning exercise it is important to consider the drafting of a will, if not already in place. If a will exists, it may be necessary to revisit and amend it in light of an IHT review. It remains a worrying statistic that on average two out of three people do not possess a valid or effective will, and yet dying intestate virtually guarantees that the estate is liable to a greater amount of IHT than if a will had been prepared. Any IHT review should always take into account the wishes of the individuals concerned in the event of a death, and minimising IHT liability is something that should go hand in hand with any wishes expressed.

Press coverage has done much to create the perception that tax avoidance should be seen in the same light as tax evasion.

However, IHT is one tax that is overpaid by many estates due to a mixture of lethargy and lack of awareness. IHT 'avoidance' consists of ensuring that an estate is managed effectively, that IHT liability is minimised, and that no unnecessary tax is paid. This should surely be encouraged rather than frowned upon?

Contemplating death, let alone planning for it, is something that many of us shy away from and this is probably the main reason why so many of us pass away without having a valid will in place. However, the 40% tax charge that the HM Revenue & Customs places upon estates, estates that have been built up from post-tax income, should be all the encouragement we need to overcome this reluctance and to take steps to protect as much of our estate as possible for our beneficiaries. In the majority of cases, basic restructuring is likely to be all that is needed to ensure that the optimum position is achieved and IHT liability is minimised.

In other cases more substantial changes may be needed, but it is rare indeed that no savings can be achieved from an IHT review.

If you are interested in understanding your current exposure to IHT, please complete and return the questionnaire on the last two pages of this document.

This will enable us to undertake an initial review and assess whether IHT is an issue and/or there are planning options available to make it a worthwhile exercise. Please send the completed questionnaire marked confidential to our Tunbridge Wells branch (the address is on the last page).

Should you subsequently decide to book a full inheritance tax review or follow up report we will be happy to provide you with an estimate of our firm's costs in advance of undertaking any work.

For your information, we provide below some examples of the common reliefs that can be integrated into a structured plan. IHT planning can be complex and confusing, however, the benefits of doing so are significant. We will be on hand every step of the way to clarify the position and ensure that we reach the best possible solution for you.

Should you have any queries regarding this document or any other financial matters please feel free to contact us:

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Nil rate bands 2024/25

Standard nil rate band	£325,000
Residence nil rate band*	£175,000

Rate of tax on excess 2024/25

Chargeable lifetime transfers	20%
Transfers on death	40%
Reduced rate**	36%

*Applies when a residence is passed to a direct descendant on death and all conditions are met.

**Applies where 10% or more of the deceased person's net estate is left to charity.

Taper relief:

Years before death	0 - 3	3 - 4	4 - 5	5 - 6	6 - 7
Tax reduced by	0%	20%	40%	60%	0%

Main Exemptions and Reliefs

UK domiciled spouse	No limit
UK registered charities	No limit
Qualifying political parties	No limit
Annual exemptions	£3,000 per donor
Marriage exemptions	£5,000 to a child, £2,500 to a grandchild (or remote issue), £1,000 to any other individual
Small gift exemption	£250 per donee
Regular gift out of income	No limit
Business property relief	Up to 100%

Detailed conditions can apply to the above reliefs and exemptions therefore always seek tax advice specific to your circumstances.

Personal Details

Partner 1 Full Name: Date of Birth:

Partner 2 Full Name: Date of Birth:

Relationship Status (please circle): Married / Single / Living with Partner

Address:

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Postcode: Email:

Telephone:

Children

Full Name:

Date of Birth:

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Grandchildren

Full Name:

Date of Birth:

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Do you have a valid will in place? (please circle as appropriate)

Partner 1:

Yes / No

Partner 2:

Yes / No

Current Assets

Assets:	Estimated Total (£)	Partner 1 (£)	Partner 2 (£)
Main residence:			
Other properties (Please state if outside UK):			
Bank/building society accounts (including ISAs):			
Life insurance policies:			
Furniture/personal effects:			
Motor vehicles:			
Estimate of future inheritance:			
Do you run your own business? (If so please circle) Soletrader / Partnership / Limited Company			
Other assets (please list separately):			

Current Liabilities

Liabilities:	Estimated Total (£)	Partner 1 (£)	Partner 2 (£)
Mortgage (please state which property):			
Bank loans / overdrafts:			
Credit cards:			
Other loans:			
Other liabilities (please list separately):			

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