Inheritance Tax: A Straightforward Guide

Here at Toucan Law, we understand navigating Inheritance Tax (IHT) can feel a little overwhelming. This guide aims to simplify things, explain key points, and show you how we can help ensure your wishes are met.

What is Inheritance Tax (IHT)?

IHT is a tax paid on the value of an estate that passes on death, minus any reliefs and exemptions you may qualify for. This fact sheet will give you a clear picture of what that means for you.

Thresholds and Rates:

There's a good chunk of your estate that's typically free from IHT. The current threshold for Inheritance Tax is £325,000, known as the "nil-rate band." This means the first £325,000 is typically free from IHT.

If your estate's net value after reliefs and exemptions exceeds this amount, IHT applies at a rate of 40% on anything above that threshold.

Reducing your Inheritance Tax Bill

There are several ways to potentially reduce your IHT liability. Here are some key options:

Main Exemptions and Reliefs:

***Spouse or Civil Partner Exemption*:** Assets left to a spouse or civil partner are generally exempt from IHT.

***Annual Exemption*:** You can give up to £3,000 per year tax-free, with some flexibility to carry unused allowances forward - but only for one tax year.

***Residence Nil-Rate Band (RNRB)*:** This additional allowance applies when passing on a main residence to direct descendants, currently set at £175,000 per person.

***Charitable Gifts*:** Donations to qualifying charities are exempt from Inheritance Tax.

***Small Gift Allowances*:** You can give as many gifts of up to £250 per person as you want each tax year, as long as you have not used another allowance on the same person.

***Special Occasion Gifts*:** Birthday or Christmas gifts you give from your regular income are exempt from Inheritance Tax. Each tax year, you can give a tax free gift to someone who is getting married or starting a civil partnership. You can give up to:

- £5,000 to a child
- £2,500 to a grandchild or great-grandchild
- £1,000 to any other person

Gifts out of surplus income: You can make regular payments to another person, for example to help with their living costs. There's no limit to how much you can give tax free, as long as:

- you can afford the payments after meeting your usual living costs
- you pay from your regular monthly income

These are known as 'normal expenditure out of income'. They can include:

- paying rent for your child
- paying into a savings account for a child under 18
- giving financial support to an elderly relative

Business and Agricultural Relief: Depending on the type of business or agricultural property you own, there may be reliefs available.

Transferable Allowances

Married couples and civil partners can potentially benefit from combined nil-rate band allowances of up to £1 million. This does not apply to couples who do not have children or residential property, as well as those who are unmarried.

Planning and Mitigation Strategies

Will and Estate Planning: Drafting a well-structured Will and implementing effective estate planning strategies can help reduce the impact of Inheritance Tax.

Lifetime Gifts: Making gifts during one's lifetime can reduce the value of the estate subject to Inheritance Tax, provided certain conditions are met.

The 7 year rule

No tax is due on any gifts you give if you live for 7 years after giving them - unless the gift is part of a trust. This is known as the 7-year rule.

If you die within 7 years of giving a gift and there's Inheritance Tax to pay on it, the amount of tax due after your death depends on when you gave it.

Gifts with Reservation

If you give something away but still benefit from it (a 'gift with reservation'), it will count towards the value of your estate and the 7 year rule will not apply. The value of the gift will still form part of your estate when you die.

Gifts with reservation include:

- giving your home to a relative but still living there
- giving away a caravan but still using it for free for your holidays
- giving away a valuable painting but still displaying it in your house

Chargeable Lifetime Transfers

IHT isn't just a death duty. Any lifetime transfer that does not qualify as a potentially exempt transfer (PET), such as a transfer into a Discretionary Trust will be immediately chargeable to IHT at a rate of 20%. This does not necessarily mean that there will be IHT to pay but it does have to be assessed to see if a charge to IHT will arise.

Trusts: Establishing trusts can enable individuals to transfer assets and property to beneficiaries while minimising Inheritance Tax liabilities.

Pension Planning: Assets held within a pension scheme are generally exempt from Inheritance Tax, making pensions an effective tool for inheritance planning.

Seek Professional Advice: Navigating IHT effectively requires expert advice. Here at Toucan Law, our Estate Planning and Will Writing services can help you create a personalised plan to minimise taxes and ensure your wishes are carried out.

Disclaimer: This information is intended as a general guide and does not constitute specific financial or legal advice. We highly recommend seeking personalised advice from qualified professionals based on your unique circumstances.

We're Here to Help!

Need help with Inheritance Tax or estate planning? Don't worry, Toucan Law can guide you through the process. Get in touch today for a stress-free consultation.

This guide just scratches the surface of Inheritance Tax. For more information on estate planning and other legal topics, check out our library of helpful guides available to collect from our offices at Unit G1, 38 St James Street, Weston super Mare, BS23 1ST or pop online at www.toucanlaw.co.uk.

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