

# INHERITANCE TAX PLANNING



## What is Inheritance Tax (IHT)?

When you die, the Government assesses the value of your estate (property, cash etc.) and deducts any debts owing by you. If the remaining amount exceeds the threshold (£325,000 until 2021), you must pay tax at 40% on the extra amount. This is reduced to 36% if you donate at least 10% to charity.

## How can I reduce my IHT bill?

**Gifting** - Money you give away before you die is normally counted as part of your estate. However, it is not counted if you live for 7 years after giving the gift. This is why it is important to plan as early as possible. However, gifts to charities are inheritance tax free.

## Annual Gift Exemption

The first £3,000 gifted each year is ignored. If you don't use it, it can be carried into the next year (no more than this though).

## The £250 'Presents'

You can give £250 to as many people as you like and this is not counted in the £3,000 referred to above. For example, if you have 10 grandchildren, you can give each of them £250 each year and this would be exempt from inheritance tax.

## Gifts on Consideration of Marriage

Gifts made to a person who is getting married or entering a civil partnership are exempt from IHT up to the following amounts:  
£5,000 made by each parent,  
£2,500 made by each grandparent,  
£1,000 made by anyone else.

## Gifts from Income

This is referring to gifts from pensions or other earnings. You can't give it all away though, you must show that giving it away does not affect your lifestyle.

## What about Assets left to my spouse?

If your spouse is UK domiciled, any assets left to them are exempt from IHT. In addition, your partner's IHT allowance is increased by the amount you didn't leave to others.

This means a couple can leave £650,000 tax free. Being UK domiciled will mean all overseas assets are subject to IHT. See main residence nil rate band for more.

## Main Residence Transferable Nil-Rate Band

From 6 April 2017, a new 'main residence transferable nil-rate band' was introduced, which is the family home allowance. This applies when a main residence is passed on to a direct descendant. This new main residence transferable nil-rate band will work alongside the existing IHT nil-rate band which is currently £325,000. It will operate in the same way as the current nil-rate band. Any unused main residence transferable nil-rate band will be transferred to a surviving spouse or registered civil partner. A property not used as a residence of the deceased, such as a buy-to-let property, will not qualify but second homes would.

The allowance was set at £100,000 in 2017/18, increasing to £125,000 in 2018/19, £150,000 in 2019/20 and up to £175,000 in 2020/21 meaning a couple will be able to leave a total of £1m tax free.

