Berensens
SOLICITORS

INHERITANCE TAX

Planning and Lifetime Gifts

Inheritance Tax (IHT) is primarily charged at a rate of 40% upon death, over and above the prevailing IHT allowance, known as the nil-rate band. However, it can also arise on gifts within 7 years of an individual's death and settlements onto trust.

This liability may be mitigated using appropriate planning and any Inheritance Tax allowances available. In this guide, we have set out a summary of various planning points you may wish to consider:

1. Potentially Exempt Transfers
It is possible to make unlimited gifts to individuals throughout your lifetime. These are known as Potentially Exempt Transfers (PETs). Provided you survive a period of 7 years from making the gift, the value will be exempt, and fall outside your estate for IHT purposes. However, if you should die within the 7 year period, this will become a failed PET. Failed PETs will eat into your available IHT nil-rate band. Once the nil-rate-band has been exhausted, the balance will be taxed at 40% upon your death.

2. Annual Allowance
Every individual can gift up to £3,000 each tax year free of Inheritance Tax, without eating into the available nil-rate-band. If this exemption is unused in one tax year, it may be carried forward to the next, providing a combined allowance of up to £6,000.

In addition, the small gifting exemption allows gifts of up to £250 per person. There is no limit upon the number of individuals to whom such gifts can be made. However, if the gift exceeds £250 in value, then it will form part of the £3,000 allowance.

3. Marriage and Civil Partnership
Gifts of up to £1,000 may be made to someone who is getting married or entering into a civil partnership. Meanwhile, grandparents may give up to £2,500, and parents may give £5,000 to either party upon their marriage or civil partnership. It is possible to combine this gift with the annual exemption, but not the small gift exemption. The gifts must be made on or before the marriage or civil partnership, and conditional upon it taking place.

4. Gifts out of Surplus Income
Gifts made from surplus income, after tax, may be exempt from IHT, provided certain qualifying conditions are met. However, the gifts cannot leave you with insufficient income to maintain your usual standard of living. Furthermore, they must be part of your normal expenditure; ideally, you should be able to demonstrate a pattern of gifting, and therefore consider making the gifts on a periodic basis. We strongly advise detailed records are kept of these payments.

5. Exempt Beneficiaries

Gifts between spouses and civil partners are exempt from Inheritance Tax. Gifts to registered charities, sports clubs and the main political parties are also exempt from Inheritance Tax.

6. Business Property Relief

Business Property Relief (BPR) can provide business owners 50% or 100% IHT relief upon their property, premises, shares and assets. However, there are also certain investments that can qualify for the relief, such as shares in qualifying companies listed on the Alternative Investment Market.

It is important to take the appropriate advice, as there are conditions to the availability, and a minimum ownership period. Furthermore, not every interest in a business will qualify for BPR. The relief may be restricted or unavailable for businesses primarily generating investment income, such as a residential or commercial property letting business.

7. Agricultural Property Relief

Similar to BPR, Agricultural Property Relief (APR), may be available upon farmland, buildings and farmhouses. However, there are restrictions upon this. There are minimum ownership periods, and the land must be used for agricultural purposes. Furthermore, the relief is only available upon the agricultural value of the land and property, which may be less than the open market value.

8. Trusts

Trusts can provide flexibility, protection and efficiency for estate planning purposes. It may be appropriate to consider trusts whilst considering the options regarding tax efficient gifts. However, it is imperative to take the appropriate professional advice. There are various types of trust, and these can have distinct tax advantages and implications, and other issues relevant to their creation and ongoing administration.

9. Heritage Property

Heritage Property, such as buildings, works of art and other assets of historical, scientific or cultural interest, may be exempt from Inheritance Tax. Meanwhile, Heritage Maintenance Funds, trusts set up for the purpose of maintaining these assets, will not incur any ongoing IHT. However, in there are strict conditions which must be met if the exemptions are to apply.

<u>How We Can Help You</u>

This factsheet provides a brief overview of some of the exemptions, allowances and planning points which may be available. At Berensens, we have a wealth of expertise in advising and helping our clients mitigate the impact of Inheritance Tax. We understand that every client has unique requirements, and we provide bespoke, tailored, and up-to-date advice to all. Please contact us to arrange a meeting to discuss this further.