Inheritance Tax

Introduction

The purpose of this fact sheet is to provide a brief understanding of Inheritance Tax, how it is calculated and also to an extent, how it can be avoided.

Broadly, Inheritance Tax is payable following the death of an individual and is based upon the value of his or her estate. If the value of all their assets is greater than a certain limit then tax is payable at 40% on the excess. The threshold is reviewed annually and for the year ended 5 April 2011 it stands at £325,000. As an example, an estate valued at £440,000 would have to pay tax of £46,000 leaving only £394,00 to be paid to the beneficiaries.

Value of estate	£440,000
Threshold	£325,000
Excess	£115,000
Tax at 40%	£46,000

As can be seen, the impact of Inheritance Tax can have a significant effect on the amount to be passed to the next generation. If the estate were worth £560,000 then the tax would be £94,000

Any nil-rate band unused on a person's death can be transferred, in addition to the person's own nil-rate tax band to the estate of their spouse or civil partner (who died on or after 9 October 2007).

The value of an estate at the time of death includes not only the value of assets currently held but would include the value of gifts made in the previous seven years.

Thankfully, there are certain reliefs available to reduce the amount of tax payable and steps that can be taken to minimise the tax impact.

Exemptions available:-

Gifts to spouse

Gifts to charities & political parties

Certain marriage gifts

Annual gifts up to £3,000

Small gifts of up to £250 to the same person

Certain agricultural and business property

Gifts during lifetime

Any gifts made during lifetime, which do not fall into one of the above categories, are likely to be a Potentially Exempt Transfer (PET). If a gift is treated as a PET, no inheritance tax will be payable at the time of the transfer and providing the person making the gift survives for a period of seven years, no tax will be payable. However, if death occurs within this period, tax is payable on the gift, subject to the following taper:-

Continued over

Years between gift and death	Percentage of full tax charge
0 - 3	100%
3 - 4	80%
4 - 5	60%
5 - 6	40%
6 - 7	20%

In addition, any lifetime gifts within a 7 year period that go over the Inheritance Tax threshold are taxable at 20%

Gift with reservation

It is not possible to attach any conditions to the making of a gift as this would mean that for tax purposes, the gift would be ignored. As an example, the gift of a property would have no effect for inheritance tax purposes if the person making the gift retained the right to occupy the property during their lifetime.

Life Assurance

Proceeds from life assurance policies will, if paid to your estate, be liable to inheritance tax. However, if the policy is taken out in trust, so that the proceeds are payable directly to, for example, your spouse or children, the proceeds will be free from tax. Life assurance, can therefore, also be a useful way of providing for payment of any inheritance tax liability without actually being part of your estate and increasing the tax charge.

Tax Planning

Inheritance tax planning is something that should be considered at regular intervals throughout your lifetime. If you leave it to your old age, you may be leaving it too late to minimise the tax payable. Ideally, planning should be undertaken and your Will reviewed every few years, especially if your circumstances change. You may be able to reduce the tax burden quite substantially if you take full advantage of the reliefs available.

These notes are intended as a general introduction only and advice should be sought in respect of your own individual circumstances. Ayres Bright Vickers would be happy to discuss the subject with you in greater detail.

Ayres Bright Vickers
Bishopstone
36 Crescent Road
Worthing
West Sussex, BN11 1RL
Tel: 00 44 (0) 1903 234552 Fax: 00 44 (0) 1903 823973
e-mail: ABV@ayresbrightvickers.co.uk
Website: http://www.ayresbrightvickers.co.uk