

An introduction to Inheritance Tax

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“In this world nothing can be said to be certain, except death and taxes”

Benjamin Franklin

“Do not act as if you were going to live ten thousand years. Death hangs over you”

Marcus Aurelius

“The first thing we do : let’s kill all the lawyers”

Henry VI, Part II

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IHT on death

- **rates**
 - first £325,000 at nil
 - balance at 40%
- **applies to**
 - assets owned at death (except exempt ones, or left to exempt beneficiaries)
 - plus gifts made in last seven years

Exemptions on death

- assets left to spouse (except if spouse is foreign)
- assets left to charity
- certain business property and agricultural property
- assets left to political parties

IHT gift exemptions

- £3,000 a year out of capital
- £250 a year out of capital to as many people as you like

IHT gift exemptions

- gifts on marriage out of capital
 - by parent £5,000
 - by a remote ancestor £2,500
 - by a party to marriage £2,500
 - by others £1,000

- regular gifts out of income

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Gifts made as part of normal expenditure out of income

Only fill in this page if you have ticked Yes to box 6 on page 1. This is a guide to the type of income and expenditure the deceased may have had so that you can show that gifts made were part of the deceased's normal expenditure out of their income. Give details of the deceased's income and expenditure for each of the years in which the gifts were made.

20	Income							
	Tax year in which gifts made <small>(for example, 6 Apr 2005 to 5 Apr 2006)</small>							
	Salary							
	Pensions							
	Interest (including PEPs and ISAs)							
	Investments							
	Rents							
	Annuities (income element)							
	Other							
	Minus Income Tax paid							
	Net Income							
21	Expenditure							
	Mortgages							
	Insurance							
	Household bills							
	Council Tax							
	Travelling costs							
	Entertainment							
	Holidays							
	Nursing home fees							
	Other							
	Total Expenditure							
22	Surplus income (deficit) for the year (Net Income minus Total Expenditure)							
	Gifts made							

Potentially exempt transfer

- make a gift
- if you survive seven years, it's exempt
- beware **Capital Gains Tax**
- make sure you retain no benefit at all in assets given away

Using trusts

- you can set up trusts of £325,000 and no immediate Inheritance Tax implications
- given that all trusts now taxed in same way most common type of trust is a “Discretionary trust”
- flexibility for trustees with detailed letter of wishes explaining intentions

Tax planning through your Will

- transfer of unused nil rate band to 2nd spouse
- value of nil rate band at 2nd death that is relevant

Are old tax planning Wills defunct?

- flexible
- can still protect assets for family

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