

“You can’t take it with you...”

But, with the right advice, you can ensure that family assets remain just that. Here, Janice Parker of Critchleys Personal Tax Service explores the options for effective Inheritance Tax planning.



Inheritance tax has been with us in its various guises for a long time, yet it is the one tax that people do not seem to pay much attention to, probably because it only applies when you die and therefore is not as visible as income tax or VAT. However, as a result of the increase in house prices in recent years, particularly in the South East, and the low threshold at which Inheritance Tax (IHT) becomes payable, more and more families are having to face up to the fact that the wealth they have accumulated over the years will be eroded by tax bills arising on death.

To illustrate the effect that the increase in property prices has had on the Revenue generated for HM Revenue & Customs, it has been estimated that as much inheritance tax was collected in the first half of the 2006/07 financial year (£2.1 billion) as was collected for the whole of the 1997/98 financial year. The forecast is that this trend of increasing revenue will continue.

But what is the cost of dying? It may be surprising to learn that an estate can be relatively modest yet give rise to an IHT liability. By way of illustrating this point, let us assume that Jim Green, a widower with three children, owns a property that is worth £280,000. In addition, he has a life insurance policy that will pay out £50,000 on his death and a savings account containing £10,000. The total value of the estate is £340,000. On 31 December 2008, Jim dies unexpectedly. After taking into account the annual

exemption rate (Nil Rate Band) of £312,000 that is currently available, Jim’s executors will have to pay inheritance tax of £11,200 (40% of £28,000).

I am sure that most people facing this situation would much prefer the £11,200 to go to their children or other chosen beneficiaries instead of the government. In Jim’s case, with a bit of careful planning, this could have been achieved. For instance, if he had written the life policy into trust for the benefit of his children, the proceeds of £50,000 would not have formed part of his estate. Consequently, the value of the estate would have been £290,000, which is less than the nil rate band and so no tax would have been payable.

Given the low level of the nil rate band and the high tax rate (40%) that is payable on chargeable assets within an estate, I recommend that anyone with assets worth more than £312,000 (£624,000 for married couples or civil partners), should seriously consider getting Inheritance Tax Planning advice to find out how much tax they could save.

There are effective tax planning opportunities available to those of you who want to protect your family assets and pass them on to future generations. These can take the form of outright gifts, family trusts, tax effective investments or financial products designed to mitigate IHT liabilities. A good tax adviser will take into account your future aspirations and needs in order to tailor a plan to suit you.

If you think you may be affected by this or for intelligent personal Tax planning advice, please contact Janice Parker on 01865 261100. For further information, Critchleys has a dedicated tax planning website: www.critchleys.co.uk/advisory