

Asset Preservation

Tax & Estate Planning Strategies

When someone passes away, Inheritance tax (IHT) is payable at 40% on the value of their estate. This Guide describes a number of strategies to minimise IHT – so more of the estate goes to beneficiaries.

However IHT is sometimes called the voluntary tax, because with careful planning during your lifetime, you can legally minimise or even totally avoid IHT.

The strategies in this Guide apply whether it is the potential tax on your own estate

that you are considering, or on the estate of others, such as your parents.

While some strategies aim to reduce the value of your estate which is subject to IHT, others involve IHT exemptions and IHT-free investments.



Lifetime Planning With Outright Gifts

Gifts of Any Size

You can make gifts of any value (such as sums of cash) and these will generally be exempt from IHT, provided you survive seven years or more after making the gift. If you are concerned that a recipient is presently too young or immature to manage the gift responsibly, or that it would be lost on their possible divorce or bankruptcy, a trust may be more appropriate – these are discussed below.

Regular Gifts Out of Income

Regular gifts are exempt from IHT if made as part of your normal expenditure out of income. You must be able to show that after each gift you have sufficient net income to maintain your usual standard of living. The big advantage of regular gifts is that there is no need to survive seven years after each gift for it to be exempt from IHT.

This is a little-used strategy, but is potentially a huge saver of tax. However it is important to ensure that these gifts are 'HMRC-proof', and that your executors are not left doing battle with the taxman after you are gone.

Lifetime Tax Planning

Using Trusts

Trusts for Cash or Property

Trusts play a very useful part in lifetime IHT planning. Beneficiaries can receive tens or even hundreds of thousands of pounds more of an estate, rather than it being paid in tax.

You can transfer cash or other assets into a trust up to the value of the IHT Nil Rate Band (NRB) - currently £325,000 - without an immediate IHT charge. What's more, you can do it every seven years. You can of course transfer sums above the NRB into a trust, but anything above the limit would be taxed immediately at 20%.

Example. If a husband and wife in their 60s each transfer assets worth £325,000 into a trust every seven years, then after just 21 years they will have taken almost £2 million out of their taxable estate. This would represent a potential saving of almost £800,000 in tax for their beneficiaries. The saving could in fact be higher, if the value of the trust assets increases, for instance if the assets are shares.

Trusts not only preserve flexibility over who gets what and when, but are simple to run. The person giving away the assets can be a trustee of the trust, and the class of beneficiaries can be extremely wide. It would usually include children and grandchildren and perhaps other family members and charities.

If you give assets to a trust, those assets belong to the trust, and so they are outside your own taxable estate (provided you survive seven years from the transfer). They therefore avoid the IHT charge on your death. They also remain outside the taxable estate of the beneficiaries.

Trusts can therefore create a long-term flexible vehicle to hold family wealth, with little or no IHT liability for anyone. There is a small tax charge within the trust itself, but this will invariably be a fraction of the IHT saving.

Trusts For Business Assets

If you own a business or shares in a private trading company, the shares may qualify for 100% IHT business property relief (BPR). This means that they are totally exempt from IHT.

You could transfer some or all of your business or shares into a discretionary trust, irrespective of their value, and no IHT would be payable. Because they are IHT-exempt, there would be no initial 20% IHT charge for any value above the NRB. So there is no upper limit on how much can be transferred to the trust.

Capital Gains Tax Considerations

Capital gains tax (CGT) is usually payable when you give assets away if they are worth more at that point than when you originally acquired them. This applies to assets you give away directly to family members or transfer into trust (although holdover relief may be available on gifts to certain trusts).

So an increase in value in shares or property would be caught, but no CGT is payable on gifts of cash because that will of course be worth the same as when you acquired it.

An immediate CGT charge is often a disincentive to IHT planning (where the saving on IHT might be long in the future). But the IHT saved will usually far outweigh the CGT paid. Also, everyone has an annual exemption on the CGT payable in every tax year.

In some situations no CGT is payable. For example, if asset values have reduced due to a dip in the market, there could be little or no gain. In those cases, transferring assets into trust for the significant IHT savings would not trigger a CGT charge.



Other Planning Strategies

Business Property Relief

If you own a business or shares in a private trading company or a company quoted on AIM, the business or the shares may qualify for 100% business property relief (BPR) – mentioned above. They would then be totally exempt from IHT. One strategy to take advantage of this exemption is simply to invest in qualifying assets and hold them. AIM shares can be left to beneficiaries with no IHT payable. The risk is that the shares go down in value – potentially more likely with AIM shares – so that more money is lost on the investments than is saved in IHT. However, there are some investment products that are specifically designed to be low-risk and yet still qualify for BPR.

Tax-Efficient Wills

There is considerable scope for achieving significant IHT savings by having a tax-efficient will, particularly if you are married, or have re-married, or you own business assets, or if your estate might potentially pass to young children or grandchildren.

If you are married or in a civil partnership, you can structure both your wills so as to

achieve an IHT reduction for the family home on the survivor's death.

Residence NRB

In addition to the Nil Rate Band (NRB) mentioned above, there is a Residence NRB currently worth £175,000. This gives a further tax-free element to your estate if you leave your residential property to a direct descendent (children, grandchildren, their spouses, step children, foster children, etc). Unused Residence NRB can be transferred between spouses/partners.

Gifts To Charity

If you leave money to charity, whether during your lifetime or in your will, the gift will be exempt from IHT. There is no requirement to survive for seven years after a gift in your lifetime.

There is further incentive to leave a charitable legacy in your will. A legacy to charity of at least 10% of your taxable estate will result in a reduction in the rate of IHT payable on the rest of your estate from 40% to 36%.

How We Can Help

This Guide is for reference purposes only, and does not provide advice for any particular set of circumstances.

For further information, and to discuss your situation with no obligation, please contact us:

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