Inheritance Tax Mitigation Cards

MEDICAL & DENTAL FINANCIAL PLANNERS

Overview

In summary, IHT is payable on a person's total assets, including property, values are taken as at the date of death. Under current legislation pension fund values are excluded.

The tax liability comes into effect on second death, assuming that on first death, all assets transfer from husband to wife, or vice versa.

There is an allowance called the nil rate band which is currently £325,000 per person. Married couples receive a joint nil rate band of £650,000 (assuming full transfer between spouses on first death).

In addition, there is a recently added Property Related Nil Rate Band which is a further £175,000 per person, certain conditions apply, such as the value of the estate is not more than £2million. If all conditions are met the nil rate band for a couple is then £1 million.

The rate of tax on the 'surplus' over the nil rate band is 40%.

(Source: HMRC)

In a very broad overview, the following is a simple example:

Couple have assets of £ 1,500,000

Nil Rate Bands
£ (1,000,000)

Assessible on second death
£ 500,000

Tax at 40%
£ 200,000

Inheritance Tax is often called a 'Voluntary Tax' as there are many options which can be considered to mitigate the liability.

These include outright gifts, gifts into trust (seven year clock), plus other trust options subject to client circumstances. Life cover is another option.

During financial planning meetings it is stressed that, while it is good to save tax, this is never done to the detriment of the client's own planning. The client's own objectives are always the first priority.

IHT planning can be tricky on occasions, looking at a liability that potentially exists today but in all probability will not become an actual liability until many, many years into the future.

So, why is it that when individuals and couples have worked so hard to accumulate wealth over their lifetime, they would wish HM Revenue & Customs to be one of the principle beneficiaries in the event of their death?

Good advice can be very valuable in this area of planning. Working with key lifetime cashflow modelling, clients can see how their assets may be utilised for them and their family over time, with the potential for significant tax savings. The planning is often not solely one solution, rather a blend from the various alternatives that are available.