Teachers Financial Planning

Inheritance tax planning

This guide looks at the limits that exist on gifts and the possible inheritance tax exemptions they may have.

The government's Summer Budget 2015 saw chancellor George Osborne announce that inheritance tax (IHT) was to be scrapped on homes worth up to £1 million.

The new IHT proposals certainly look like good news for some people who will inherit their parent's or grandparent's home after April 2017, but those hoping for a nice tax-free windfall from an aged aunt, uncle or sibling will not be so lucky. This is because the property will only be able to pass to lineal descendants for it to be exempt when the additional rate is used.

In legal terms, lineal descent is a blood relative in the direct line of descent. This is children, including adopted children, grandchildren and great grandchildren. Brothers, sisters, nieces, nephews and cousins come under what is known as collateral descent and as such, they won't be able to make use of the additional relief.

Another important factor is that the main residence relief will be limited to 1 residential property. Properties that are not main residences at the time of death, such as buy-to-let properties, will not qualify.

IHT is one of the most universally disliked taxes, and one of the areas of taxation we are most frequently asked about. Perhaps unsurprisingly, most of these questions centre on how it can legitimately be minimised.

Get in touch today to talk about your estate.

Inheritance tax: the basics

Current rates

IHT is currently levied at a rate of 40% on the value of an estate above the tax-free threshold of £325,000 per person. Married couples and civil partners are entitled to double the allowance, passing on assets to their children or other relations worth up to £650,000.

An estate is exempt from inheritance tax if the deceased left everything to their husband, wife or civil partner (who must live permanently in the UK).

Future rates

From 6 April 2017, the government will add a 'family home allowance' of £100,000 per person, which will increase by £25,000 each year until it reaches £175,000 in 2020. At that time, if you add this to the existing £325,000 tax free allowance, it means that individuals could pass on assets worth up to £500,000 including a home without incurring any IHT, subject to the amount of their spouse or civil partner's allowance that was unused on their death and passed to them. For married couples and civil partners, the total is the £1million figure that captured the attention of the headline writers. In addition, those who want to downsize to a smaller property will be eligible for an 'inheritance tax credit'. This means that even if you sell a property and buy a cheaper one you will still qualify for the new threshold - providing the bulk of the estate is left to lineal descendants.

IHT liability

Single person

Value of family home	Value of other assets	Value of the estate	IHT liability now	IHT liability from April 2017
£175,000	£175,000	£350,000	£10,000	Nil
£200,000	£300,000	£500,000	£70,000	£30,000
£250,000	£400,000	£650,000	£130,000	£90,000
£400,000	£600,000	£1,000,000	£270,000	£230,000
£750,000	£750,000	£1,500,000	£470,000	£430,000
£1,000,000	£1,000,000	£2,000,000	£670,000	£630,000

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Married couple (assuming full allowance is passed to surviving spouse)

Value of family home	Value of other assets	Value of the estate	IHT liability now	IHT liability from April 2017
£175,000	£175,000	£350,000	Nil	Nil
£200,000	£300,000	£500,000	Nil	Nil
£250,000	£400,000	£650,000	Nil	Nil
£400,000	£600,000	£1,000,000	£140,000	£60,000
£750,000	£750,000	£1,500,000	£340,000	£260,000
£1,000,000	£1,000,000	£2,000,000	£540,000	£460,000

Talk to us about IHT will affect you and your family.

Minimising liability

If you have no children or grandchildren, or you have other property that doesn't qualify for the new additional relief, you may be tempted to start giving away your assets to reduce your exposure to IHT.

However, there are strict limits as to how much you can give away as gifts.

No changes were announced about the limits of gifts in the Summer Budget, so they remain as follows.

Wedding gifts/civil partnership ceremony gifts

The amount you can give depend on your relationship with the couple:

- parents can each give cash or gifts worth £5,000
- grandparents and great grandparents can each give cash or gifts worth £2,500
- anyone else can give cash or gifts worth £1,000.

You have to make the gift on or shortly before the date of the wedding or civil partnership ceremony. If the ceremony is called off, this exemption won't apply.

Regular gifts or payments that are part of your normal expenditure

Any regular gifts you make out of your after-tax income, not including your capital, qualify as exempt from IHT, as long as you have enough income left after making them to maintain your normal lifestyle.

These include:

- monthly or other regular payments to someone
- regular gifts for Christmas and birthdays, or wedding/civil partnership anniversaries
- regular premiums on a life insurance policy - for you or someone else.

Small gifts

You can make small gifts up to the value of £250 to as many individuals as you like each tax year.

IHT exempt gifts

Some gifts are exempt from IHT:

- up to £3,000 worth of gifts given away in each tax year
- any value of lifetime gifts can be made between spouses or civil partners without inheritance tax being due on them
- payments to help with living costs for example to an ex-husband, ex-wife or former civil partner, a relative who's dependent on you because of old age, illness or disability or a child under 18 years old or in full-time education
- gifts to charities, museums, universities or community amateur sports clubs
- gifts to political parties that have either 2 members elected to the House of Commons or 1 member elected to the House of Commons and received at least 150,000 votes in a general election.

Other reliefs are available including business relief, agricultural relief and woodland relief. In addition, there is an exemption available to members of certain occupations.

Death in service exemption is when an estate doesn't have to pay IHT the deceased was helping in an emergency that caused or contributed to their death and was a:

- member of the armed forces
- member of the emergency services
- humanitarian aid worker.

Timing is everything

If, like many of our clients, you are a parent who would rather see your children and perhaps grandchildren live comfortably whilst you are still around to enjoy life with them, there are ways to help them financially.

There are also ways to help others who are important to you.

But whether it's a one-off lump sum or a recurring payment, it's vital that you seek advice before you do so. The way you provide it, whether it's a loan or a gift, the reason for it and the timing of these are all crucial elements to consider when it comes to the implications for IHT.

As experts with many years of experience in IHT planning, we can advise on the many ways we can help you to help your lineal and collateral descendants- or family as it's known outside legal circles, both now and in the future.

Get in touch with our team to find out more about minimising IHT today.