



Inheritance Tax

Inheritance Tax (IHT) is a combined death duty and gift tax. IHT is usually paid on an estate when a person dies. For IHT purposes the 'estate' comprises assets including property owned solely by the deceased and any share of assets owned jointly with another person. Many estates don't have to pay Inheritance Tax because their value falls within the nil rate band. However rising property values mean that the family home is often a major factor in determining IHT liability and this can cause problems for family members where the home needs to be sold in order for the family to meet the IHT liability to HM Revenue and Customs. IHT is also sometimes payable on trusts or gifts made during someone's lifetime.

With careful planning in advance, gifts can be made to reduce or eliminate IHT liability. This Fact Sheet gives a guide to some of the opportunities for minimising the impact of IHT. It is however important for to seek specific professional advice appropriate to your personal circumstances.

Liability for IHT

Generally speaking a UK-domiciled person is subject to IHT on all his or her property, whether located in the UK or abroad.

In most cases, IHT must be paid within six months of the end of the month in which the deceased died. After this, interest will be charged on the amount outstanding. You can pay in annual installments over ten years if the value of the estate is tied up in property such as a house.

Inheritance Tax Rates and Allowances

	2009/10	2008/09
Nil rate band to	£325,000	£312,000
Rate of tax on balance	40%	40%
Chargeable lifetime transfers	20%	20%

IHT liability can also arise in the following circumstances:

- On a gift made by an person in his lifetime.
- On a lifetime transfer of value which is regarded as a 'chargeable transfer'.
- On an person's death.

Exempt Transfers

There are a number of categories of transfer which do not give rise to an IHT charge. Examples of these are, in simple terms:

- Most transfers between spouses and civil partners.
- The first £3,000 of lifetime transfers in any tax year plus any unused balance from the previous year.
- Gifts to individuals not exceeding £250 in total per tax year per recipient.
- Gifts in consideration of marriage or civil partnership: up to £5,000 by a parent, up to £2,500 by a grandparent, or up to £1,000 by any other person.
- A gift for family maintenance.

- Gifts made out of income that form part of normal expenditure and do not reduce the standard of living.
- Gifts to registered charities, whether made during lifetime or on death.
- Gifts to political parties.
- Gifts for national purposes, for example to a museum or university.

The seven-year rule - Potentially Exempt Transfers

Any gifts you make to individuals will be exempt from Inheritance Tax as long as you live for seven years after making the gift. These sorts of gifts are known as 'potentially exempt transfers' (PETs). However if you give an asset away at any time, but keep an interest in it - for example you give your house away but continue to live in it rent-free - this gift will not be a potentially exempt transfer.

If you die within seven years and the total value of gifts you made is less than the Inheritance Tax threshold, then the value of the gifts is added to your estate and any tax due is paid out of the estate. However, if you die within seven years of making a gift and the gift is valued at more than the Inheritance Tax threshold, Inheritance Tax will need to be paid on its value, either by the person receiving the gift or by the representatives of the estate.

If you die between three and seven years after making a gift, and the total value of gifts that you made is over the threshold, any Inheritance Tax due on the gift is reduced on a sliding scale. This is known as 'Taper Relief'.

Transferring an unused Inheritance Tax threshold

Since October 2007, you can transfer any unused Inheritance Tax threshold from a late spouse or civil partner to the second spouse or civil partner when they die. This can increase the Inheritance Tax threshold of the second partner - from £325,000 to as much as £650,000 in 2009-10, depending on the circumstances. The transfer needs careful documentation and forms to be completed to be effective.

Business Property Relief (BPR)

When business property is transferred there is a percentage reduction in the value of the transfer. This can be at the rate of 100% or 50% for 2009-10 depending on the category of asset being transferred. You can claim business relief on:

- A business or an interest in a business (such as a partner in a partnership).
- Unquoted shares: This includes shares which are quoted on the Alternative Investment Market (AIM shares).
- A holding of shares which are fully listed on a recognised Stock Exchange, which give control of a company.
- Land, buildings, plant or machinery owned by a partner or controlling shareholder and used wholly or mainly in the business.

Business relief may also be available for trust property used within a business. Some businesses do not qualify for BPR - these included companies involved in share trading, land and buildings.

Careful consideration needs to be given to other factors. For example a gift that saves IHT may unnecessarily create a capital gains tax (CGT) liability.



Agricultural Property Relief is similar to BPR and available on the transfer of agricultural property so long as various conditions are met.

Life assurance and Pensions

Life assurance arrangements can be an effective IHT planning tool:

- To reduce IHT liability through means of a life assurance policy as a gift.
- To fund IHT liabilities due on death. This is particularly useful where the assets are not easily realised, eg family company shares.

IHT on pensions is a complex area. In simple terms, Inheritance Tax is not chargeable on any death benefits paid to a relevant dependant as pension benefits or where the funds are paid to a charity. In most other cases IHT is chargeable on the left-over funds.

Trusts

Trusts offer a means of holding and managing money or property for people who may not be ready or able to manage it for themselves. Used in conjunction with a will, they can also help ensure that your assets are passed on in accordance with your wishes after you die.

Transfers into most types of existing or newly created trusts above the Inheritance Tax nil rate band are charged as Chargeable lifetime transfers on the amount exceeding that band. The tax is payable by the person making the transfer. There are possible exemptions for example for trusts for disabled persons or trusts created for a minor child of the deceased but this is an area where professional advice is almost always necessary from a trust specialist.

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How Harrington Kelly can help?

We can help you to consider how Inheritance Tax could affect you and your family or beneficiaries. We can work out what the potential impact of Inheritance tax would be and undertake planning for you, in order to ensure that all reliefs, exemptions and allowances are used effectively. We can also make suggestions regarding the structure of your estate, plus, where applicable, we can advise on the possible use of Trusts.