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Can Inheritance Tax be reduced?

Yes – through simple planning and professional advice you could reduce the IHT on your estate and save your loved ones a significant amount of money after your death. This leaflet introduces IHT exemptions and reliefs you should be making use of and steps you can take to make the most of these.

What is Inheritance Tax?

IHT is payable on:-

- the value of your estate on death;
- the value of gifts you make within seven years of death; and
- certain lifetime gifts you make into trust.

The rate of IHT on death is 40% of the combined value of your estate and certain gifts made within seven years of death to the extent that this exceeds your available nil rate band (the maximum IHT free amount, currently £325,000). As from 6 April 2017, an additional IHT 'residence nil rate band' is available for your home if this passes on death to your children or descendants. The rules are being phased in with the amount set at £100,000 in 2017/18, £125,000 in 2018/19, £150,000 in 2019/20 and £175,000 in 2020/21. However, the residence nil rate band will not apply in full, or at all, to estates in excess of £2 million.

Reliefs and exemptions from IHT

There are a number of reliefs and exemptions from IHT available, including:-

- **Business/Agricultural Property Relief ("BPR" and "APR"):** If you own:-
  - shares in an unquoted trading company (including AIM companies); and/or
  - agricultural land and/or buildings,

  these assets could be gifted during lifetime or left on death free of IHT, provided certain conditions are met.
- **Outright gifts**: You can make unlimited outright gifts to individuals free of IHT provided you then survive more than seven years.
- **Gifts to spouses**: If you are married or in a civil partnership you can make unlimited gifts to your spouse free of IHT. (N.B. a limit applies if you are UK domiciled and making gifts to a non-UK domiciled spouse).
- **Annual exemption**: You can gift up to £3,000 each tax year free of IHT to any person.
- **Small gifts exemption**: You can also make gifts of up to £250 a year per person to any number of people.
- **Regular gifts from surplus income**: If you have income surplus to your needs, you can gift unlimited amounts of this income free from IHT so long as you can do so regularly. Certain documentation would need to be prepared and rules followed to ensure that this very valuable exemption can be claimed.
- **Gifts to Charity**: You can make gifts to charities in the UK, EU, Norway and Iceland during your lifetime or under your Will free of IHT.

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How to make the most of the IHT exemptions and reliefs?

With effective planning, you can make the most of the above reliefs. The following might be considered:-

- **Planning through Wills**
  If you are married/in a civil partnership you and your spouse/civil partner should have Wills in place to ensure that:-
  - You can take advantage of planning opportunities following the first death which will reduce the IHT liability on the second death.
  - BPR and APR are maximised by ensuring the value of these reliefs are locked in on the death of the first spouse/civil partner.
  - The remainder of your assets pass to the survivor so that no IHT charge will arise on the death. Without a Will, your estate may not automatically pass to your surviving spouse/civil partner; your loved ones could therefore be left without sufficient financial provision and an IHT bill that could have easily been avoided.
- **Planning through Trusts**
  You may want to make a gift to your children in order to reduce the value of your estate for IHT purposes. However, your children may be too young or their circumstances may not be appropriate to receive cash or other assets outright just yet. To cater for this, you could create a trust to hold the cash / other assets for your children until it is appropriate for them to be passed to the children outright. Once in trust the assets will be held for your children's benefit and will no longer form part of your estate for IHT purposes once you have survived seven years.
- **Planning through Life Insurance**
  Life insurance can be a simple and effective way of meeting any IHT liability. You should transfer any such policy into trust to ensure that the policy proceeds are not subject to IHT on your death.
- **New Business Ventures**
  Structuring the ownership of new business ventures appropriately from the outset can be an effective way of estate planning and reducing any IHT liability. You may, for example, when setting up a new venture wish to put some of the shares directly in to a trust for your children rather than retaining all the shares in your name. In this way, any growth in value of those shares would be outside of your estate for IHT purposes from the outset.
- **Non-UK domiciled individuals**
  If you are non-UK domiciled you are only subject to IHT on your UK situated assets, unless you have been tax resident in the UK for 17 out of the previous 20 tax years and therefore treated as deemed domiciled in the UK. At that point your non-UK assets would also become subject to IHT. With effective planning before you become deemed domiciled, your offshore assets could be sheltered from IHT by setting up an offshore trust to hold these for your and your family's benefit. The Government proposes to reform the deemed domicile rules so as to lower the residence requirement to 15 out of the last 20 tax years, as from 6 April 2017. This will make advance planning even more important.

The Private Client Team

Our specialist tax, trust and estate lawyers form one of London's longest established and most experienced private client teams.

We have provided first class advice to individuals, families, trusts, charities and estates for generations. Our service covers all matters relating to tax planning and trusts, wills and succession planning and the administration of trusts and estates, for both UK and non-UK domiciliaries.

For further information,
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