Plan Ahead to Minimise Inheritance Tax

Inheritance Tax (IHT) can be costly for an estate, at rates of up to 40% on assets held on death and on lifetime transfers. IHT is not straightforward, and it can be a complex process to deal with after a person has died.

Tax Free Bands

- A rise in property prices has resulted in many people exceeding their 'standard' IHT nil rate band of £325,000. Your joint estate could potentially benefit from up to £1,000,000 of IHT nil rate band subject to certain conditions.

- There are complexities involved with the nil rate bands, however, with careful planning this could potentially mitigate or reduce your IHT exposure, therefore increasing the wealth available to pass to the next generation.

Planning Options

In addition to maximising your tax free bands, there is straightforward planning available which can reduce IHT exposure and protect family wealth, provided it is implemented early, for example:

- You can make IHT free gifts up to £3,000 per year, for the current year and one previous year, if not already used.

- Regular gifts out of surplus income can be exempt from IHT. This is a very useful exemption and can apply to significant amounts of surplus income. There are complexities with this planning, and we can assist you to ensure gifts are implemented correctly.

- Make gifts to your friends and family during your lifetime on which IHT may only become due if you do not survive for 7 years. You must not receive any benefit from a gift as this can trigger an IHT charge or an income tax liability.

- The residence nil rate band is an IHT free allowance of £175,000 (2021/22), available on property passed to your children or grandchildren, on death. There will be a tapered withdrawal of this additional band for estates with a net value of more than £2m.

- We can advise on options available to gift the family home during lifetime. There are strict rules on continuing to live in a property after it has been given away.

- Family investment companies are a structure via which parents or grandparents can pass wealth to the next generation during their lifetime. This structure can allow parents to retain control over family assets, while facilitating IHT efficient succession planning. There are considerable nuances in respect of the company structure, which makes them flexible but also complex.

- Life insurance can be purchased to cover IHT arising, however premiums should be compared with other planning options available. A will is a crucial element of estate planning. It should be drawn to ensure that assets are distributed among family and other beneficiaries according to your wishes, in a tax-efficient manner.

- A will transferring assets subject to IHT reliefs such as Business Property Relief (BPR) and Agricultural Property Relief (APR), can be very tax efficient. If you have a will in place this can also facilitate a tax efficient post death variation, if required.

> *As increasingly more people are falling within the IHT net, it is important to ensure your business and personal assets pass down to your family tax efficiently.*

IHT Reliefs

- Protection of valuable reliefs such as BPR and APR can be crucial.
- Planning is important to ensure maximum BPR/APR applies as:
  - It is often assumed that shares in an unquoted trading company will attract full BPR, provided certain conditions are met. However, specific assets held within a company can result in a restriction of this valuable relief. It is recommended that your company activity and assets are reviewed regularly.
  - Assets such as business loans may be converted into shares which could qualify for BPR with immediate effect.
  - When BPR qualifying assets are transferred between spouses during their lifetime, the BPR two-year clock starts. This differs with the position on spousal transfers on death.
  - Farmers have very specific issues in relation to IHT planning. Farming families normally own a valuable asset that is vital to their business, often carried on by the family, for several generations. If IHT was imposed on such an asset, or other expenses such as care home fees arose, this asset may have to be sold. It is important, to ensure that the conditions for APR are met. The family farming business may have undergone considerable changes since IHT was last considered and with rising property prices, it is prudent to monitor the value of the assets that do not attract reliefs.

How can CavanaghKelly help?

Forward planning and regular reviews to take account of changes in circumstances and legislation, can help to mitigate IHT exposure and protect family assets.

We have a specialised tax team who can:

- Explain how IHT works and how and when charges can arise.
- Assess your current exposure to IHT and nursing home costs, on both lifetime transfers and on death.
- Advise on simple steps to help mitigate your exposure to IHT including your entitlement to exemptions and reliefs in respect of your business and personal assets.
- Advise on gifting of assets and the exposure to IHT for the recipient.
- Provide guidance on making gifts to family, family investment companies and/or family trusts.
- Advise on the impact an IHT bill could have on your family and/or business.
- Review and advise on historic family trusts that may have been implemented previously for IHT planning purposes.
- Our in house CavanaghKelly legal team can advise on and help you draft your will and if required, shareholder agreements.

Key Contacts

Janette Burns

Director
Janette.Burns@CavanaghKelly.com

Leona Leonard

Director
Leona.Leonard@CavanaghKelly.com

Kathy Blair

Director
Kathy.Blair@CavanaghKelly.com

Claire Daly

Senior Manager
Claire.Daly@CavanaghKelly.com

CavanaghKelly