



Benjamin Franklin said, "the only things certain in life are death and taxes", inheritance tax (IHT) touches on both of these.

## What is Inheritance Tax?

After death your representatives assess how much your estate is worth, after your debts, to give the net value. Your assets include:

- Cash in the bank, under the bed or anywhere else!
- Investments
- Any property or business you own
- Vehicles
- Payouts from life insurance policies

There is usually no Inheritance Tax to pay if you leave everything to your Spouse or Civil Partner otherwise your estate pays tax at 40% on anything above the £325,000 inheritance tax threshold. However, you do also have use of your spouse's threshold if they predeceased you and left everything to you.

## Additional Relief - on "Family" Homes

From the 2017/18 tax year there is an additional 'main residence' allowance, where the property was a main residence of the deceased and the recipient of the home is a direct descendant (children, step-children and grandchildren):

This tax year (18/19) it's worth £125,000 (so a total allowance of £450,000), rising by £25,000 each year till it reaches £175,000 (total allowance £500,000) in 2020.

Currently the maximum that can be passed on tax-free is £900,000 for married couples or those in a civil partnership, £450,000 for others.

For singles, this is made up of the existing £325,000, plus the extra £125,000. For couples, when the first one dies their allowance is passed to the survivor, so that £450,000 is doubled to £900,000.

In 2020, the tax-free amount will rise to £1 million for couples (£325,000 x 2 plus



£175,000 x 2) and £500,000 for singles (£325,000 plus £175,000), as the main residence allowance rises.

On properties valued between £1 million and £2 million, inheritance tax will be paid as normal on the amount above the tax-free amount.

On properties valued £2 million or more, homeowners will lose £1 of the 'main residence' allowance for every £2 of value above £2 million. So for a couple, properties worth £2,350,000 or more will get no additional allowance.

## Mitigation

- Gifts of assets and money given away before you die is usually counted as part of your estate and subject to inheritance tax if you die within seven years of making the gift. So plan to make gifts in advance.
- The first £3,000 given away each tax year is free of inheritance tax.
- Gifts in consideration of marriage (which need to be made on / around the day of the wedding / civil partnership); maximum £5,000 from a parent, £2,500 from a grandparent, £1,000 from anyone else.
- Normal distribution out of income - no limit as long as you have sufficient income and make a regular or normal distribution to the same beneficiary.
- Trusts can be useful but need careful planning and consideration. Timing can be all important.

## Important!

Make sure you have an **up to date Will** covering your bequests to beneficiaries and taking into account your tax planning. Everyone has different priorities and circumstances so please contact me for advice.

Paul

