

ROTHERHAM TAYLOR
LIMITED
Chartered Accountants & Registered Auditors

A GUIDE TO INHERITANCE TAX IN THE UK

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INTRODUCTION

Inheritance Tax (IHT) is paid on the estate of someone who has passed away and when the value of the estate is above a certain threshold. The tax is based on the value of the assets in the estate, including property, money, investments, and possessions. It is typically paid by the deceased's estate, before any assets are distributed to the beneficiaries.

It is important to understand how IHT works in the UK in order to plan for the future, both for individuals and for their families.

Knowing how to minimise IHT can help ensure that more of your estate reaches your loved ones.




WHO PAYS IHT?

In most cases, IHT is paid by the executor of the deceased's estate, using funds from the estate itself. However, if the estate is insolvent or there is no executor, the beneficiaries may be responsible for paying the tax.

The main IHT nil rate band is currently £325,000. If the value of the estate is below this amount, no IHT is payable. If the estate is worth more than £325,000, the tax rate is 40 per cent.

The residence nil rate band is an additional IHT allowance that is available to individuals who leave their main residence to their direct descendants (such as children or grandchildren) upon their death. This allowance was introduced in the UK in April 2017, and is currently set at £175,000.

The residence nil rate band is in addition to the standard IHT threshold of £325,000, meaning that individuals can potentially pass on up to £500,000 to their direct descendants tax-free. Like the standard nil rate band, the residence nil rate band is subject to certain conditions and exceptions, so it's important to speak with a professional advisor to determine how the rules apply in each individual case.



WHAT IS SUBJECT TO IHT?

IHT is typically payable on all of the assets in the estate above the relevant threshold, including property, money, investments, and possessions. However, there are some exemptions and reliefs available that can reduce the amount of tax payable.

For example, gifts made to spouses, charities, and political parties are usually exempt from IHT. There are also reliefs available for certain types of business assets and agricultural property.

In addition to the exemptions and reliefs mentioned above, there are several other ways to reduce IHT liability. For example, individuals can make gifts to their beneficiaries during their lifetime, which can reduce the value of their estate for IHT purposes. There are also certain types of trusts that can be used to protect assets from IHT.



HOW TO CALCULATE IHT?


When calculating IHT, it's important to determine the value of all the assets in the estate, including any gifts made during the deceased's lifetime. The value of any debts or funeral expenses are then subtracted along with any reliefs from the assets, and the remaining amount is subject to IHT.

Once the value of the estate has been calculated, the amount of IHT due can be calculated by applying the appropriate tax rate (currently 40 per cent) to the taxable portion of the estate.

PAYMENT & DEADLINE

IHT must typically be paid within six months of the end of the month in which the deceased passed away. Payment is usually made using funds from the deceased's estate.

The IHT Return itself must be filed within 12 months of the date of death. If IHT is not paid on time, interest and penalties may be charged. The penalties can be substantial, and can include fines and seizure of assets.



PLANNING FOR IHT

There are several steps that individuals can take to minimize the amount of IHT payable, such as making gifts during their lifetime, setting up trusts, and using other tax planning strategies. It is also possible to vary the Will within two years of the date of death to make it more tax efficient. It's important to seek professional advice to determine the most appropriate strategies for your specific circumstances.

The seven-year rule is an important aspect of IHT in the UK. This rule stipulates that if an individual makes a gift to someone else and survives for at least seven years after making the gift, the value of that gift will be excluded from their estate for IHT purposes. This means that if an individual dies within seven years of making a gift, the value of that gift will be added back into their estate for IHT purposes. The rate of tax applied to those gifts increases the closer they were made to the end of the individual's life.

The seven-year rule also applies to certain types of trusts, such as those that are created with the intention of reducing IHT liability. It's important to note that there are certain exceptions to the seven-year rule, such as gifts that are exempt from IHT or gifts that are made to a spouse or civil partner. Understanding the seven-year rule is crucial for anyone who is looking to make gifts during their lifetime or set up trusts for the benefit of their loved ones, as it can have a significant impact on their IHT liability.

Trusts can be used to protect assets from IHT, while still allowing individuals to control and benefit from the assets during their lifetime. There are several types of trusts available, each with their own advantages and disadvantages. Trusts can be complex, so it's important to speak with a professional advisor to determine whether a trust is appropriate for your situation.

CONCLUSION

IHT is a tax that is paid on the estate of someone who has passed away, above a certain threshold. The tax rate is currently 40 per cent on estates worth over £325,000. There are several exemptions and reliefs available, as well as various planning strategies that can help reduce IHT liability.

It's important to plan for IHT to ensure that more of the estate goes to beneficiaries rather than to the taxman. Speaking with a tax professional can help individuals understand their options and make informed decisions about how to manage their estates.

Call us today to arrange an initial appointment to find out how we can help you manage your exposure to IHT.



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