ROTHERHAM TAYLOR LIMITED
Chartered Accountants & Registered Auditors

INHERITANCE TAX FAQs

INTRODUCTION

Inheritance Tax (IHT) can feel like a daunting prospect and many people can often find themselves feeling punished for having accumulated wealth and assets over their lives.

As IHT expands and pulls more estates into scope, it is natural that the number of questions and concerns around this once niche tax has risen. While the best approach to handling IHT is to seek professional financial advice, we have put together a useful factsheet that will help you understand IHT.

WHAT IS IHT?

IHT is a tax that is charged on a person's estate when it passes to beneficiaries after the estate owner's death.

WILL MY ESTATE BE SUBJECT TO IHT?

Not every estate will be liable for IHT. Each individual has a nil-rate band of £325,000, which is the amount that can be passed on free of IHT. In addition, some estates may benefit from the residence nil-rate band (RNRB), which can provide an additional allowance of up to £175,000 where a qualifying residence is left to direct descendants, such as children or grandchildren.

This means that an individual may be able to pass on up to £500,000 free from IHT. Married couples and civil partners can usually transfer any unused allowances to the surviving spouse or partner, potentially allowing up to £1 million to be passed on free of IHT. However, the residence nil-rate band can be reduced or lost for larger estates, and specific conditions must be met before it can be claimed.

WHO HAS TO PAY IHT?

Beneficiaries rarely pay the IHT bill. Typically, some of the value of the estate will be used to pay the bill by an executor or administrator.

WHEN DOES IHT HAVE TO BE PAID?

Once a person has passed away, the IHT bill must be paid in full within six months of their passing. If this is not done, interest will be applied and penalties can be imposed.

CAN I MINIMISE AN IHT BILL?

It is not possible to minimise an IHT bill once the estate has been determined. The only way to manage exposure is by careful structuring during a person's lifetime. Typically, the only way this is possible is by transferring assets by disposing of them or gifting them.

DOES GIFTING REDUCE IHT BILLS?

Yes! If an asset is gifted more than seven years before death, the asset is outside the scope of IHT. If a gift is given in the interim years, it will be taxed at a tapered rate. The current rates for the years between gift and death are:

- Less than three years = **40 per cent**
- Three to four years = **32 per cent**
- Four to five years = **24 per cent**
- Five to six years = **16 per cent**
- Six to seven years = **8 per cent**
- Seven or more years = **zero per cent**

WHAT ARE GIFTS OUT OF REGULAR INCOME?

Certain gifts made from surplus income may be immediately exempt from IHT, provided they form part of a regular pattern of giving and do not affect the donor's standard of living. This exemption is commonly used to make regular payments to children, grandchildren or other family members and can be an effective way of passing on wealth during your lifetime.

CAN TRUSTS HELP WITH IHT PLANNING?

Trusts can be a useful estate planning tool in the right circumstances. They may allow assets to be set aside for future generations while providing a degree of control over how and when beneficiaries receive them. The tax treatment of trusts can be complex and depends on the type of trust used, so professional advice should always be sought before establishing one.

WHAT ARE APR AND BPR?

Agricultural Property Relief (APR) and Business Property Relief (BPR) are valuable reliefs that can significantly reduce the value of certain assets for IHT purposes. APR may provide relief on qualifying agricultural land and property. BPR may provide relief on qualifying business interests, including shares in certain unlisted companies and business assets. The availability of these reliefs depends on several factors, including the type of asset involved and how long it has been owned.

DO PENSIONS FORM PART OF MY ESTATE FOR IHT PURPOSES?

Pensions have traditionally been an efficient estate planning tool because many pension death benefits have fallen outside a person's estate for IHT purposes. However, the Government has announced plans that could change how certain unused pension funds and death benefits are treated for IHT purposes in the future. As these reforms are expected to affect estate planning strategies, it is important to review existing arrangements and seek professional advice on how any changes may impact you.

Our expert team are here to support individuals with their IHT tax plans. We can help you structure your estate in the most tax-efficient way to minimise your IHT exposure. **For support with Inheritance Tax, get in touch with our team!**