



# Guide to Inheritance Tax Planning

## What is Inheritance Tax?

When you die, a value has to be put on all of your assets and liabilities. Your assets may include property, bank accounts, stocks and shares, insurance policies, business interests and other investments. Then, very basically, if you leave your estate to anyone other than your spouse, civil partner or to charity, the government levies Inheritance Tax at 40% on the value that exceeds the nil-rate threshold (defined below).

## The Nil-Rate Threshold

You may leave a certain amount without your Beneficiaries having to pay tax on it. Currently, this amount is £325,000. So, if you die leaving an estate worth £400,000 to your children, your estate will pay Inheritance Tax of £30,000 ( $£400,000 - £325,000 = £75,000 \times 40\% = £30,000$ ).

If you have a home and leave this to a direct descendant, or a certain type of Trust, you may be eligible for an additional Inheritance Tax allowance called the Residence Nil-Rate Band. This is currently £175,000. There are a number of conditions that have to be satisfied so this will need to be carefully considered.

## Complementary Services

Inheritance Tax planning should not be considered in isolation. You may need to consider making or reviewing a Will, and we might need to work with other professional advisors (for example, you IFA and Accountant) to make sure we offer you the best advice suited to your personal circumstances.

Renaissance Legal is part of the Renaissance group of companies alongside Renaissance Trust and Renaissance Financial. Together, the group offers legal services, financial services, Inheritance Tax planning, welfare benefits advice and Trust administration.

If you are married or in a civil partnership and leave all of your assets to each other, no Inheritance Tax will be payable at that stage. Instead, Inheritance Tax will be assessed after you have both died, and there will normally be two sets of each Nil-Rate Band available to the combined estate (subject to a number of factors beyond the scope of this note).

## Small Gifts

Each year an individual is able to make gifts of capital of up to £250 to any number of people. Provided these do not exceed the £250 limit, they will be completely free of Inheritance Tax. Using this exemption can be quite useful in making gifts to grandchildren.

## The Annual Allowance

Each individual may gift capital of up to £3,000 per year. Gifts made within this limit in any one tax year (April 6th to April 5th) are entirely free of Inheritance Tax. If the allowance has not been used in the preceding year it can be carried forward to the present year, but you can only do this for one year. Therefore, the maximum annual allowance at any time is £6,000. Each individual has a separate allowance irrespective of whether or not they are married or have a civil partner.

## Normal expenditure out of income

If you have excess income there is an exemption that allows you to give away that income Inheritance Tax-free. However, the rules are very specific:

- the gift must be part of your normal expenditure; and
- taking one year with another, the gift must be made out of your taxed income; and
- after allowing for all gifts forming part of your normal expenditure you are left with sufficient income to maintain your usual standard of living.

This exemption most frequently arises in connection with payment of premiums to maintain an insurance policy written in Trust for someone other than the premium payer. However, this is not the only circumstance where this exemption may be applied and may also be used each year simply to distribute excess income to your family. If you are relying on this exemption, it is very important to keep full records as they may be required by HM Revenue & Customs on your death.

## Gifts in consideration of marriage or civil partnership

An interesting and rarely used exemption relates to marriage and civil partnership. The rules allow a gift to be made free of Inheritance Tax which is in consideration of a marriage or civil partnership. The gift should be made before or at the same time as the marriage or civil partnership. If the gift is made afterwards, there are some strict rules that need to be adhered to. Parents can give their children £5,000 and a grandparent or other relative can give £2,500. For anyone else it is £1,000.

## Complementary Services

As lawyers we are not permitted to provide you with financial planning advice. Renaissance Financial, our dedicated financial services company, provides tailored financial advice for families, individuals, Trustees, Deputies and Attorneys in relation to investment and wealth management services - including, retirement and Inheritance Tax Planning, as well as the financial management of Trusts.

## Gifts for maintenance of the family

Lifetime gifts of capital made to maintain a child or dependent relative would generally be exempt.

Where the gift is in respect of a child, the gift has to be for the maintenance, education or training of that child up to the age of 18, or until the completion of full-time education.

Where the gift is for a dependent relative (that is a person unable to maintain him or herself because of old age or infirmity) it must be reasonable for the provision of care or maintenance.

## Gifts to Charities, political parties and other approved bodies

Gifts made to UK Charities and political parties are entirely exempt from Inheritance Tax whether made during lifetime or at death. This is also true of gifts to certain national museums, schools, universities, churches, hospitals, National Trust and other approved bodies.

If by your Will you leave 10% of your total estate to Charity, the overall Inheritance Tax rate levied against your estate will be reduced from 40% to 36%.

## Assets with a reduced value for Inheritance Tax purposes

There are certain assets which are deemed to have a reduced value for Inheritance Tax purposes. This relates to certain business and agricultural assets and can reduce the value by up to 100%. This exemption is very important for business owners and farmers as it could mean that the business or farming interest can be passed on to future generations without Inheritance Tax being charged.

Certain investments qualify for 100% relief from Inheritance Tax, but these should not be considered without taking appropriate financial advice.

## Questions?

If you would like to discuss this further, please call us on 01273 610 611 or email: [info@renaissancelegal.co.uk](mailto:info@renaissancelegal.co.uk)

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