

Five Ways to Cut your Inheritance Tax (IHT) Bill

Inheritance Tax is often known as the 'Voluntary Tax' as there are so many different ways you can reduce your liability without breaking any laws.

IHT is currently payable at 40% on the value of your estate over £325,000 when you die.

Your estate means not only your home if you own it, but also any other assets you have, such as any savings or investments, your household goods and personal belongings.

Here, we look at five-ways you can reduce or cover any potential IHT bills that could be left for loved ones when you die.

Remember that writing a Will is essential if you want to make your financial wishes clear. If you die without one, Intestacy Laws will apply and your estate may not go to who you want it to.

1. Use Allowances

Each of us has an Annual Gift Allowance which enables you to give away up to £3,000 free of IHT each Tax-Year.

You can give away more than this amount if you want to, but you must live for at least Seven-years from the date of the Gift for it to be free of IHT.

You can also make any number of Individual Gifts worth up to £250 in any one tax-year and no IHT will be due on them.

In addition to these allowances, there is no IHT payable on a wedding or Civil Partnership Gift worth up to £5,000 if given to your child, £2,500 if given to a grandchild or great-grandchild, or £1,000 if given to anyone else.

Remember too that if you are married or have a Civil Partner, they can inherit your entire estate without having to pay IHT.

For example, if your half of the property you live in is worth £250,000 and you have another £150,000 in other assets, you can pass everything to your Spouse or Civil Partner without an IHT charge.

2. Put things into Trust

Setting up a Trust to hold some of your savings or investments can mean they no longer form part of your estate for IHT purposes.

For example, when you set-up what is known as a 'Bare Trust', your assets are held in your name as a Trustee, but will go directly to a named beneficiary.

Any transfers you make into this type of Trust maybe exempt from IHT, as long as you survive for seven years after you have made the transfer.

There are several other types of Trust and they can be really complicated, so you will need expert help if you are considering using Trusts to help reduce your IHT Liability.

3. Give to Charity

All Gifts you make to charity are entirely free of IHT. If you leave more than 10% of your estate to charity, then the amount of IHT you must pay on anything else you leave to others is reduced from 40% to 36%.

That means both the charity you have left something to as well as your loved ones could benefit from your generosity.

4. Make the Most of This Year's New IHT Allowance

IHT rules have changed. As from April 2017, a new 'Family Home Allowance' has been introduced, with the aim of allowing more people to pass their properties on to direct descendants free of IHT.

The allowance will be in addition to the normal £325,000 IHT threshold.

It will be phased in gradually until the 2020/2021 tax-year, starting at a £100,000 in 2017/2018, rising to a £125,000 in 2018/2019, £150,000 in 2019/2020 and then £175,000 in 2020/2021.

At this point, when added to the £325,000 current threshold, the allowance would mean that an individual can leave up to a total of £500,000 and a married couple £1m, before IHT becomes chargeable. The allowance will be scaled back for estates worth over £2m.

5. Consider A Protection Policy to pay for Bills

One way to cover any potential IHT Bill you leave behind for loved ones, is to consider taking out a Life Protection Policy.

For example, you could pay monthly premiums for a Life Insurance Policy that will pay out a lump sum when you die to cover any IHT Bills. This could save your family or dependents having to sell any of your assets to cover costs.

Make sure any policy you take out is written in Trust, or your loved ones may have to pay IHT on the pay-out!

Need Advice? We are here to help

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