Inheritance Tax Fact Sheet

No longer a tax for the very rich

What Is Inheritance Tax?

As Benjamin Franklin rightly pointed out, there are only two certainties in life – death and taxes. This is when inheritance tax comes into play. It is a tax that is applied on your estate when you die (as well as on certain life-time gifts). Your estate includes pretty much everything you own for example, cash, investments, houses and cars. Fortunately, the majority of pensions, farmland and ownership in businesses can be excluded (or at least partially).

Inheritance tax is no longer a tax for the very rich. Rising house prices coupled with the freezing of the inheritance tax threshold means many more of us are going to be affected by inheritance tax. In fact, it is estimated that 10 per cent of households will be liable for inheritance tax by 2018, an increase from just two per cent in 2012.

How Much Inheritance Tax Will I Pay?

If you have never married, then the first £325,000 of your estate will be tax free. This is referred to as the nil rate band (NRB). Everything above that will be liable for inheritance tax.

If you are a couple (by marriage or civil partnership), then you can leave everything to your spouse tax free when you die. However, the surviving spouse's representatives must claim the first spouse's unused NRB on second death. Doing so can effectively double the NRB, this means that currently up to £650,000 of your estate will be tax free.

Inheritance tax is applied at a flat rate of 40 per cent (or 36 per cent if at least 10 per cent of the net estate is left to a registered charity).

People with estates of £2 million or less who pass on their main residence to their children or grandchildren can claim the full residence nil rate band (RNRB). This will be £100,000 in 2017-2018, increasing to £175,000 by 2020-2021. For estates above £2 million, the RNRB will be tapered down to zero if your estate is over £2.35 million (rate for 2020-2021).

Example

In 2016, the wife passes away and her husband inherits the full estate. A year later the husband passes away leaving an estate worth £2.5m.

Based on this scenario, the NRB for a married couple applies and the tax liability will be as follows:

Value of estate	£2.5m
NRB	£650,000
Value of estate subject to tax	£1.85m
Tax liability	**£740,000**

When Should I Start Planning For Inheritance Tax?

There is no single immediate cure. In short, the sooner you start planning the better. By continuously chipping away at the tax bill, you not only reduce the tax bill but increase the available strategies and flexibility of the estate plan for you and your family. Remember, inheritance tax is a tax that you can considerably reduce. You shouldn't have to pay more than you have to and with careful planning you can avoid giving almost half of your hard-earned wealth to the taxman.

Another advantage of planning early is that it gives you more options. The reverse of that is, in many cases, people only start to think about inheritance when they have moved into a care home. Someone usually assumes a Power of Attorney (PoA), at which point, options to mitigate inheritance tax are limited.

A financial plan to mitigate inheritance tax gives peace of mind, clarity and confidence as well as greater control and more financial flexibility. Whatever age you are, it is worthwhile having a conversation about inheritance tax.

Next Steps

Talk about it!
Whether you are the parent or the child, it really is worth having a conversation about inheritance tax. While it can be a difficult and sensitive subject, it really is important if you want to avoid a potentially significant tax bill in the future.

How you do this will depend on the dynamics of your family but, at some point, it is good to get everyone together to make sure the family is clear about the assets and how they are to be divided.

Talk to the experts
Professionals such as solicitors and financial advisers can help you build a coherent and integrated estate and inheritance tax strategy.

What Does The Estate Planning Service Offer?

Westminster Wealth Management provide an estate planning service, to guide, support and advise clients on their estate and inheritance tax planning requirements. The team, led by Gemma Stanbridge, works with clients to mitigate inheritance tax and protect their assets for future generations by creating a tailored and flexible financial plan.

The first step is to understand your current and future priorities. We will initially discuss with you:

- Your financial and inheritance tax plans to date.
- Your income and capital requirements now and in the future.
- Whom you would like your estate to pass to.
- How much control and flexibility you would like in the inheritance tax strategy.

We engage with your solicitor, accountant and investment adviser(s) to ensure that the proposed inheritance tax solutions are integrated and address all your priorities.

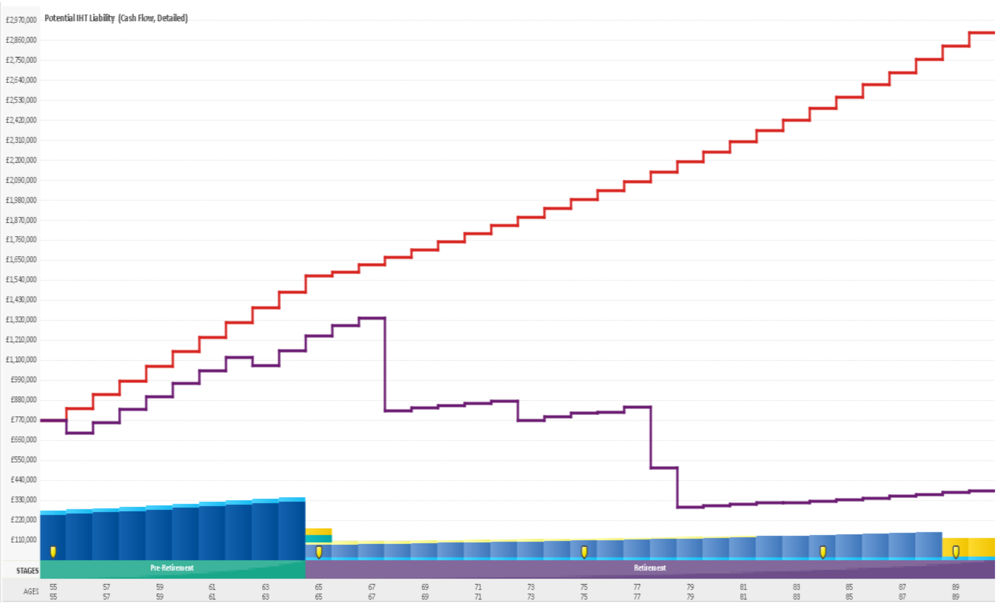
Following these initial discussions, we will work through a number of different life scenarios using a cash flow planning tool. This helps to illustrate your net wealth, taxes and cash flow now and in future years. We will factor in your 'what if's', for example care home fees, selling the family business and stock market falls, to demonstrate how the strategies will be effective in different life scenarios. These will then be presented to you in an interactive session so that you can work through the different scenarios for yourself and what that means for your inheritance tax liability.

Afterwards, you will be provided with a written report outlining the recommendations with the aim of decreasing your inheritance tax bill while preserving and protecting net wealth, maintaining cash flow and minimising the risk.

Finally, we work closely with you to implement the recommendations.

We review the financial plan with you regularly thereafter to make sure that it reflects any changes in your personal circumstances, the economy or policies.

The chart below illustrates a cash flow plan in practice. In this example we were able to mitigate the inheritance tax bill by making gifts not retrospectively subject to inheritance tax, crystallising the pension in the later years, gifts into trust and investments into BPR qualifying assets whilst maintaining the client’s standard of living. Each cash flow is unique to your individual needs - as such this is not advice and the ideas suggested are not suitable for everyone.



This is an example of a cash flow plan illustrating how we can mitigate the IHT bill through the use of making gifts using annual exemptions, gifts into trust and investments into BPR qualifying assets.

- Current IHT Bill   - IHT Bill With Planning

The Financial Conduct Authority does not regulate tax advice or estate planning. Information is based on our current understanding of taxation legislation and regulations, which is subject to change. The value of investments and income from them may go down as well as up and you may not get back the original amount invested.