September 2021 Blog

Do you know how 'Will Inheritance Tax' impacts on your loved ones?

Do you know how 'Will Inheritance Tax' impacts on your loved ones?

The subject of inheritance is a hot topic. Daniel Craig has both ‘shaken’ and ‘stirred’ the debate by stating he’ll be spending or giving away most of his fortune, rather than leaving it to his children. It’s an interesting point of view, made a little easier of course if you’re lucky enough to be sitting on an enormous amount of wealth.

While most of us won’t be lucky enough to amass similar sums of money in our lifetime, it doesn’t necessarily mean we’ll avoid the issue of inheritance tax (IHT) if we do feel it’s right to pass our wealth on to our children or grandchildren.

It may seem that IHT impacts relatively few, but in 2019/20 HMRC collected more than £5.1 billion from thousands of families. In addition, the current threshold of £325,000 has been frozen until 2025/26 – in a move many commentators have described as a stealth tax – with the government predicted to receive £6.3 billion in 2023/24*.

IHT is usually levied on the value of all the assets of your estate when you die, after deducting any liabilities, exemptions, and reliefs. Assets left to a spouse or civil partner of the deceased are usually exempt, as are assets left to a charity. However, it is possible to ethically and responsibly reduce or mitigate the impact of IHT with some astute planning, ensuring that more of the wealth you’ve worked so hard to accumulate is passed to the people who you decide deserve it most.

5 Things to Think About

There are a number of things you can do to mitigate what you might be currently on course to pay but here are five things to think about:

1.Make sure you have a will

This is fundamental. It's essential that you have an up-to-date will as it's one of the most important things you can do to ensure your estate goes to who you want

2.Gift some of your wealth now

Many people leave it too late to pass on their wealth. It can be more tax-efficient in relation to IHT to gift money while you are still alive, plus you have the chance to see how those gifts can transform the lives of your family. Anything you give away more than seven years before your death is exempt from IHT. You can give away up to £3,000 each year IHT-free and small gifts of up to £250 are exempt as long as they are made from your income. You could make larger, regular gifts, tax free, but these must also be from income and you must demonstrate that they do not impact your standard of living

5 Things to Think About

3.Use your pensions

Not everyone realises that pensions are one of the most tax-efficient ways to pass on your wealth. If you die before the age of 75, benefits left in a money purchase pension can be paid as a lump sum or drawdown income to any beneficiary, with absolutely no tax to pay. After the age of 75 they will be taxed at the beneficiaries' marginal income tax rate

4.Consider trusts

Trusts can help reduce an IHT bill and give you control over how your assets are used by future generations. Some trust structures let you leave money without it being subject to IHT. However, the rules around this vary widely for different structures, so you should seek advice on how this could work for you

5.Check your life assurance

You can use life assurance to either meet or reduce a prospective IHT bill. If it's written in trust, the proceeds of the life assurance policy won't be included in your estate. When you die the policy pays out to the trust which pays all or part of the inheritance tax bill.

Making a plan and adapting it to meet your changing circumstances can help you make sure you don't miss out on valuable tax allowances. IHT is a complex subject which is why taking expert advice can help you not pay more tax than you need to and ensure your estate goes to those you really want it to.

If you'd like to learn more, please get in touch now.

The value of pensions and investments can fall as well as rise. You may get back less than you invested.

Tax treatment varies according to individual circumstances and is subject to change.

Inheritance Tax Planning is not regulated by the Financial Conduct Authority.

*Source – OBR – Inheritance Tax – Latest trends and forecasts March 2021