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MAKING SENSE OF MONEY

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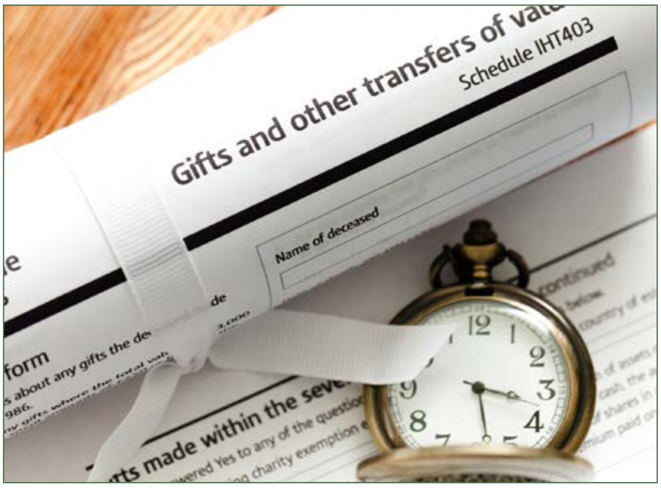
Making Inheritance Tax Planning A Reality



We recently ran an Inheritance Tax Workshop for some clients who wished to consider this subject matter in more detail.

The aim was to discuss some of the nuances of the legislation, but more importantly, we wanted to make the topic more practical, rather than just simply looking at Allowances and Tax Avoidance.

One of the subject matters that we discussed at some length was the different ways in which you can physically reduce the value of your Estate. We considered the rules concerning the Gifting of money and also discussed some of the implications of physically spending your money.

Gifting was an interesting discussion. The IHT rules for this area are relatively simple. Any money that an individual gifts to somebody will be deemed as still being part of the Estate for the purposes of Inheritance Tax. The gift is called a “Potentially Exempt Transfer” and won’t fall outside your Estate unless you live for a further seven years.

However, there are some allowances that can be used immediately, and these include the £3,000 annual exemption and certain gifts for birthdays and weddings.

In addition when a gift is made to charity, this will also fall outside of your estate immediately, no matter the size of the gift. We had a detailed discussion about the ability to reduce the actual level of IHT from 40% to 36% if provision is made in a Will to leave at least 10% of the estate to charity.

In our experience, the biggest concern of many people is the fear of giving money away and then needing the asset later on, potentially to pay for Care or other such matters. This highlights the value of planning and we often discuss how important it is to be able to balance the need to manage your IHT liability with the future requirement of your assets. It is the balancing act that makes planning so important and why regular reviews are necessary.

Coming back to the workshop, we also discussed the implication of spending money as a means of reducing the value of your estate. Whilst most people recognise that spending your hard earned cash on yourself can be a good thing, it may not be the perfect solution to an IHT issue. Many purchases that we considered either moved the asset value from one part of your estate to another or even had the potential to increase the value of your estate in some way. A good example of this was the purchase of a new kitchen which may reduce your cash levels, but could very likely increase the value of your property.

However, this shouldn’t stop you from being able to enjoy using your money. We concluded that one of the best solutions was to spend money on experiences, such as trips overseas. Not only does this feel more enriching and rewarding, but HMRC will not tax you for this!

At the end of the workshop, clients had come to the conclusion that any Inheritance Tax issue is best managed by a long term plan, which aims to maintain the balance between living for today AND looking to tomorrow.