THE TEN VITAL STEPS TO REDUCING INHERITANCE TAX

A few people, in life-risking roles, are exempt from paying inheritance tax if they die in active service. These include armed forces personnel, police, firefighters, paramedics and humanitarian aid workers.

For everyone else, when they die, inheritance tax could be payable on any of their assets above the nil rate band, currently £325,000 per person.

However, inheritance tax is rightly called a ‘voluntary tax’ because there are many ways to legally avoid it. The following actions can either reduce your inheritance tax liability or get rid of it altogether.

1. Make a Will

A vital part of estate planning is to make a will.

Making a will ensures your assets are distributed in line with your wishes.
This is particularly important if you have a spouse or partner as there is no inheritance tax payable between the two of you but there could be tax payable if you die intestate – without a will – and assets end up going to other relatives, or even the taxman.

2. Make sure your assets keep below the inheritance tax nil rate band

The nil rate band for each individual this year (2016/17) is £325,000. This allowance is transferable to a spouse or civil partner on 1st death, giving a total of £650,000 per couple. Furthermore, an additional main residence transferable allowance of £100,000 per person commences on 6th April 2017, rising to £175,000 by 6th April 2020 (contact us to see if this applies to you).

3. Spend your money

If you have saved up all of your life and end up leaving a fortune in excess of the inheritance tax nil rate band when you die, someone else will enjoy living the life of luxury. When you have worked so hard to build up your wealth, surely it should be you who enjoys it. The more you spend on first class travel and new cars in your lifetime, the less that will be left for the taxman.

4. Make allowable gifts

You can give cash or gifts worth up to £3,000 in total each tax year and these will be exempt from inheritance tax when you die.
You can also carry forward any unused part of the £3,000 exemption to the following tax year only.
When someone gets married, their parents can give them cash or gifts worth up to £5,000; their grandparents can give them up to £2,500; and anyone else up to £1,000.
Up to £250 a year can also be made to as many people as you like.

5. Give away assets

Parents and grandparents are increasingly giving their offspring money to help them buy their own home. Provided the person making the gift survives for seven years after making it, the money automatically ends up outside their estate for inheritance tax calculations – irrespective of the amount. This rule applies to anyone gifting assets away to someone else.

6. The income over expenditure rule

You can make gifts out of your income free from inheritance tax. These should be regular payments, e.g. monthly, and must not compromise your own standard of living.

7. Leave something to your favourite charity

If you leave 10% or more of your total assets to charity then the rate of inheritance tax on the remainder of your assets will be reduced to 36% (instead of the standard 40%).

8. Put assets into a trust during your lifetime

The law of trusts first developed in the 12th century and is now seen as a very effective estate-planning tool.

If you place assets into a trust, they no longer form part of your estate.

Many types of trust are available and can be set up reasonably quickly.

Whilst each trust could last for up to 125 years, they can be unwound if the need arises and the assets returned to the settlors via the beneficiaries.
Trusts usually involve people (called settlors) investing a sum of money or placing a property into a trust. Each trust has a minimum of two trustees who ensure the investment is paid out according to the settlors' wishes upon their death. The assets could be placed into a trust for the benefit of children when they reach 18. The most common type of trust is a 'discretionary' trust and can be set up so that the settlors can still have access to some or all of the assets.

9. Buy a farm or woodland

Whilst this is only relevant to a few people, if you own an agricultural property that is part of a working farm, a percentage may be exempt from tax. Or if you own woodland, whoever receives it in your will can apply for the timber on it, but not the land itself, to be deemed exempt from inheritance tax.

10. Provide for the tax

If you are not in a position to take action to avoid inheritance tax you could instead cover the liability by taking out a life insurance policy. A life assurance policy is taken out on your life and written in trust to ensure it is paid in full outside of your estate. The amount of cover should be equal to the expected inheritance tax liability.

For further advice on any of the above, telephone 01299 251442.