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Inheritance Tax (IHT) Planning

When Benjamin Franklin said his immortal words *"In this world nothing is certain but death and taxes"*, he probably didn't think they would happen at the same time. We hear a lot about Inheritance Tax planning, but what exactly is it, when does it have to be paid and what can we do about it? Chris Budd takes us through the key points and outlines some of the ways in which we can keep it to a minimum.

What is IHT?

IHT is a tax on the assets we leave behind when we die. Everything we own is valued and totted up to arrive at a total – this is called your "estate". Some minor deductions can be allowed, such as reasonable funeral expenses and the cost of a memorial stone. Outstanding bills may also be deducted, such as credit card accounts or an outstanding solicitor's fee. Bequests are not deducted. After the deduction of the IHT threshold the rest is all taxable at 40%.

The iniquitous part of IHT is that it can often be the second time that your assets will be taxed. For example, if you have saved over the years, you will probably have already paid tax on your original income. Your assets now face a second bite of the cherry with IHT. Indeed, some people's money can even be taxed three times if capital gains tax has been incurred.

Christine Tuckerman of Richardson Groves accountants is an expert on IHT issues. She comments: "Please don't think that IHT is a tax just for the rich. The current tax threshold is £275,000 so anyone who leaves more than that amount will be subject to IHT. Of course, it won't be us who pay the tax, but those we leave behind – our beneficiaries such as our children, friends and relatives".

£275,000 sounds like a lot of money but, for example, the average value of a detached house in Bath is currently £450,000. Many people will be caught by the IHT trap. In fact, it is estimated there are currently 2.5 million people in the UK who will be liable to pay IHT when they die. This is a huge increase on just a few years ago and represents a lucrative source of income for the government.

How much is IHT?

The current rate is 40%. That means that out of every £1,000 you leave over and above the threshold of £275,000, £400 will go to the Revenue. For example, if you own a house

worth £500,000, have savings of £80,000 and some other assets worth £20,000, then your total estate will be £600,000. After deducting the current threshold of £275,000, your taxable estate will be £325,000. This sum will be taxed at 40%, which amounts to £130,000. Yes, that's £130,000 of IHT to pay on a total estate of £600,000. The Chancellor of the Exchequer could be your largest beneficiary!

Can IHT be reduced?

Most definitely. Christine Tuckerman again: "Some mitigation schemes are only applicable to couples but there are also some steps that can be taken by those living on their own. The first and most important of these is to make a will. This becomes the starting point of any IHT planning because it encourages us to think about what assets we own, how much they are worth and what we would like to do with them when we die. But please don't think that making a will is a simple matter of writing a few sentences and getting your signature witnessed. To be effective, your will needs to cover such issues as what happens if both you and your partner die simultaneously, say in a road accident, or what will happen if your children die before you. Most importantly, the will is your chance to make some plans to reduce IHT so I urge people to think about it carefully".

Finally

IHT is thought by many to be a tax on thrift and saving, but it is here to stay, and we should be prepared. Sadly, most people are surprised and disappointed at how much they have to pay. But some careful planning can be very effective in protecting the amounts we leave to our loved ones. We all accept that taxes are one of life's necessities but they don't have to be a necessity of death as well.

Call us and benefit from a free initial consultation, on 0117 942 4333.

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