For use with a professional adviser only

Inheritance tax at a glance

Inheritance tax could one day cost your loved ones a significant sum of money. That's why it is important to know how it will affect you and your family, and how to make sure they do not pay more than they need.

What is inheritance tax?

Inheritance tax (IHT), also known as 'death duty', is a tax payable on the assets (money or possessions) you leave behind when you die. These assets, which together make up your estate, can include:

- Cash and savings in the bank
- Investments
- Properties
- Vehicles
- Businesses you own or have shareholdings in
- Pay-outs from life insurance policies not held in trust
- Chattels – including art and jewellery.

Your taxable estate may also include gifts that you have made within the seven years before your death. However, it will not include any liabilities or funeral costs.

Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The investments discussed in this document may not be suitable for all investors.

How much IHT will be due on my estate?

If you're single and die during the 2019/2020 tax year with an estate worth more than £325,000 (after deducting debts, loans, overdrafts and funeral expenses), 40% IHT would be due on anything above £325,000 (this threshold is known as the nil-rate band).

If you're married or in a civil partnership, your nil-rate bands are combined, and IHT will only be due on assets above £650,000. So if one partner dies and leaves their estate to their surviving partner, the full £650,000 would be free of tax on the death of the second partner.

Example if you are single

Nil-rate band	£325,000
Amount subject to IHT	£675,000
40% IHT	**£270,000**

Example if you are married

Nil-rate band	£650,000
Amount subject to IHT	£350,000
40% IHT	**£140,000**

What is the 'main residence' allowance?

The government introduced the main residence nil-rate band in 2017. It's a separate allowance to the nil-rate bands described above, and applies when someone leaves their main residence to any direct descendants (children or grandchildren).

The individual allowance is £150,000 in the 2019/20 tax year and set to increase to £175,000 in April 2020. As with the usual IHT allowance, you can transfer it to a surviving spouse or civil partner. So if one partner dies, the surviving spouse or civil partner may inherit an IHT allowance of £325,000 plus £150,000 for their main residence, i.e. £475,000 rising to £500,000 by 2020. On the death of the second partner, the couple's combined allowance could potentially reach up to £1m of allowances by 2020 before their heirs have to pay IHT, although the combined main residence nil rate band of £350,000 can only be set against the main residence.

This allowance is gradually reduced if your estate is worth more than £2m and completely exhausted for joint estates worth more than £2.6m in the 2019/20 tax year.

Who pays the IHT?

It is usually paid by the executor/s of your Will or the administrator of your estate, using funds from your estate.

You choose your own executor/s when you write your Will, but if you die without a Will, an administrator will take control – and they may not distribute your estate as you wanted. That is one of the many reasons it is so important to make a Will and review it regularly to ensure it's still up to date.

IHT is due within six months of the date of death, although if it proves difficult to sell some of the assets in the estate it may be possible to pay the IHT bill in instalments.

Are there any exemptions where no IHT is payable?

There are some exemptions, which are:

A husband and wife or civil partners can give gifts of any value to each other during their lifetime, as long as you are both domiciled in the UK.

You can make gifts to other people, up to £3,000 in total in each tax year, although you cannot combine this exemption with the £250 gift allowance described in the next paragraph. You can carry forward any unused allowance to the next year only. This gift is known as the 'annual exemption'.

You can make any number of gifts of up to £250 each year. These gifts are meant to cover things like birthday and Christmas presents. Remember, you can't combine these with the £3,000 allowance described in the paragraph above.

You can make gifts to UK-established charities, national museums, universities, the National Trust and certain other bodies.

If you make gifts to people and certain trusts and then live for at least another seven years, they become exempt from IHT. These are known as 'potentially exempt transfers'. However, if you die within seven years, the recipient/s will have to pay IHT on the value of the gift.

You can make gifts as part of your 'normal expenditure' – this exemption allows you to give away money from surplus income, as long as the gift does not reduce your standard of living, is not from capital, and forms some pattern of regular spending. This is probably true if the money comes from your current account.

You can make gifts to people getting married, up to: £5,000 from each parent of the couple, £2,500 from each grandparent or more remote relative, £2,500 from bridegroom to bride (and vice versa) and between civil partners, or £1,000 from anyone else.

You cannot make a gift with 'strings attached'. For example, you can't give your house to your children but continue to live in it.

What can I do to help manage IHT?

There are many ways in which you can legitimately reduce the IHT due on your estate – but make sure any arrangements do not leave you struggling to maintain your lifestyle.

These are some of your options:

Spend it or give it away: this is the simplest and easiest choice, as long as a) you don't give absolutely everything away and b) you survive for seven years after making the gift.

Regularly give away your excess income: you can distribute any unspent income that otherwise simply increases your estate. You could also use this to pay for life assurance – see next paragraph.

Take out life cover: this is another simple way to reduce the impact of IHT. The premium and amount of cover will normally be fixed, giving you control of your estate, rather than having to make substantial gifts. You can use your annual allowance or unspent income to fund the cost of cover.

Make use of trusts: this is ideal if you do not want to lose control of your capital. Some trusts will pay a fixed level of income, while others offer your beneficiaries additional benefits, such as protection from divorce or bankruptcy.

Look into specialist investments: there is a range of permitted UK companies where your investment can achieve IHT exemption after only two years, rather than seven. This is a higher-risk approach when compared to other options, but it offers quick IHT relief, you do not have to give any assets away and you have ongoing access to your capital.

How can we help?

The IHT rules are complicated and changing all the time. Your professional adviser can help you make sure your financial arrangements are up-to-date and take account of the latest legislation.

They will provide a full written report of their findings and recommendations, and run through it with you in person. This will include helping you to understand the IHT tax savings that may be available to you.

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The tax treatment of all investments depends upon individual circumstances and may be subject to change. Investors should discuss their financial arrangements with their own tax adviser as the value of any tax reliefs available is subject to individual circumstances. Levels and bases of taxation may change.

Where investment is made in currencies other than the investor's base currency, the value of those investments, and any income from them, will be affected by movements in exchange rates. This effect may be unfavourable as well as favourable.

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