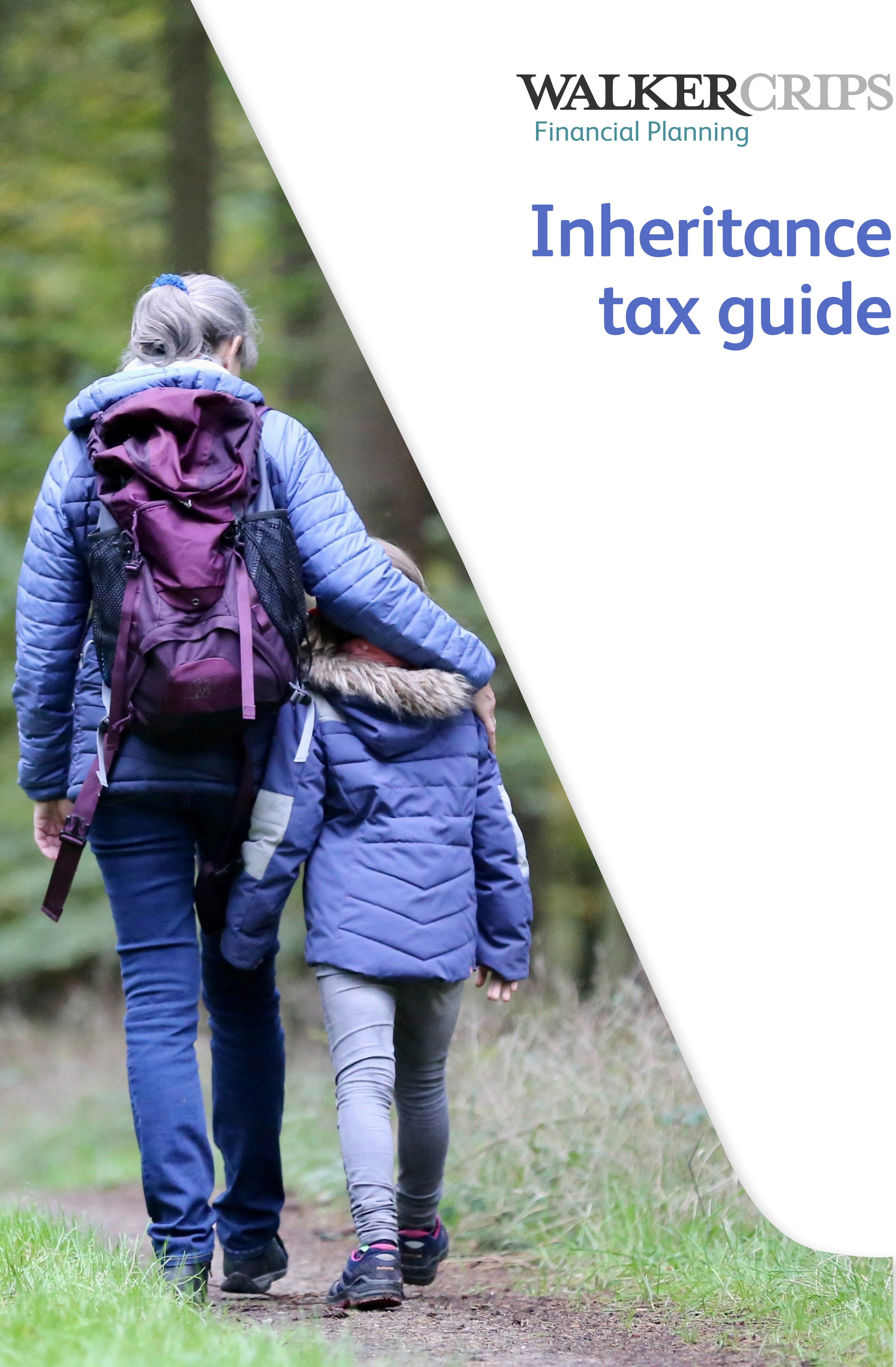


WALKERCRIPS
Financial Planning

Inheritance tax guide

An introduction to inheritance tax

Once only the concern of the extremely wealthy, inheritance tax (IHT) now affects thousands of families each year, and rising property prices have meant that more estates than ever are now likely to face an inheritance tax bill. HM Revenue and Customs (HMRC) receipts during the 2020/21 tax year were £5.4 billion, an increase of 4% (£190 million) on the 2019/20 tax year.[1] If your estate has an inheritance tax liability, your beneficiaries will be left to pay the bill.

Estate planning can seem overwhelming. But talking to a financial adviser about your personal circumstances can help to clarify matters. Measures can be taken within your lifetime to reduce or remove the inheritance tax burden you leave for your loved ones. In this guide, we explain what inheritance tax is, outline the allowances and provide examples of some strategies that may be of benefit to you and your family.

1. HMRC inheritance tax statistics, updated 29 July 2021.

What is **inheritance tax?**

Inheritance tax is a tax on the estate (the property, money and possessions) of someone who has passed away. Broadly speaking, inheritance tax is currently applied at a rate of 40%[2] to the value of an estate that exceeds the current Nil Rate Band (NRB) of £325,000. Your estate may be liable to IHT upon death and/or certain gifts made during your lifetime, i.e. Lifetime Transfers. Ultimately, the outcome is that the value of your estate left to your beneficiaries will be reduced by the corresponding amount of your IHT liability.

2. 36% where at least 10% of the 'net estate' is left to charity.

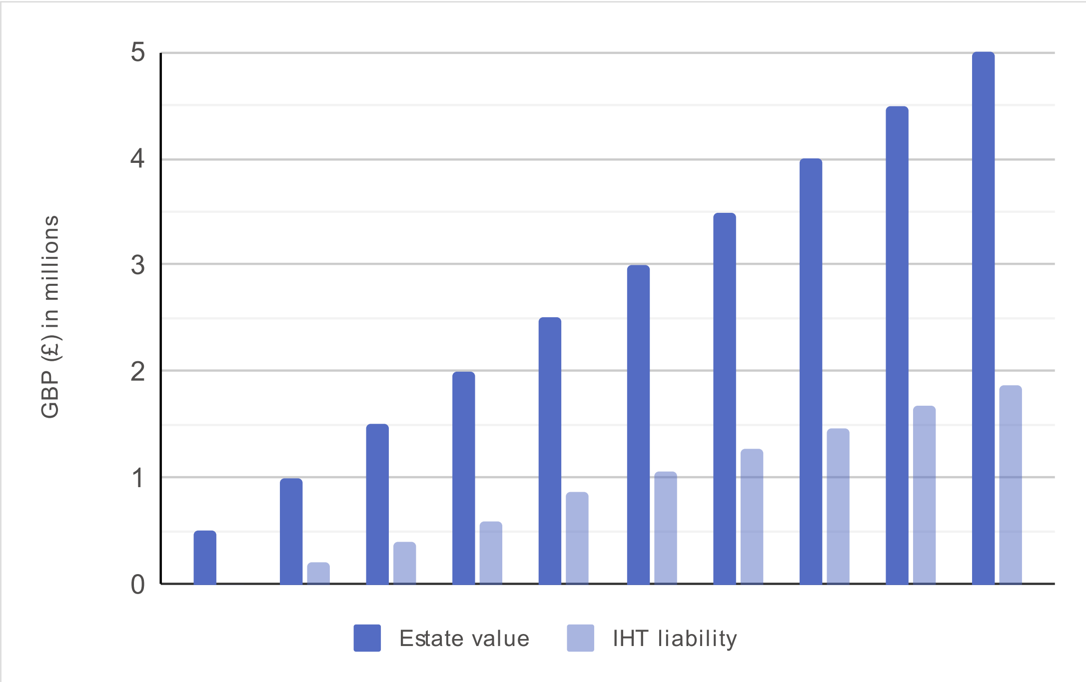
Your estate can include:

- Your house and any other properties you own;
- Any savings or investments (some types of pensions are excluded from your estate, but other investments, including ISAs, are taxable);
- Any other assets;
- The value of any life insurance policies in your name.

Glossary of terms

CLT	Chargeable Lifetime Transfer
HMRC	Her Majesty's Revenue & Customs
IHT	Inheritance tax
NRB	Nil Rate Band
PET	Potentially Exempt Transfer
RNRB	Residence Nil Rate Band
TT	Taper Threshold

IHT liabilities for estates of various values

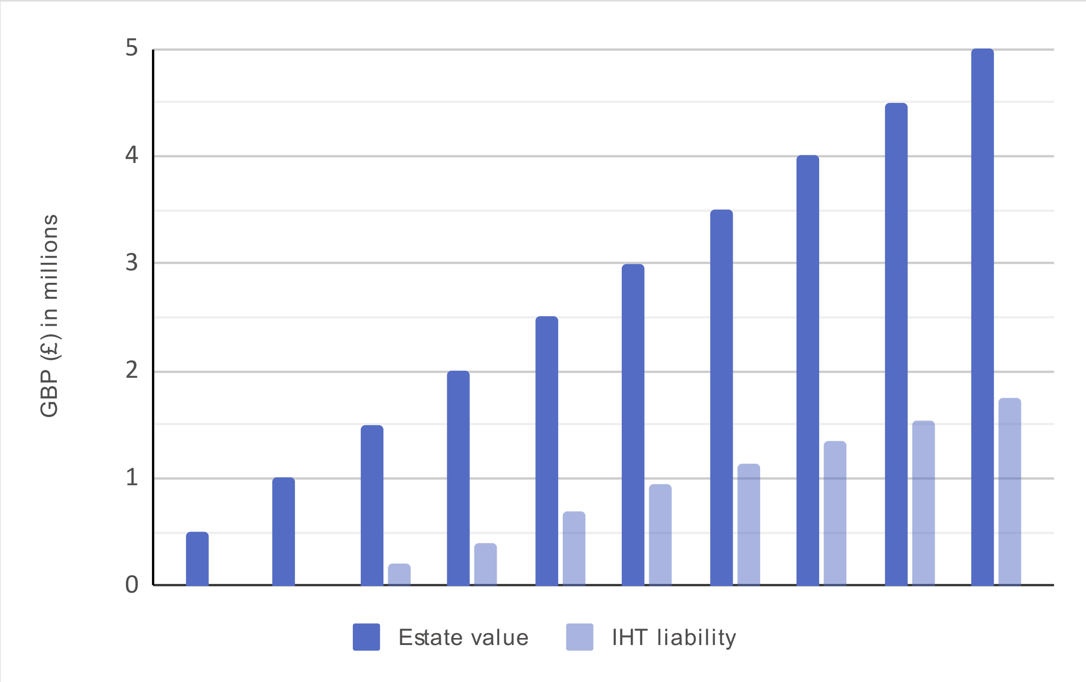


Here we can see that for estates up to £2m, the potential IHT liability is 40% after allowances and reliefs, principally the NRB and Residence Nil Rate Band (RNRB) - see **allowances** for further information on these. Once the estate value exceeds £2m, the effect of tapering the RNRB leads to a marked increase in the effective rate of IHT due. Once we reach £2.35m the RNRB is no longer available. As an example, the effective rate of IHT payable on a £1m estate is 20% whereas for a £2.5m estate the effective rate is 34.8%.

Where the estate is that of a married couple or civil partners, the availability of two NRBs and RNRBs does help to reduce the effective rate of IHT quite considerably.

Estate value	IHT liability
£500,000	-
£1,000,000	£200,000
£1,500,000	£400,000
£2,000,000	£600,000
£2,500,000	£870,000
£3,000,000	£1,070,000
£3,500,000	£1,270,000
£4,000,000	£1,470,000
£4,500,000	£1,670,000
£5,000,000	£1,870,000

IHT liabilities for estates of various values for married couples and civil partners



Estate value	IHT liability
£500,000	-
£1,000,000	-
£1,500,000	£200,000
£2,000,000	£400,000
£2,500,000	£700,000
£3,000,000	£940,000
£3,500,000	£1,140,000
£4,000,000	£1,340,000
£4,500,000	£1,540,000
£5,000,000	£1,740,000

What does IHT **apply** to?

IHT is levied against all worldwide assets held by UK domiciled individuals and all UK assets of those designated as UK non-domiciled. Domicile is an important consideration in the context of IHT, and it is advisable to seek professional advice to establish your exact position ahead of creating your Estate Plan.

IHT is not applied to certain Excluded Property, which includes pensions - this makes pensions a great Estate Planning tool.

When is IHT **payable**?

The Executors of your estate are legally responsible for carrying out the wishes of the deceased. They are also responsible for valuing the estate and completing the relevant paperwork. Following this process, any IHT due must be paid within six months of death for probate to be granted. The estate cannot be distributed until probate has been granted.

As previously mentioned, certain gifts made during your lifetime known as 'Lifetime Transfers' can attract an immediate charge at the Lifetime Rate of IHT at 20%, e.g. the portion of a settlement into a Discretionary Trust in excess of the NRB.

Allowances

There are a number of allowances that can be used, as follows:

Allowances	Amount
Annual Exemption	£3,000
Small Gift Allowance	£250
Gifts in Consideration or Marriage (and Civil partnerships):	
- to a child	£5,000
- to a grandchild/ great-grandchild	£2,500
- another person	£1,000

The Annual Allowance can be carried forward by one tax year, giving a total of £6,000. However, it cannot be carried forward beyond the following tax year.

Regular gifts of surplus income, known as the 'normal expenditure out of income exemption' allows the donor to make a series of gifts from their surplus income free of IHT – effectively gifting an income stream to the donee (the person receiving the gift). Where surplus income would ordinarily be saved and stored as capital, thus creating or further compounding a potential IHT liability, it can be gifted if:

- the gifts or series thereof form a habitual pattern of gifting over a period of at least 3-4 years;
- made from income and not capital, e.g. dividend income, employment income;
- does not result in a fall in the donor's living standards.

In addition, certain gifts are exempt from IHT. The effect of making an exempt gift is that the value of your estate is reduced by the value of the gift and if equal to or greater than 10% of your net estate a reduced rate of IHT applies to the balance of your estate upon death, currently 36% an effective 10% reduction against the standard 40%.

Examples of Exempt Gifts include those made to:

- a qualifying charity;
- an institution of national interest;
- an eligible political party.

Finally, it is worth noting that, provided certain criteria are met, gifts or a transfer of assets between a husband and wife or civil partners is exempt from IHT. However, as discussed earlier in this guide, domicile is an important factor and gifts between spouses/civil partners where the recipient is UK domiciled or deemed domiciled are generally free of IHT.

IHT only applies to the value of your estate in excess of the **NRB**. In April 2017 the **RNRB** was introduced and, depending upon meeting the eligibility criteria, this can be utilised as an additional allowance.

The NRB is currently £325,000 per individual. This figure has remained unchanged since April 2009 and is not expected to increase until April 2026.

The RNRB was phased in over a four-year period and as of April 2021 is £175,000 per individual and will remain frozen until April 2026. The RNRB is tapered for estates in excess of the £2,000,000 Taper Threshold (TT), thereby reducing by £1 for every £2 over the £2,000,000 figure. Therefore, where an estate is valued at £2,350,000 or greater, the RNRB will be zero.

The NRB and RNRB can be transferred between spouses and civil partners upon first death, irrespective of when the first death occurred. Therefore, an individual may have a maximum of two NRBs and two RNRBs, which is currently £1,000,000 in total.

Accurate utilisation of the available allowances and matters pertaining to residence and domicile can be complex. Therefore, we recommend that you seek professional advice from one of our financial planners.

The **seven-year rule**

Understanding the seven-year rule is critical when making Lifetime Transfers. Some Lifetime Transfers are IHT exempt, e.g. gifts between spouses, regular gifts made out of surplus income or the IHT Annual Exemption. That aside, Lifetime Transfers typically fall under one of the following two main definitions: Potentially Exempt Transfers (PETs) and Chargeable Lifetime Transfers (CLTs).

PETs are 'potentially' free of IHT, provided the donor survives seven years from the date the gift is made. In the event that the donor dies within the seven-year period, the PET becomes chargeable. As a result, and depending on the value of the gift, the PET will partially or fully utilise your NRB and this will not be available to use.

Example:

Maxine gifts her son Michael £325,000 in October 2017, she then dies nearly three years later in September 2020, leaving her son her estate valued at £850,000. As Maxine did not survive the seven-year period, her NRB has been reduced to zero as the gift made to her son in 2017 fully utilised her NRB.

Maxine inherited her late husband Monty's share of the estate and his unused NRB and RNRB.

Primary residence	£500,000
Investments	£250,000
Cash savings	£100,000
Total estate value	**£850,000**
Less: NRB	£325,000
Less: NRB	£325,000
Plus: Gift	£325,000
Less: RNRB	£175,000
Less: RNRB	£175,000
Taxable estate	**£175,000**
IHT liability	**£70,000**

Had Maxine survived the seven-year period, then her NRB would have been 'refreshed' and it could have been applied to her estate upon death.

Primary residence	£500,000
Investments	£250,000
Cash savings	£100,000
Total estate value	**£850,000**
Less: NRB	£325,000
Less: NRB	£325,000
Less: RNRB	£175,000
Less: RNRB	£175,000
Taxable estate	**-**
IHT liability	**-**

Taper relief

Where a PET is made and the value exceeds the available NRB and the donor dies within the proceeding seven-year period, the excess over the NRB could benefit from Taper Relief, which is a reduced percentage of the standard rate. However, it is important to remember that despite the reduction in the amount of tax payable, it is the full value of the gift or transfer that is included in the donor's cumulation for the purpose of calculating IHT.

Years between transfer and death	Taper relief (%)	Proportion of tax payable (%)
0 to 3	0	100
3 to 4	20	80
4 to 5	40	60
5 to 6	60	40
6 to 7	80	20
7+	100	0

Your IHT mitigation strategy is something a financial planner at Walker Crips Financial Planning can assist with. Please get in touch for further information or to book a free initial consultation.

Walker Crips Group

Walker Crips' predecessors first bought and sold shares for clients on the London Stock Exchange in 1914, making it one of the City of London's oldest independent companies.

Today, Walker Crips Group is a public limited company and after more than a century, our core value remains unchanged; to serve our clients and to deliver good customer outcomes.

Walker Crips Financial Planning

We have been providing financial planning advice since 1980 and became part of the Walker Crips Group in April 2005. With a combined experience of over 100 years, our team of experienced financial planners are ready to help you navigate your finances. We understand the importance of receiving financial advice that's right for you. During our discussions, we'll assess where you currently are and work towards where you'd like to be in the future - taking into whatever requirements you may have along the way.

Get in touch

Speak to us to find out how we can help you.

Phone **01904 544300**
Email **planning@wcgplc.co.uk**

Walker Crips Financial Planning Limited is authorised and regulated by the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN. FCA Registration Number: 114778. Registered Office: Apollo House, Eboracum Way, York, YO31 7RE. Registered in England number 3790291. Member of Walker Crips Group plc.

The value of any investment and the income arising from it is not guaranteed and can fall as well as rise, so that you may not get back the amount you originally invested. Past performance is not a reliable indicator of future results. Nothing in this document constitutes advice to undertake a transaction, if you require professional advice, you should contact your financial adviser or your usual contact at Walker Crips.

This document has been approved as a Financial Promotion in accordance with Section 21 of the Financial Services and Markets Act 2000.

The publication has been prepared with all reasonable care and is not knowingly misleading in whole or in part. Expressions of opinion are subject to change without notice.

This Financial Promotion is confidential and supplied to you for information purposes only. It may not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever. Neither this document, nor any copy of it, may be taken or transmitted into the United States or into any jurisdiction where it would be unlawful to do so. Any failure to comply with this restriction may constitute a violation of relevant local security laws.