



## Inheritance Tax

Inheritance Tax (IHT) is a tax charged on the value of an estate passing on the death of a person. The current rate of IHT is 0% on the first £325,000 (the Nil Rate Band) and thereafter is 40%. The Nil Rate Band is reviewed annually and is usually adjusted in line with inflation.

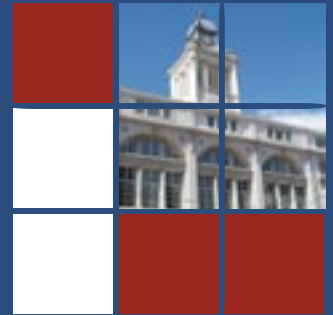
Calculating the value of the estate may be quite a complex matter as it does not simply include the value of the assets at the time of death. The estate for IHT purposes also includes the value of any gifts given away in the seven years prior to death. This will include any assets put into Trust.

It is important, therefore, when considering IHT to be aware that decisions and actions in the seven years prior to death can have a significant impact on the overall amount of tax payable. Each year a person is entitled to an allowance of £3,000 which can be given away without adding to the value of the estate on death for IHT purposes. Where applicable this allowance can be carried forward for one year.

It is also possible to give away gifts of up to £250 to as many people as you want each year, but this cannot be in addition to the £3,000 annual allowance. Parents and grandparents can give gifts to a couple at the time of marriage without incurring IHT liability.

Gifts can also be made out of surplus income provided these regular payments leave a person in a position to maintain their normal standard of living. It is important to keep records and this is particularly the case with this latter exemption. A person ought to plan and record intentions and actions, HM Revenue & Customs will, in this case, look for an established pattern and evidence of a decision and the implantation of that decision. Usually what is being analysed is not specific gifts but the percentage of income which it has been decided to give away.

Gifts to a spouse are entirely exemption from IHT as are gifts to UK Registered Charities.



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Given that the spouse exemption applies where a couple leave their entire estate to each other and, on the second death, to their children a potential of two to Nil Rate Bands has been reduced to one. Therefore in 2006 the Government introduced the Spousal Nil Rate Transfer so that now on the second death the spouse can increase their applicable Nil Rate Band to include the percentage of the Nil Rate Band not used by the first spouse to die. At current rates therefore the surviving spouse who inherited the entire estate from their deceased spouse would have a Nil Rate Band of £650,000.

Even so, many more people are falling into the 40% Inheritance Tax bracket than was the case a few years ago.

Depending on the circumstances there are a number of steps that can be taken to limit the amount of tax liability likely to be payable on death. Given the seven year rule, the sooner that plans are made and implemented the more likely it is that arrangements can successfully be made to legitimately avoid a tax liability.

### What should I do next?

If you would like more information about your likely Inheritance Tax Liability, to review your affairs, or prepare a tax efficient Will, please contact Charles Neal on 0114 2495969 or [c.neal@bellbuxton.co.uk](mailto:c.neal@bellbuxton.co.uk)

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