

Inheritance Tax Explained



One of the most common questions we receive from clients is: How do I reduce my Inheritance Tax (IHT) Bill?

Currently, each individual has a tax free allowance of £325,000. If you give away your home to your direct descendants (e.g. children, grandchildren, stepchildren) this can increase to £475,000 (for the tax year 2019-2020). This additional allowance is known as the Residence Nil Rate Band. A married couple may potentially have a tax free allowance of £650,000, or £950,000 if Residence Nil Rate Band applies. Anything over the tax free allowance is charged at 40% (subject to any exemptions or reliefs).

Through careful planning there are additional ways to reduce your exposure to IHT.

Firstly, a '7-year rule' exists. You can give away as much money and assets as you would like provided it is a genuine gift and you do not retain any benefit from it. If you then survive the gift by 7 years, its value will fall outside the Estate for IHT purposes.

Furthermore, a generous and often overlooked exemption is gifts out of your surplus income. For this to apply, the gift must be made out of your surplus income whilst still allowing you to maintain your normal standard of living. Provided that all gifts are documented and the necessary conditions are met, these gifts will not be liable for IHT.

Other exemptions include:

Annual Exemption – You can give away up to £3000 each tax year and carry forward any unused annual exemption from the previous tax year.

Small Gifts Exemption – You can give £250 per year to as many people as you like provided you have not used another exemption on the same person.

Wedding Gifts – You can give £5000 to each of your children, £2500 to each of your grandchildren or great-grandchildren, and £1000 to any other person as a wedding gift.

Charities and Political Parties – You can give unlimited IHT free gifts to charities and political parties during your lifetime.

10% of your net estate to Charity – If you gift 10% of your net estate to a Charity then the gift itself will pass free of IHT. In addition, your estate will benefit from a reduced IHT rate of 36% on some of your assets (as opposed to 40%).

Certain investments may also qualify for business property relief which can further reduce your exposure to IHT.

If any of the above interests you, our Private Client team at K J Smith Solicitors are more than happy to assist.

Author: Michael Swan graduated with a Medical Sciences degree from Imperial College London before studying at the University of Law. He is both a qualified Solicitor and Notary Public and has been called to the Grenadian Bar. Michael has experience in Private Client matters including Will drafting, Lasting and Enduring Powers of Attorney, Court of Protection applications and probate matters. He is committed to delivering a high standard of service in a supportive and empathetic manner. ■



THE DETAILS

K J Smith Solicitors are specialists in family law, with offices in Reading (Central), Reading (Woodley), Abingdon, Ascot, Basingstoke, Beaconsfield, Guildford and Henley. We are recognised by the Legal 500 as a Leading Firm.

Why not contact us to arrange a free initial consultation? Call 0118 418 1000 or email wtp@kjsmith.co.uk (Wills, Trusts & Probate).