

Don't get caught out by April's Inheritance Tax changes

By Tim Hardy, Shipleys Chartered Accountants

Changes to Inheritance Tax (IHT) came in last month which, whilst welcomed by many, could cause some families an additional headache.

Previously each individual could pass on an estate valued up to £325,000 tax-free. In April a new allowance, the residence nil-rate band (RNRB), was introduced. It enables a further reduction of IHT due on leaving the family home to direct descendants. The allowance starts at £100,000 per individual and will rise each year to reach £175,000 in 2020.

Married couples and civil partners alike continue to be treated as individuals, but each is still allowed to pass on their unused allowance to their surviving spouse when they die. With RNRB's introduction, this enables them to pass on wealth up to £1m without incurring tax.

It is worth bearing in mind though that estates valued at more than £2m will see the new inheritance tax break clawed back. This means families will lose £1 of the allowance for every £2 in extra wealth (in effect, this is a 60% IHT rate). It is worth stressing that a person receiving the transferred IHT allowance from their deceased spouse may find the total value of their estate moves them into this clawback area.

It is therefore important to take professional advice and consider rewriting your will in view of the new IHT rules. In doing so, bear in mind that the RNRB allowance is available only for estates directly inherited by children, stepchildren, adopted children or grandchildren. It does not apply if a property is left to nieces or nephews, brothers or sisters, or when it has been left in trust.

There are planning measures you can take to reduce the value of the estate now if you think you and your spouse's combined assets are over the £2m threshold. These include making regular gifts out of excess income, making the most of legacies to charities and perhaps deliberately leaving some assets to children on the first death (even if IHT becomes payable) to reduce the value of the second estate.

For more tax planning advice please contact me and our friendly team at Shipleys LLP in Godalming.

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