Nexus House
2 Cray Road
Sidcup
Kent DA14 5DA

T: 020 8309 0011
F: 020 8309 7879
E: info@mcbridesllp.com
W: www.mcbridesllp.com

Ten tips for minimising inheritance tax

Inheritance Tax (IHT) is providing increasing revenues for HMRC, perhaps more so in the South East, where property prices have seen the highest rises. In the 2014/15 tax year, everyone is allowed to leave an estate valued at up to £325,000 without their beneficiaries paying tax on it. The amount is set by the Government and is called the nil-rate band, because it's the amount on which you pay a 'nil-rate' (0%) of IHT.

Above that amount, anything you leave is potentially subject to IHT at 40%. So for example, if you leave behind assets worth £500,000, your estate pays nothing on the first £325,000, and 40% on the remaining £175,000 – a total of £70,000 in tax.

Being aware of the relevant issues can potentially help you minimise future liabilities to IHT. Here are just ten tips to consider.

1. **Make a will.** Without a will your estate will be distributed under the Intestacy Rules and your assets may not pass in accordance with your wishes. It sounds obvious, but 58% of adults in the UK do not have a will.
2. **Business Property Relief.** Business owners have access to a relief that can potentially exempt the entire value of their business interests from IHT. Business Property Relief (BPR) is available at 100% for interests in qualifying businesses. There are complex qualifying conditions that can restrict or remove the relief.
3. **Business assets.** If you own an asset directly that is used in a business, where you are a partner or controlling shareholder, a reduced rate of BPR at 50% may apply.
4. **Agricultural land**. If you own land used for agricultural purposes, either by you, or by a tenant, the agricultural value of the land may qualify for IHT exemption. If there is development value in the land, the market value may be greater than the agricultural value, leaving an amount exposed to IHT.
5. **Exit planning**. If you sell your business, the cash proceeds will not qualify for BPR. However, in some cases steps can be taken to make qualifying investments so that BPR can be maintained.
6. **Use of trusts.** BPR (see above) can apply in the case of so called 'lifetime transfers' as well as upon death. It is possible to place company shares into trust without triggering a liability to IHT. If the business is subsequently sold, the trustees will hold cash funds with a much reduced exposure to IHT than if cash had been put into trust after the sale. Careful planning is required in order to qualify for capital gains tax Entrepreneurs' Relief.
7. **Gifting**. You could gift an amount up to the nil-rate band of £325,000 into trust (double for a married couple) and this can then be repeated every seven years.
8. **Income gifting**. You can make 'gifts out of income' free from IHT. For the gifts to qualify, they must form part of normal expenditure, be made out of income and they cannot reduce your standard of living.
9. **Bequests to charity**. Gifts to Charity are exempt from IHT, but if you give 10% of your net estate then the rate of IHT that applies to the remaining estate falls from 40% to 36%.
10. **Insurance.** It is possible to take out insurance to cover a future IHT liability, this might be worth considering for assets that do not qualify for reliefs.

There are many IHT related issues that everyone, not just those who are in business, may face. Proactive estate planning can substantially mitigate exposure to IHT. Specialist advice is recommended as there are numerous anti-avoidance provisions that can affect what might seem like a genuine planning step.

Contact Terry Baldwin or Adam Hills at McBrides if you would like to organise a review of your IHT exposure.