Don’t put off your inheritance tax plans

There are several ways you can benefit your loved ones if you undertake good estate planning in time.

Passing on property

A benefit of marriage or civil partnership is the transfer to the surviving partner of any unused nil rate band when the first of the couple dies. The nil rate band means estates of up to £325,000 are exempt from inheritance tax (IHT), so on the second death up to £650,000 of an estate could be free of IHT.

The same goes for the residence nil rate band (RNRB), which increased to £125,000 on 6 April 2018. This allowance is available when a residence is passed on to direct descendants – children, grandchildren and other lineal descendants or their spouses or civil partners. The property need only have been the deceased’s residence at some point, and not necessarily the main residence. Further the RNRB can be preserved if you downsize or cease to own a home.

The RNRB was £100,000 when it was introduced in 2017/18 and will reach £175,000 in 2020/21 – that’s £350,000 for a couple. However, it cannot be more than the value of the deceased’s interest in the property and is tapered away for estates worth more than £2million. If possible, it is worth passing on your estate so that the full RNRB will be used, or available to your surviving spouse or civil partner.

Business and agriculture properties are subject to other reliefs and you can pass them on free of IHT with no limit on value. However, you could lose these valuable reliefs, for example by passing a farm as a lifetime gift to a child who is not using the property for agricultural purposes when the donor dies, or a spouse who dies within two years of receiving the inheritance. IHT should be considered when setting up or restructuring a business, as well as in succession planning.

Gifts and pensions

Lifetime gifts are a good way to reduce IHT, if you can afford to make them. A gift will escape IHT altogether, provided you survive for a least the following seven years. It can be a good idea to insure against any liability in the event of earlier death.

Your pension fund can also be a powerful IHT planning tool. In general, death benefits payable from most registered pension schemes are outside the scope of IHT, although not all pensions can be passed on in this way. So it might be sensible to draw from other assets before taking income from your pension fund. However there may be income tax to pay, depending on your age.

This article is for general information only and is not intended to be advice to any specific person. As always we recommend that you seek professional advice tailored to your own personal circumstances.

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