Unpicking the complexity surrounding savings, investments and IHT

Savings and investment income and also inheritance tax (IHT) can be complicated to understand. With this in mind The Office of Tax Simplification (OTS) is carrying our reviews of both.

Regardless of any changes that may come in the future it is still important to be aware of the reliefs and basic tax planning opportunities available.

Savings and investments

The OTS's overview mentions both the complexity of the current tax rules and the general lack of taxpayers' knowledge. Although there is awareness of ISAs, many savers do not understand how savings and dividend allowances work.

For example:

Basic rate taxpayers benefit from a £1,000 savings allowance. It can be worthwhile making a pension contribution in order to remain within the basic rate threshold – otherwise the allowance falls to £500.

The first £2,000 of dividend income is tax free each year, including the value of shares bought through dividend reinvestment plans. Shares could be held in an ISA if the dividend income exceeds that allowance.

Savings and dividend income can be transferred between spouses to maximise the benefit of the two allowances.

Inheritance tax

With less than 5 per cent of estates paying IHT, the OTS is looking at ways to simplify how specific rules work. Currently it is possible to benefit from a nil-rate band, and possibly a further residence nil-rate band, free of IHT.

Other valuable reliefs include a 100 per cent exemption on business property - provided qualifying rules are met, and a £3,000 annual exemption for gifts.

Valuing land and property can be particularly problematic so it would be may be advantageous to instruct a qualified independent valuer before acting.

This article is simply an overview of current legislation. You we recommend that you seek individually tailored advice from a financial advisor if you would like help in setting up tax-efficient savings or minimising IHT.

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