

# Inheritance tax

Inheritance tax is one of the few taxes you can prepare for. With some careful planning you can help your loved ones avoid a sizeable tax bill and ensure your legacy benefits those you care for, and not the government.

Inheritance tax is payable if your estate, which includes property, savings and investments, is valued over the current inheritance tax nil rate band threshold, which is £325 000 for 2011–12. The tax is payable at 40% on anything over this amount.

## How could you be affected by inheritance tax?

Home ownership and rising property prices are the most likely reasons why your estate will breach the inheritance tax threshold.

Since 2000, according to the Nationwide House price index, the average house price has increased by 122% while the inheritance tax nil rate band has risen by just 40%. If you have lived in your home for a number of years, it is quite possible that your estate will be valued at more than £325 000 without you realizing.

## Do not leave inheritance tax planning until later in life

You might think you do not need to worry about inheritance tax until later in life, but it is never too soon to start planning as it is not your age that is important, but how much your estate is worth.

For example, if your home and contents are worth £350 000 and savings and other assets are valued at £100 000, you will be £125 000 over the threshold, leaving your family with a £50 000 tax liability.

Transfers between spouses and civil partners are exempt from inheritance tax on the first death. All of the nil rate band of the first to die is transferred to the partner, meaning that his/her inheritance tax threshold now is £650 000.

Wesleyan Medical Sickness provides specialist financial advice for doctors  
Telephone: 0808 100 1884  
Website [www.wesleyanmedicalsickness.co.uk](http://www.wesleyanmedicalsickness.co.uk)

## What steps can be taken to avoid inheritance tax?

If inheritance tax is due, it must generally be paid 6 months after death and before the grant of probate can be issued (or grant of confirmation in Scotland), meaning that sometimes the executor may have to borrow the money first or pay it from his/her own funds.

A common preliminary step is to take out a life assurance policy that will cover the inheritance tax liability on the value of an estate in excess of the nil rate band. The policy should be written under trust so the claim monies do not fall within the inheritance tax net and can be paid out quickly to beneficiaries in order to settle the inheritance tax due and release the estate.

Giving money away to reduce the size of your estate is an option. You can make a gift of up to £3000 each year free of tax. Any part of this allowance not used in one year can be carried forward to the next. You are also allowed to make unlimited regular gifts out of your income, providing they do not interfere with your normal standard of living.

Lump sum gifts of more than £3000 can be made during your lifetime up to the nil rate band free of inheritance tax. However, if you die within 7 years of the gift being made it will still count as part of your estate. If you survive 7 years, the nil rate band becomes available again so you can make further gifts up to that level every 7 years. This can lead to huge tax savings.

## Putting money into trusts

If you prefer to retain control of your money, then it can be gifted into a trust rather than directly to individuals. As a general rule, the less access you have to money in the trust, the more effective it will be in reducing your inheritance tax liability.

For some people, gifting large sums of money into trust and losing access can be difficult, particularly when they need capital or income to supplement pensions, although there are still options to reduce inheritance tax in these circumstances:

### Discounted gift trust

This is suitable if you need an income from your capital. You deposit money

into a life insurance investment bond, but under the terms of the trust you are entitled to regular, fixed, income-like payments for the whole of your life that are paid in the form of tax-deferred withdrawals from the bond. The value of your gift will be reduced immediately to reflect the income you will take out and your life expectancy, so if you die within 7 years, the potential tax bill is reduced. All the money is outside your estate after 7 years, yet you still benefit from ongoing regular income-like payments.

### Loan trust

The amount you put into the trust is effectively an interest-free loan, which is repayable on demand. Any growth in your investment will be outside your estate, and therefore free of inheritance tax, but will still be held in trust for your beneficiaries. This plan reduces any further growth in your estate, capping the potential inheritance tax liability.

## Exemptions

Other inheritance tax exemptions include donations to charities, political parties and bodies described as 'national purposes', such as the British Library or the National Trust, as well as universities and local authority-run museums and art galleries.

To encourage people to leave charitable gifts in their wills, in the last budget the government announced its intention to charge a new, lower rate of inheritance tax of 36% on estates where at least 10% of the assets are left to charity. The details of this measure are still being determined but it is expected to take effect from April 2012.

## Conclusions

There are a number of ways of reducing inheritance tax bills but not all of them may be suitable for your individual circumstances. It is important to consider all the options available to you and taking expert advice is essential to ensure you make the right decisions. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.