Ellacotts

Inheritance Tax Planning

Ann Bibby – Tax Partner

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Speakers

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Ann is a Chartered Tax Adviser, a qualified accountant and a member of the Society of Trust and Estate Practitioners (STEP) and has over 25 years' experience advising on a range of business and personal tax issues.

Ann specialises in the areas of corporate, employment and business tax along with associated tax solutions and advises on all areas of business taxation, including Corporate Tax, Transaction Tax, R & D Tax Relief, Management Equity and Share Options, Restructuring, Capital Allowances and Employment tax issues.

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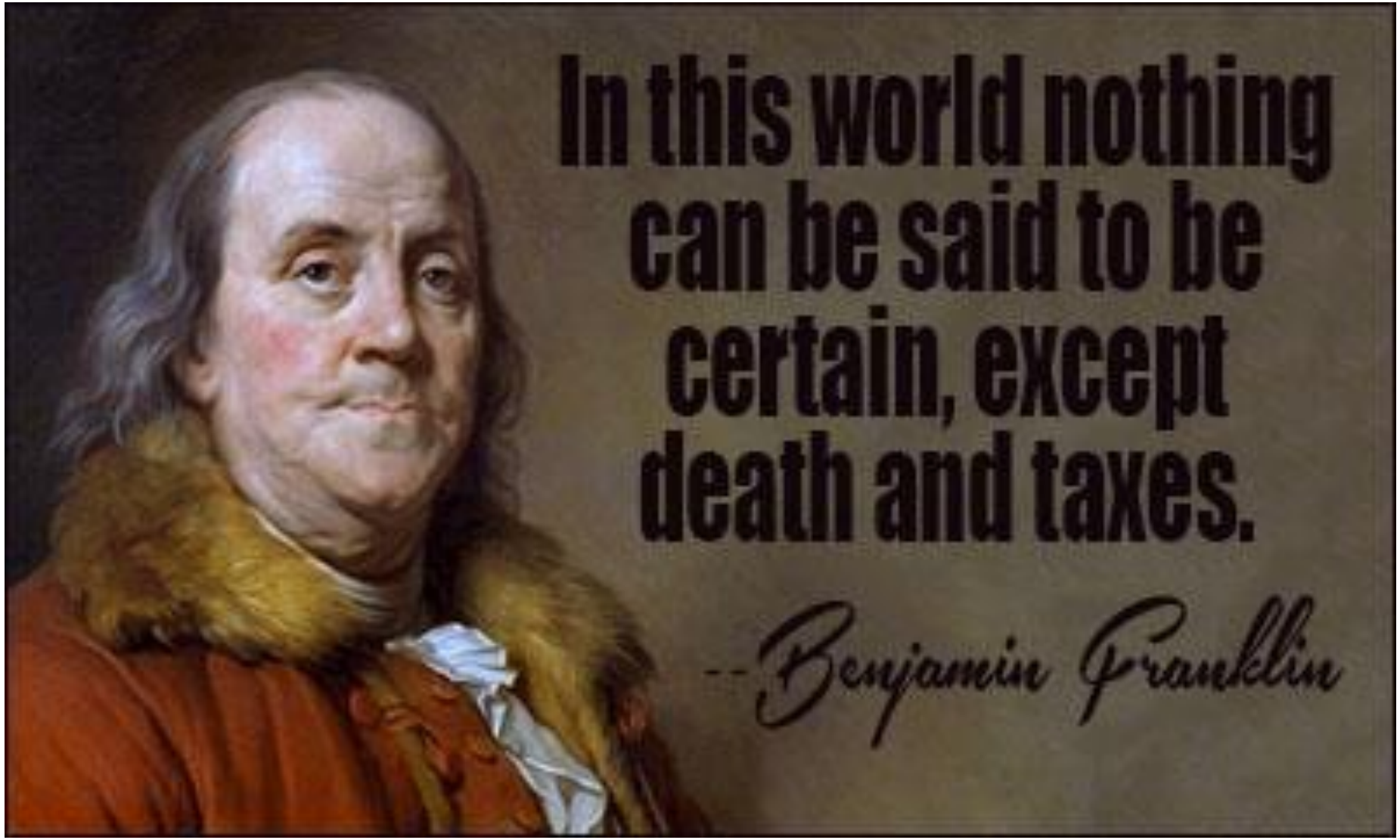
Chris's role involves all aspects of financial planning except for mortgages. He enjoys being an IFA because every person he meets has a different advice need, which means every day brings a different challenge. Over the years he has gained extensive knowledge of pre and post retirement planning, including using both pensions and investments to achieve the desired results.

Two certainties in life!



Rates of Inheritance Tax

- Inheritance Tax (IHT) is charged at 40% on death
- IHT is charged at 20% on lifetime gifts
- Nil Rate Band (NRB) - Relief for everyone and all assets up to £325,000
- Residence Nil Rate Band (RNRB) - £175,000

Tip: A married couple/civil partnership could benefit from up to £1m in relief to offset against their estate.

- Where at least 10% of the estate is left to charity IHT is reduced to 36%.

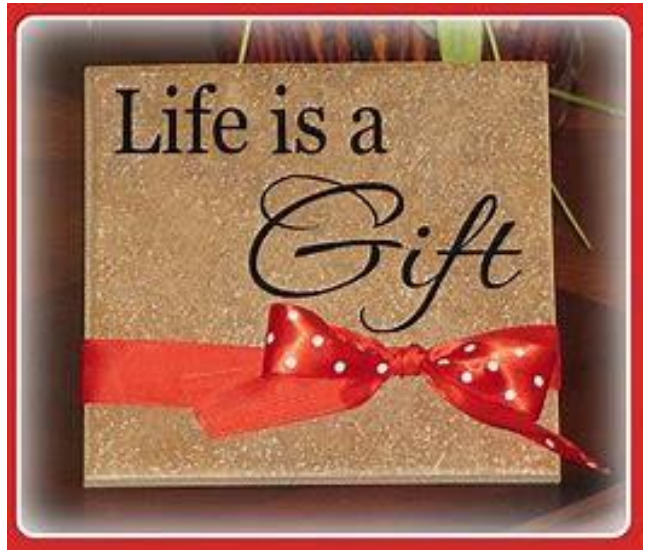
Lifetime gifts

What about gifts?

- 7 Year Rule - Gifts made less than 7 years before death form part of estate
- Taper relief for gifts made over 3 years before death

Trap: It's actually 14 years, which is often overlooked.

- Donee pays the tax
- Gifts with reservation of benefit ("GROB")
- Pre-owned assets ("POA")



Gifts exemptions and reliefs

- You have an Annual Allowance of £3,000 and unused amount is carried forward for one year.
- You also have a Small Gift Exemption of £250.
- Wedding gifts:
  - given to a child and is worth £5,000 or less
  - given to a grandchild or great-grandchild and is worth £2,500 or less
  - given to another relative or friend and is worth £1,000 or less

Tip: Regular Gifts out of Income - A less well known relief that can provide significant benefit. Examples would be: Grandparents paying regular amounts towards university fees or nursery fees.

Grandparents settlements

- Set up a discretionary trust
- Gift IHT exempt assets or keep with IHT NRB
- Any potential capital gain on the gift can be held over
- Income taxed in trust
- Paid to grandchildren
- Not taxed on parents
- Grandchildren with no income reclaim tax paid by trust

Tax Tip: Income not taxed on parents and grandchildren can reclaim tax paid by trustees!

Agricultural Property Relief

Agricultural property is defined as land that is used to grow crops or rear animals.

Certain assets do not qualify i.e. equipment and machinery and livestock.

The land must have been owned and occupied for agricultural purposes:

- 2 years if owned by the occupier
- 7 years if occupied by someone else

Farmhouses and cottages must be of a nature and size appropriate to the farming activities.

You will get **100% relief** if:

- the person who owned the land farmed it themselves
- the land was used by someone else on a short-term grazing licence
- it was let on a tenancy that began on or after 1 September 1995

Otherwise **50% relief** is due.

Business Property Relief

You can get **100% Business Property Relief** on:

- a business or interest in a business
- shares in an unlisted company

You can get **50% Business Property Relief** on:

- shares controlling more than 50% of the voting rights in a listed company
- land, buildings or machinery owned by the deceased and used in a business they were a partner in or controlled
- land, buildings or machinery used in the business and held in a trust that it has the right to benefit from

Trap: You can only get relief if the deceased owned the business or asset for at least 2 years before they died.

Insure the potential tax

It is not always possible to mitigate IHT, so the simplest way to deal with the potential tax is to **insure the liability**.

A joint life second death **whole of life assurance plan** provides a lump sum on second death which provides your beneficiaries with a lump sum to pay the tax.

The plan would be **written in trust** so benefits are paid directly to the correct person and do not form part of the insured persons estate.

Cost of cover is not as high as you expect, for example, for a couple aged 60 and 58, £1m cover costs around £100 per month – this assumes neither smoke. (Source Assureweb 26/3/21)

1. **Discounted gift trust**

- An **investment bond** to hold the money.
- A condition of the trust – **must take a fixed regular capital** withdrawal for life from the trust.
- An actuarial forecast is made at outset as to how much you are going to withdraw over your lifetime.
- This is the discounted part as this money is retained for your own use.
- The gift is a **chargeable lifetime transfer**, so remains in the settlors estate for 7 years.
- Any **growth** on the investment is **outside of the estate** from day 1.

2. **Loan Trusts**

- An **investment bonds** to hold the money.
- The loan remains part of the settlors estate and repayments can be taken from the trust.
- Any **growth** on the investment is **outside of the estate** from day 1.
- No real benefit in mitigating IHT other than capping the value of the investment

Reversionary Trust

These allow the settlor to invest and retain access to their capital via an annual maturity from the investment.

The trust comprises of two trusts:

1. the first being a bare trust (Initial Trust),
2. the second a discretionary trust (Settlement).

The trust is used in conjunction with a series of single premium life assurance policies with fixed maturity dates.

The settlor initially gifts the money to the Initial Trust, of which they are sole beneficiary.

Once the Initial Trust has been set up, the settlor irrevocably assigns their beneficial interest in the policies to the trustees of the Settlement.

Each year, some of the policies mature and these can either be paid back to the settlor or the maturities can be deferred to a later date.

Business Property Relief Investments

There are investments available that use Business Property Relief to mitigate IHT.

- EIS benefit from this relief - high risk
- IHT Service will seek to use BPR qualifying investments.
- Benefit of using this type of product is, if held for 2 years and you still hold them at death, there is no IHT due.
- Investment remains the investors money so they have full access to the capital if they need it.
  - for example for care.
- Plans generally invest in renewable energy, forestry and asset backed lending.

Although a target return, generally circa 3-4% pa, they are higher risk than mainstream investments.

Family Investment Company

A Family Investment Company is a company to which the shareholders are different generations of a family.

Transferring cash into a family company is not subject to Inheritance Tax charge of 20% if it exceeds the available nil rate of £325,000.

Tax advantages:

- Relief for interest paid on mortgages
- Family remuneration planning of salaries, dividends and pension contributions
- Passing on the capital value to future generations to reduce IHT
- Profit from your investments will be subject to the lower Corporation Tax rather than the higher rate Income Tax

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Any questions?

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