

# Inheritance Tax and how to avoid it

## What is Inheritance Tax?

**It is a tax that is payable upon the value of assets, within an estate, over and above the Inheritance Tax Threshold, sometimes called the Nil Rate Band (NRB). It may also be payable on gifts and trusts made during someone's lifetime. The value of the assets over the NRB is taxed at 40%!**

If you take specialist advice when you make your will you may save on Inheritance Tax or avoid it altogether, depending on the value of your estate and your personal circumstances.

## What is the NRB for Inheritance Tax?

### The NRB and married couples/civil partners

When a spouse dies and passes some or all of their estate to the remaining spouse those assets passed are exempt from IHT. This means that the NRB remains unused or partly unused. Upon the death of the second spouse the unused part can be added to their NRB. This will give the remaining spouse a NRB of up to £650,000.

### NRB for individuals

For any individual the NRB is £325,000. If the estate is valued at over £325,000 the amount over this figure is taxable at 40%.

## Is Inheritance Tax payable on everything?

### Exemptions providing full relief

Some gifts and expenditure may be exempt from IHT:

- Gifts to a qualifying charity
- Annual exemption up to £3000

- Small gift exemption up to £250
- Some family Wedding/civil partnership gifts
- Regular payments or gifts made from your income (conditions apply)



### Potentially exempt transfers (PETs)

If a person survives for seven years after making a gift, the gift is usually exempt from IHT. If they die within three to seven years after making the gift there may be some relief against tax. 'Taper Relief' discounts the amount of tax payable on the cumulative total of gifts exceeding the NRB, where the donor dies within three to seven years after giving the gifts. The calculation must be made in chronological order.

### Valuing a gift that isn't cash

The value for IHT purposes is the full market value of the gift at the time it was made. However, if the asset given away was worth more when held together with other assets, than the value of them individually, the IHT is worked out on the loss of value to the estate, ie: if one of a pair of paintings were given away.

## How do I value an estate for IHT?

### Why do I need to value the estate?

The deceased's assets are not accessible until the Grant of Probate has been issued.

It will not be issued until part (or in some cases all) of the IHT has been paid. The value of the estate is the assets less the liabilities.

### What must be included?

ASSETS: everything that the person owned at date of death must be valued, including:

- Money
- Houses & land
- Businesses/business assets (if no reliefs available)
- Investments
- Personal belongings
- Furniture, fixtures and fittings
- Vehicles
- Foreign assets
- Some pensions
- Payments from some life policies
- Gifts given (including into trusts)
- Any share of jointly held property
- Entitlements from trusts

LIABILITIES: everything that the person owned and certain expenses including:

- Outstanding mortgage
- Credit card balances
- Overdrafts
- Personal taxes due
- Household bills
- Other legally enforceable debts
- Funeral expenses

### Who pays the IHT?

The person responsible for paying the tax will vary depending on the will. Generally speaking the tax could be due from any or all of the following:

- The Executor(s)/Trustee(s)
- The beneficiary(s) or 'donee(s)'

### What if the IHT wasn't planned for in the will?

**It is possible to vary the will after death, so as to put the estate in a better tax position, even where tax has already been paid. This must be done**

**in a limited timescale after the death so you should take legal advice promptly.**

**Valuing an estate for tax purposes can be complex. This leaflet is a guide only and certain rules apply to gifts in order for them to qualify as an exemption or PET.**

**You should always take professional advice when dealing with an estate involving IHT as the person dealing with it may be held personally liable.**



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