Inheritance Tax Fact Sheet

Redmayne Bentley

A charge to Inheritance Tax (IHT) arises when someone dies or when assets are transferred to a discretionary trust or to a company. Accumulation & Maintenance (A&M) Trusts and Interest In Possession Trusts are also affected, although no new A&M Trusts can be created. Individuals have an allowance which is referred to as the nil rate band. Unused allowances can be passed on to a married or civil partner. Individuals also have a family home allowance to pass their home on to a direct descendent. This allowance will allow a couple to pass on assets of up to £1m in tax-free assets to direct descendants.

For the current tax year, the nil rate band is £325,000 and the tax charged above this is 40%.

Certain lifetime transfers are chargeable to IHT when they are made, the main example being the transfer of assets into a discretionary trust. Such transfers could see the rate of IHT on the transfer reduced to 20%. However, the calculations and rules around transfers into a trust are complex and we recommend seeking independent financial advice. A person's estate includes: everything owned in his or her name; the share of anything owned jointly; gifts from which he or she keeps back some benefit, for example, a house still lived in and maintained, even though it has been given to someone else; or assets held in trust from which he or she gets some personal benefit such as an income.

Some outright gifts and transfers are exempt from IHT. The main exemptions are:

- Most transfers between spouses or civil partners.
- The first £3,000 of lifetime transfers in any tax year (plus any unused balance of £3,000 from previous tax year).
- Gifts of up to, but not exceeding, £250 in any one tax year, to any number of persons.
- Gifts made out of income that form part of normal expenditure and do not reduce the standard of living.
- Gifts in consideration of marriage to brides and/or grooms of up to £5,000 from a parent, £2,500 from a grandparent or £1,000 from any other person.
- Gifts to charities, whether made during lifetime or on death. In addition, gifts of 10% or more of the net value of an estate to a charity will see the IHT rate reduced from 40% to 36%.
- All lifetime transfers not covered by exemptions and made within seven years of death will be added back into the estate for the purpose of calculating the tax payable. These are known as Potentially Exempt Transfers (PETs) and the tax due may then be reduced:

YEARS GIFT/TRANSFER MADE BEFORE DEATH:	0-3	3-4	4-5	5-6	6-7	7+
TAX DUE:	40%	32%	24%	16%	8%	0%

- A £175,000 residence nil rate band is available to those who pass on a qualifying residence (their main residence) to direct descendants (i.e. children, step-children or grandchildren)

In most cases IHT must be paid six months after the end of the month in which the death occurred. If not, interest is charged on any tax not paid by the due date. A valuation of any investments held by the deceased must be produced as at the date of death. This is called a probate valuation. Redmayne Bentley can provide prices on the required date and produce a probate valuation for a portfolio. When advised that a client is deceased, the portfolio will be amended accordingly and Redmayne Bentley will await a copy of the death certificate. Dividends will still be received and any money will be retained on the deposit account until the Grant of Probate, or equivalent, has been received. Once received, the Executors can instruct the winding up of the portfolio and assets can be transferred to the beneficiaries if applicable. For further details, please contact your local Redmayne Bentley office. You can search for your local office via **www.redmayne.co.uk/office**

Investments and income arising from them can fall as well as rise in value and you may lose some or all of the amount you have invested. Tax treatment depends on the specific circumstances of each individual and may be subject to change in the future.