

## INHERITANCE TAX

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 Trusts and Interest In Possession Trusts are also affected, although A & M Trusts are no longer available. Tax will only be payable if the estate on death or the value of the assets transferred is more than the nil rate band. Please note tax treatment depends on the specific circumstances of each individual and may be subject to change in the future.

**For 2011/12, the nil rate band is now £325,000 and the tax charge above this is 40 per cent flat.**

Certain lifetime transfers are chargeable to IHT when they are made. A major example being the transfer into a discretionary trust. Such transfers will suffer IHT on transfer at half the death rate, i.e. 20 per cent.

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, e.g. a house still lived in and maintained, even though it has been given to someone else; and 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 husband and wife 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, £250p.a. 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 bride and/or groom of up to £5,000 by a parent, £2,500 by a grandparent or £1,000 by any other person
- Gifts to charities, whether made during lifetime or on death

Also bear in mind that anyone leaving 10 per cent or more of their estate to a charity will see their inheritance tax rate reduced from 40 per cent to 36 per cent.

All lifetime transfers not covered by exemptions and made within 7 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
Tax reduced by:	0%	20%	40%	60%	80%

In most cases Inheritance Tax 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 shares and bonds held by the deceased must be produced as at the date of death. This is called a **probate** valuation. When advised that a client is deceased, the account 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 probate has arrived. No cash is paid out until probate is received. Once the probate has been received the transfer of stock and cash will be made to the beneficiaries.

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For branch contact details: [www.redmayne.co.uk](http://www.redmayne.co.uk) • Accounts: 0113 200 6500 • Settlements: 0113 200 6550

Redmayne-Bentley can then provide prices on the required date and produce a Grant of Probate valuation for a portfolio.

**For further details contact your usual Redmayne-Bentley brokers or alternatively call 0113 200 6460.**

**Risk Warning:** Investments and income can go down in value.