



THE FRY
GROUP
ESTD 1898

Your guide to Inheritance Tax



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01

An introduction to Inheritance Tax

Inheritance Tax is charged on your estate (usually your property, money and possessions when you pass away). It currently stands at a staggering flat rate of 40% and can have a significant impact on your heirs.

Having worked hard over the years you may find yourself in the fortunate position of owning a property, and holding both capital reserves and a portfolio of investments. After building up your estate and assets, it can be worrying to find that your beneficiaries may face a substantial Inheritance Tax (IHT) bill after your death.

Yet it is possible to reduce your exposure to IHT. In fact you can and should view it as something of a 'voluntary' tax as its impact can be mitigated. Through a little forward planning, and by using relevant tax and investment solutions, it is possible to reduce IHT, or even remove it totally.





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How is IHT charged?

There is usually no IHT to worry about if either:

- Your estate is less than the IHT threshold, which is currently £325,000
- You choose to leave anything above the £325,000 threshold to your spouse, civil partner or a charity.

IHT is applied through three main methods:

- On your estate when you die
- On any gifts you make to individuals in the last seven years of your lifetime
- On any gifts to the most common types of Trust which you make through your lifetime.

WHEN CAN IHT APPLY?	AT WHAT RATES?
Upon death	40%
Upon gifts to most Trusts	20%
Within certain Trusts	Up to 6% every 10 years
Upon gifts made within seven years of death	Up to 40%

CONTACT US

The Fry Group has been helping British people with all aspects of financial planning for over 120 years.

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03 Who is liable for IHT?

You might be unsure if the UK's IHT rules apply to you and your family. The key to understanding whether you are in the IHT net is by using the concept of domicile.

Domicile is generally determined by where you are born. If you are domiciled in the UK (England, Wales, Scotland or Northern Ireland) IHT applies to your global assets.

If you are domiciled elsewhere IHT is only charged on any assets held in the UK. If you sever all ties with the UK as your homeland, you will remain domiciled in the UK for three tax years after acquiring a domicile of choice regardless of your actions and intentions.

Similarly, if you are domiciled in another country you would be classed as being domiciled in the UK if you have been resident for tax purposes for more than 14 of the last 20 tax years.

Changing your domicile is difficult, but can offer a significant opportunity when planning for IHT.

KEY INFORMATION



If you were born in the UK you will always be treated as UK domiciled for any periods during which you have been UK resident for one of the last two years.



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Using gifts to reduce IHT

Gifts are treated differently when it comes to IHT because, by their nature, they represent a gesture for which there is no expectation of payment or profit in return.

Gifts can be used to share your wealth with family members or those who you wish to help and support including charitable organisations. Giving gifts to charity can also create a range of tax breaks, such as Gift Aid.

Everyone is entitled to make a certain proportion of gifts, without attracting IHT:

GIFTS YOU CAN MAKE ANNUALLY WHICH ARE AUTOMATICALLY FREE OF IHT

- Up to £3,000 per donor or charity
- Up to £250 each to any number of people
- Gifts on marriage up to £5,000 if you are a parent of the bride or groom (smaller sums for anyone else)





04

Using gifts to reduce IHT (*Cont*)

GIFTS WHICH ARE AUTOMATICALLY FREE OF IHT

- Gifts that form a regular spending pattern from your income
- Gifts for the maintenance of your family
- Gifts to any person, provided you survive for seven years after making the gift
- Gifts to your spouse or civil partner (with exceptions where assets pass from a UK domiciled spouse to a non UK domiciled spouse)
- Gifts to charities*

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KEY INFORMATION

Gifts to a charity will not attract IHT. Generally, if more than 10% of your estate passes to charity, the rate of IHT is reduced from 40% to 36% on the remaining assets. The calculations involve a number of steps to allow for exemptions of one kind or another.*

The Government's overall intention is that a donation to charity should still end up reducing the amount the beneficiaries will receive. Careful planning is needed, together with flexibility in your Will, as in some circumstances judicious use of this allowance could actually increase the amount payable to your beneficiaries.

*Registered in the UK or most European states



05

What is the Nil Rate Band?

There is a limit to the maximum amount that you can pass to your beneficiaries free of IHT. This is known as the Nil-Rate Band.

ARE THERE ANY ALLOWANCES IF I PASS ON MY PROPERTY?

The Residence Nil-Rate Band is an additional allowance, introduced in 2017, which applies if you leave your estate to your direct descendants. As well as your children or grandchildren, your 'direct descendants' can include any stepchildren, adopted children and foster children.

For the allowance to apply your estate (including your main residence) must exceed the IHT Nil-Rate Band in value, so it must be worth more than £325,000. If that's the case then the allowance, which is currently £150,000 and will rise to £175,000 on 6 April 2020, can also be applied to help reduce IHT.

KEY INFORMATION

The property you leave must have been one you have lived in – if you have only ever had a portfolio of properties that have been let, they won't qualify.

As ever there are some limitations. For example if your estate is worth more than £2million (even if your property is worth much less than this), the allowance will be reduced by £1 for every £2 that the estate is valued over £2million.

The Residence Nil-Rate Band can also be transferred between spouses, which can create a significant opportunity to reduce IHT bills.



06

How does IHT apply to married couples?

When it comes to IHT there are a number of major benefits to being married or in a civil partnership.

Generally if you leave anything to your spouse or civil partner, there won't be an IHT bill, as long as they share the same domicile status. Furthermore, their allowance increases by any allowance that you don't use. This means that a couple can potentially leave up to £1,000,000 tax-free.

It's worth bearing in mind that if your partner has left bequests to others (including lifetime gifts made within seven years of death), their estate may attract IHT if it's large enough and may use up some or all of the Nil-Rate Band.

If you are married and you and your spouse have different domiciles, there have historically been problems when transferring assets from someone domiciled in the UK to a spouse domiciled outside the UK. It is now possible to overcome this with a simple election either in lifetime or on the death of the UK domiciled spouse. Care needs to be taken to analyse which outcome will be most effective in the overall IHT planning.





07 What next?

Putting an IHT plan in place is imperative. It is always wise to seek advice from a professional to give you peace of mind in this complex area of tax planning.

Our team of experts can help you understand your options by discussing your personal circumstances, goals and stage of life. They will guide you through the steps you need to take to protect your wealth and prepare you for the future.

The Fry Group has been acknowledged with a number of awards in recent years, all of which recognise us as leaders in the field. We can offer a complimentary face-to-face meeting with an Adviser to discuss your circumstances in more detail.

To book your appointment please contact your nearest office or email info@thefrygroup.co.uk

Find and contact your nearest office
to book your appointment today.

Your guide to
Inheritance Tax

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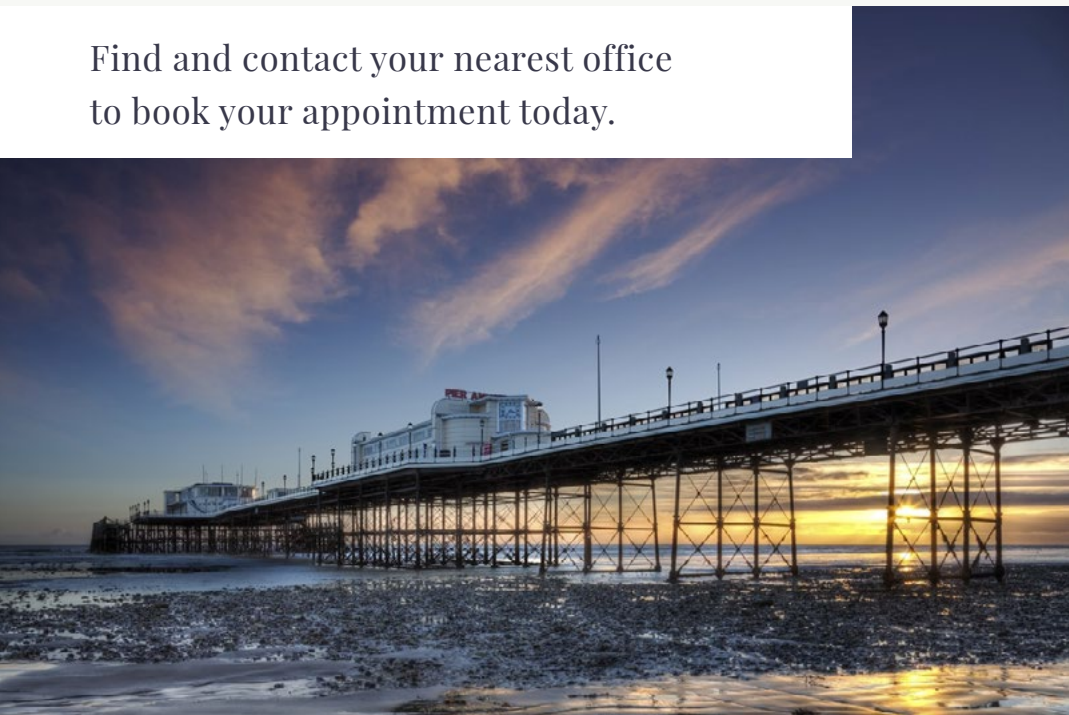
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