Planning for Inheritance Tax

Thanks mainly to the rise in property values, more people than ever before must now recognise that the total value of their estate will exceed the nil rate band, which is currently £255,000.
The rate of tax on chargeable assets above this limit is 40%.

Noel Duffy has set out some simple steps to mitigate that Inheritance Tax bill.

1. **Make a will**, otherwise the way your assets will be distributed is unlikely to reflect your wishes or your heirs' needs . With no will your spouse will only receive a £125,000 worth of your assets and a life interest in 50% of the remainder

2. **Remember, if you leave all your money to your wife or husband, no IHT is payable at all**. It sounds grand but you don't use your allowances. If you want the money to go eventually, to your children, it means you have wasted your own nil rate band.

3. **Give away as much as you** can sensibly afford to during your lifetime. Certain types of gift are immediately exempt from IHT. Others are potentially exempt and will become fully exempt if you live for seven years after making the gift.

4. **Immediately exempt gifts** include gifts of up to £3,000 a year to anyone; £5,000 to a child on marriage, £2,500 to a grandchild on marriage, and regular gifts of any size made out of your taxed income that do not affect your normal standard of living. No explicit guidance is given in the tax regulations as to how large these regular gifts can be; the only sensible advice is to keep within the bounds of reason, and keep a record of the gifts.

5. **If you have grandchildren, consider leaving some assets to them on death**. That way the assets "skip" a generation, avoiding one lot of IHT.

6. **If you want to make more substantial gifts**, give them early enough to be reasonably sure of living seven years after making the gift. If you die in the meantime, they are set first against your nil rate band, leaving less of it available at death. Only if the gift comes to more than the nil rate band do you benefit from some "taper relief" on lifetime gifts if you survive for between three and seven years.

7. **Consider setting some money aside** to help your heirs meet the eventual IHT bill. One way of doing this is to set up a life assurance policy written in trust. The premiums for the policy may well qualify for exemption themselves under the "regular gifts" exemption.

8. **If you are still working**, find out whether the life assurance benefits payable under your pension scheme before retirement are set up in such a way as to avoid IHT. It is possible with most such schemes - check with your company pensions department or personal pension company.

9. **If you have life assurance policies** such as term assurance, make sure they are written in trust. This means the proceeds would be paid out more speedily and would be free f rom IHT.

10. **Think long and hard** before entering into any plan to give away your house to anyone other than your spouse.