Don’t Make HMRC Your Biggest Beneficiary

This article gives an example of how you can inadvertently make the HMRC your biggest beneficiary, and provides five simple steps to prevent this occurring.

Example:

- Mary, a widow, aged 82 has four children.
- The total value of her estate is estimated at £1.2 million which includes her family home valued at £800,000.
- When her husband passed away all his Nil Rate Band Allowance (NRB) was used up. His Residence Nil Rate Band Allowance was unused and can therefore be transferred to Mary (TRNRB). Mary still has her full Nil Rate Band Allowance available.
- No steps have been taken to address potential IHT liability other than to make sure that Mary qualifies for the Residence Nil Rate Band Allowance (RNRB).
- Mary dies in tax year 2018 / 2019. IHT is payable on £1.2 million.
- In simple terms, the tax payable is calculated as follows:

Total estate	£1,200,000	
Less NRB	£325,000	
Less RNRB	£125,000	
Less TRNRB	£125,000	
Taxable Estate	**£625,000**	x 40% = £250,000 IHT payable

- Mary has left her residuary estate (gross estate less IHT payable) of £950,000 to her 4 children in equal shares. They received £237,500 each.
- So in this example HMRC is Mary's single biggest beneficiary taking £250,000.

Had Mary taken advice on succession planning, IHT may have been reduced and the money available to her children increased.

FIVE STEPS TO MITIGATE IHT

Here are some simple and effective ways to reduce the IHT burden on your estate:

Making a Will

According to Will Aid half of UK adults still have not made a Will meaning that they will have no control over their assets after they die and may have missed opportunities to save inheritance tax.

Give assets away

Making gifts can be an effective way of reducing potential IHT bill. However, you must be careful and take advice since some gifts are "IHT free" and others are not.

Setting up a Trust

A Trust is a legal entity which can help pass on wealth to chosen beneficiaries in a tax efficient manner. You can place assets in a Trust that you want to be a gift and, provided that you are no longer able to benefit from them, after 7 years they will fall outside of your estate for IHT purposes.

Life Policy written in Trust

Writing a life policy in to trust means that the lump sum falls outside of your estate, making it non-taxable and providing readily accessible funds to pay any IHT bill upon death.

Business Property Relief (BPR)

Building assets that benefit from BPR means that they will not form part of your estate for IHT purposes once you have held them for two years.

Our expert Private Client department has Solicitors based across all our offices and are able to provide specialist and thorough succession planning advice.

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