



ROBERTS MACKIE WINSTANLEY
INDEPENDENT FINANCIAL ADVISERS

Safeguarding wealth for future generations

New Inheritance Tax rules apply from 6 April 2017

Unforeseen life events and circumstances can potentially impact your finances in a number of ways. We can help you to safeguard your wealth for future generations.

Although often in the news, Inheritance Tax (IHT) is still not widely understood. That's worrying, because it affects thousands of families every year. If you thought IHT was just for extremely wealthy people to worry about, think again. The amount of IHT collected has doubled over the last five years[1].

MONEY AND POSSESSIONS

If your estate has an IHT liability, IHT must be paid prior to probate and therefore prior to the beneficiaries receiving their legacy. This may not be the kind of legacy most people think of leaving behind. IHT is payable on assets such as property, money and possessions that are passed on when you die. IHT is payable at 40% (or 36% if 10% of the net estate is left to a registered charity) on assets that exceed the threshold 'nil-rate band', which is currently at £325,000.

The good news is that there are things you can do – in your lifetime – to take care

of a potential problem. But finding the right options for you will depend on your personal circumstances and receiving appropriate advice.

NEW IHT RULES

Under the new IHT rules, more estates are likely to pass free of IHT post-5 April 2017. By 5 April 2021, some estates worth £1 million will pass free of IHT. This is the good news, but it's far from the whole picture. For many, in particular the childless, the IHT could in fact (with the effect of inflation) be higher post-5 April 2017.

For deaths from 6 April 2017, an additional IHT-free 'residence nil-rate band' (RNRB) will be available. This will begin at £100,000 in the tax year 2017/18 and will increase by £25,000 each tax year, reaching £175,000 by tax year 2020/21. Based on the current information, from tax year 2020/21 onwards, the RNRB will increase each year in line with increases in the consumer prices index.

This RNRB is available where the deceased leaves a property (or the proceeds of sale of a property) in which they have lived at some point to their direct descendants or the spouse or civil partner of a direct descendant (children and their issue).

RESIDENCE NIL-RATE BAND

The residence nil-rate band is available on top of the existing IHT nil-rate band of £325,000, so that in 2020/21 an individual will potentially be able to leave £500,000 free of IHT. As is now the case with the standard nil-rate band, where the first of a married couple to die leaves their estate to their spouse, the IHT nil-rate band can effectively be 'passed on' to the surviving spouse.

For those with a conventional family, a modest home and savings (and subject to the rate of house price increases in the coming years), it is therefore likely that no IHT will be payable on their estate.

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DOWNSIDED OR SOLD UP

The new rules are designed to ensure that the elderly are not encouraged to retain family homes they would otherwise have sold. Where the deceased has downsized or sold up, it will still be possible to pass on the proceeds of the family home. The rules provide only that the deceased must have lived in the property in question at some point, and that assets of an equivalent value are passed on to direct descendants.

The additional RNRB will not be available to the most valuable estates. This is because where the value of the deceased's estate (after deducting liabilities but before deducting any reliefs and exemptions) exceeds £2 million, the RNRB will be reduced by £1 for every £2 that this £2 million threshold is exceeded. If, therefore, death was to occur in the 2020/21 tax year when the RNRB will be £175,000, this would mean that no RNRB will be available for estates with a value of £2.35 million or more (or £2.7 million on the death of a surviving spouse where a full RNRB is available to be transferred to the survivor).

ERODED BY INFLATION

The nil-rate band of £325,000 is now frozen until at least April 2021. This means that for the unmarried, and for those who leave no children or grandchildren, the IHT-free band will continue to be eroded by inflation. A single person owning property in London, for example, is highly likely to leave an estate subject to IHT. The number of single and childless persons of even modest means who will fall within the IHT bracket will inevitably continue to increase.

The actions you need to take depend on your family's needs for capital and income, as well as your current assets and your intended beneficiaries, so it's important to speak with us for expert advice on the best options for your circumstances. ■

Source data:

[1] HM Revenue & Customs (HMRC) collected £4.7 billion from thousands of bereaved families in 2015/16. Source: Office for National Statistics, 2016

DON'T LEAVE LOVED ONES WITH A LARGE AND UNNECESSARY IHT BILL TO PAY

Estate planning can be complicated, and talking to us about your situation can make a real difference. Our experience is that too many people are leaving their loved ones with a large and unnecessary IHT bill to pay. To review your situation, please contact us.



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