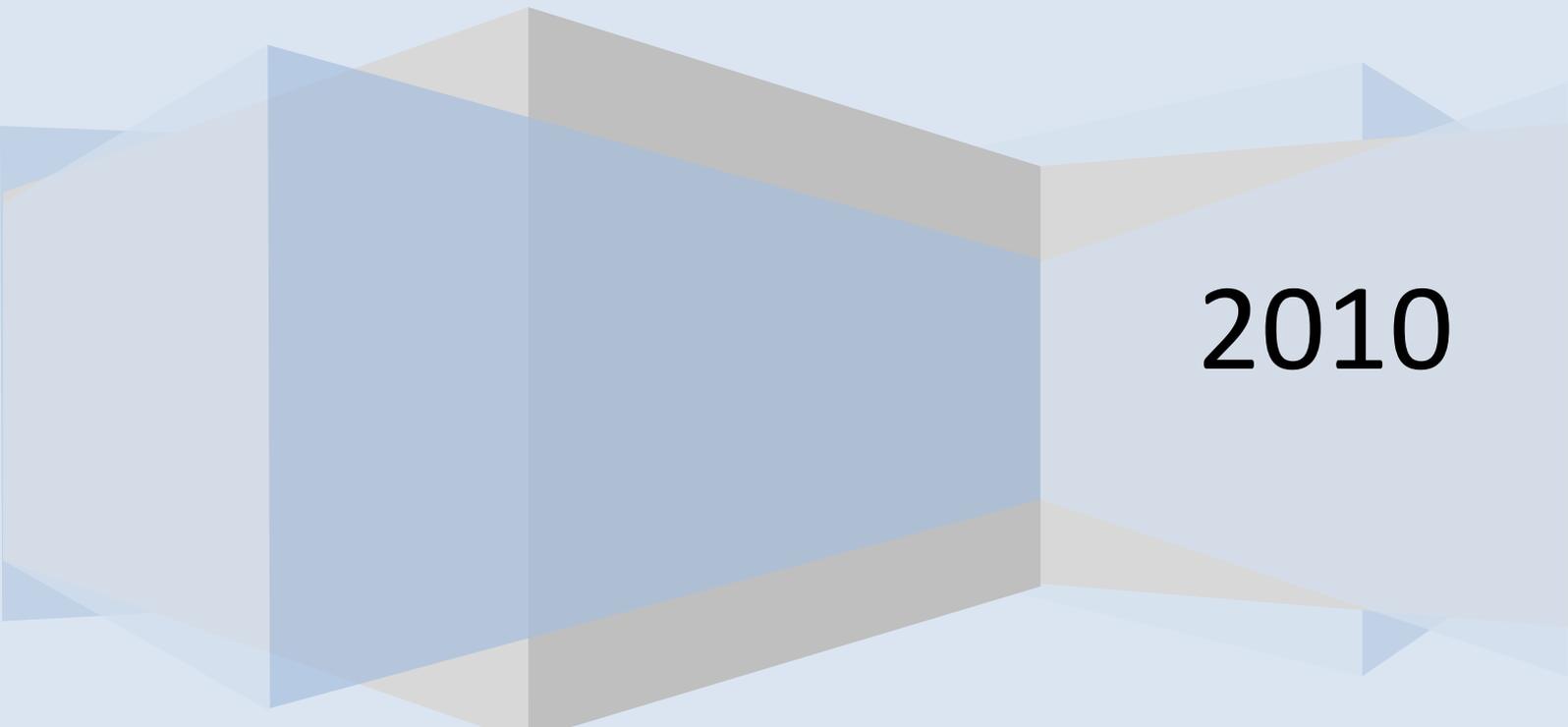


Inheritance Tax Planning

Stop the Taxman stealing 40% of your money so
you can leave it for your family

Paul Solomons



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What is Inheritance Tax?

What Are Potentially Exempt Transfers? (PETs)

Inheritance Tax (IHT) is the money paid on your estate when you pass away. It can also affect monies which are transferred into Trust funds during your lifetime.

IHT is only paid on your estate if it is valued higher than £325,000 (2010/11). This is known as the Nil Rate Tax Band.

Anything above the basic 'Nil Rate Tax Band' of £325,000 is taxed at 40 per cent.

For example, if you leave behind an estate worth £500,000 the tax bill will be £70,000 (40% on £175,000 – the difference between £500,000 and £325,000).

New inheritance tax rules for married couples and civil partners

Married couples and civil partners are allowed to pass their possessions and assets to each other tax-free and, since October 2007, the surviving partner is now allowed to use both tax-free allowances (providing one wasn't used at the first death).

At the extreme, this effectively doubles the amount the surviving partner can leave behind tax-free without the need for special tax planning.

In most cases, Inheritance Tax **must be paid within six months from the end of the month in which the death occurs**, otherwise interest is charged on the amount owing.

Potentially Exempt Transfers (PETs) - are gifts made during your lifetime, exceeding the annual gift allowance of £3,000 but within the Nil Rate Band.

Provided the donor survives for a further 7 years, no tax will be payable and the gift becomes a PET.

In the event of death within the 7 years however, tax will be payable but if this occurs after 3 years, taper relief is available, thus reducing the amount of tax due.

A PET can be a highly effective way of reducing your IHT liabilities while simultaneously ensuring that your assets are passed to your intended beneficiaries.

Who Can I Give 'Gifts' To?

During your life time it is possible to give a number of gifts away that are exempt from IHT.

There are a number of people (beneficiaries) who can receive these exempt gifts;

- A husband, wife or civil partner (even if legally separated) who must own a home in the UK
- UK Charities
- UK Political Parties

- Selected National Institutions

What Gifts Are Exempt?

Some gifts are exempt from Inheritance Tax because of the type of gift or the reason for making it.

These include:

- Wedding / Civil Partnerships Ceremony Gifts
- Annual Exemption
- Small Gifts
- Normal Expenditure Gifts

These gifts can be given during your lifetime or left as a wish in your Will.

Who Pays Inheritance Tax?

The 'personal representative' (the person nominated to handle the affairs of the deceased person) arranges to pay any Inheritance Tax that is due.

You usually nominate the personal representative in your will (you can nominate more than one), in which case they are known as the 'executor'.

If you die without leaving a will a court can nominate the personal representative, in which case they are known as the 'administrator'.

Can I Save Inheritance Tax In My Will?

The answer is almost certainly **yes**.

The best thing to do is to call me so that I can discuss with you all your options concerning Inheritance Tax.

Everyone's situation is different. But almost no-one wants to leave 40% of their estate to the taxman.

Telephone 01202 802 807

Or email paul@solomonslaw.co.uk

Dedicated to Your Family

Paul Solomons

PS you may want to know about Expert Estate Planning.

What Is Estate Planning?

Most experts would agree that an estate plan is not difficult to produce.

Good planning during the earlier stages of your life can produce significant benefits and will also put in place adequate measures to ensure that your affairs will be dealt with correctly.

It is also an important tool which guarantees that your loved ones and any beneficiaries to your will are not left with unnecessarily high tax bills.

Estate planning is often an on-going process, the length of which can only be determined by each individual's circumstances and affairs.

The primary outcome of estate planning remains constant, this being the distribution of an individual's estate after death to any named beneficiaries.

Beneficiaries are often named in individuals Will or in any Trusts set up during that person's lifetime.

Estate planning is an important tool used to avoid tax bills, both for the individual in question and for the beneficiaries and dependants who gain from the individual's estate after their death.

Estate planning makes use of various tools some of which are explained below.

Wills

Despite many people's perception, Wills need not be a lengthy and confusing document.

Creating a Will is a relatively straight forward process and the simplest of Wills can be drawn up and signed within a matter of hours, if necessary.

However, one drawback of creating a simple Will is that they do not make full use of legal tax avoidance methods available to the testator and may not accurately reflect the full intentions of the testator.

Furthermore, a Will can create Trusts which protect the testator's assets for their named beneficiaries and future generations.

Trusts

Trusts in their various guises are a multi functional legal tool predominantly used to ensure that property is dealt with in an acceptable way after the death of the owner, or in a situation where an individual no longer holds the capacity to do so themselves.

The type of trust(s) a person decided to create during their lifetime will often be reflected in that individual's personal estate and financial affairs. For instance, creating a Nil-Rate Band Discretionary Trust can be used to ensure that full use is made of inheritance tax exemption rules, this in the long run could saved the named beneficiaries tens if not hundreds of thousands of pounds after the death of the settlor.

Living trusts may also be an option when beginning the process of estate planning. They primarily have three functions:

1. The avoidance of probate - Assets that are placed in a living trust, are considered separate from the remainder of the estate, and as such they are not required to go through the probate process.
2. Will provide peace of mind regarding assets in the event that the settlor becomes incapacitated or otherwise incapable of dealing with those assets. A living trust allows for the settlor to appoint successor trustees, who will assume responsibility for managing the trust if the original settlor-trustee becomes unable to do so.
3. Asset protection is another significant benefit of a living trust. Some individuals use living trusts to mitigate the effects of bankruptcy. When bankruptcy is declared, creditors have almost free reign to take the bankrupt individual's assets in order to recoup their loans.

Assets transferred into a living trust, however, are no longer legally owned by the individual but rather by the trust itself. As a result, creditors are unlikely to 'attack' these assets after a period of time. Clearly there are a number of questions to be answered regarding the morality of this choice.

You should always consult with a specialist to ensure that you are making the most from your estate, by putting in place the correct procedures you can ensure that you are protecting your loved ones from incurring high tax bills.

Please call me on **01202 802 807** or email <mailto:paul@solomonslaw.co.uk>