Inheritance Tax still largely avoidable for many

Inheritance Tax Is still largely avoidable for many people.

It is charged at 40% on all assets, including the family home, above the “nil rate band”, presently (at 2010/11) of £325,000 per person (one each for husband and wife). This includes house values, so affects many people, not just the rich.

There remains, however, a number of legitimate and effective strategies to mitigate IHT, including:

1) **The Family Home**

Removal of the value of the family home from the taxable estate is still possible, without compromising one’s ability to remain resident, or to move house. Schemes still available include the “Reversionary Lease”, though there can be other tax consequences depending upon circumstances. Individual advice is needed.

2) **Business Property Relief**

Assets such as shares in unquoted trading companies, family businesses, and AIM shares, private business interests, and growing commercial forestry currently qualify for 100% relief from IHT when held for over two years. Specialist investment portfolios can be established to invest in a portfolio of AIM quoted shares to achieve this, while diversifying risk. There is no upper limit to amounts eligible. Individual AIM shares are high risk though the risk can be alleviated by using managed portfolios of AIM shares.

3) **Enterprise Investment Schemes (EIS)**

These also qualify for 100% IHT relief when held for two years, and have Income Tax and Capital Gains Tax benefits as well, including roll-over deferral of realised Capital Gains. They are also high risk, but again, diversified portfolios can be established to spread the risk.

4) **Loan Trusts**

These are considered safe from the Pre-Owned Assets Tax charge and allow future capital growth of an investment portfolio to accumulate outside one’s estate for IHT purposes, whilst the investor retains access to the original capital outlay. Over the long term this can mitigate IHT. The investment portfolio can be adapted to one’s risk tolerance (see leading newsletter article).

5) **Discounted Gift Schemes**

An immediate reduction in IHT on an investment is achieved, and elimination of all IHT on it after 7 years, in return for an income for life to the investor. The capital passes to nominated beneficiaries after death of the investor.

6) **Lifetime Gifting – Potentially Exempt Transfers (PETs)**

These still remain effective. Unlimited amounts can be gifted during life, provided there is no “reservation of benefit” to the donor. The value of the gift, plus investment growth accrued to date, falls outside the taxable estate on survival of the donor for seven years. On death of the donor within 3 to 7 years of the gift, the amount of IHT is reduced on a sliding scale. Gifts to trusts (except bare trusts) no longer count as PETs.

7) **Agricultural Property Relief**

Either 50% or 100% IHT relief after two years, depending upon circumstances for land and buildings being actively used for agriculture or forestry. Packaged investment schemes for investment in forestry exist for the private investor.

8) **Use of exemptions**

Main exemptions which escape IHT:

i) Annual gifting allowance of £3000 per donor per annum
ii) Small gifts allowance – up to £250 per recipient, regardless of number of recipients
iii) Gifting out of income – not a specific amount, but still exempt if made out of income on a regular basis, and doesn't reduce donor's standard of living
iv) Gifts upon marriage – up to £5000
v) Gifts to charities or political parties – unlimited amounts are exempt

9) **Foreign Domiciliaries**

Individuals resident in the UK who are foreign domiciled and have overseas assets can transfer assets into offshore "excluded property trusts" to protect from IHT, but can take regular withdrawals to the UK to supplement income. Although this deprives HMRC from much IHT it is likely to remain as it is a major factor in attracting very wealthy businessmen and investors to the UK. But for "non-doms" to be able to continue the offshore assets exemption, they will have to pay a fixed fee (£30,000pa) to the Inland Revenue in future. This is a small amount for many of the very wealthy ones.

10) **Pension death benefits**

Lump sum death benefits from occupational and personal pensions are usually automatically in trust, so avoid IHT, but this needs checking in each case. Death benefits from "Section 32" pension transfer policies are subject to IHT unless one specifically establishes a trust. Some of the these funds can be substantial so advice is needed.

Action
As with any tax planning bespoke individual advice is essential, and Midas Fides is able to use the services of expert specialists and solicitors in this field. I welcome serious enquiries.