A Guide to

INHERITANCE TAX PLANNING

Protecting your wealth from a potential liability

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Welcome to 'A Guide to Inheritance Tax Planning'. We all want to protect our wealth and help ensure our families are provided for when we die. Your wealth might encompass businesses, property and investments in the UK and abroad that require specialist considerations.

Inheritance Tax (IHT) also applies to your entire worldwide estate, including your savings, car, furniture and personal effects. You should also consider all of your investments, pensions and life insurance policies and ensure that life polices are held in an appropriate trust so they do not add to the value of your estate.

IHT is currently payable at 40 per cent on any amount over £325,000 – the nil rate band (tax year 2011/12). The nil rate band is the term used to describe the value an estate can have before it is taxed (£650,000 for married couples). So if you have an estate worth £500,000, £175,000 is taxed at 40 per cent, meaning the IHT bill would be £70,000.

HELPING YOU PROTECT YOUR WEALTH IS AN IMPORTANT PART OF WHAT WE DO, AND ONE THING IS CERTAIN, YOU NEED TO PLAN TO PROTECT YOUR WEALTH FROM A POTENTIAL IHT LIABILITY. BENJAMIN FRANKLIN ONCE SAID THAT 'NOTHING IS CERTAIN BUT DEATH AND TAXES', AND THANKS TO IHT, THEY'RE NOT ONLY CERTAIN, THEY'RE INTRINSICALLY LINKED. TO REVIEW YOUR OPTIONS, PLEASE CONTACT US.

PLEASE NOTE THAT THIS IS A GENERAL GUIDE DESIGNED TO HELP YOU THINK ABOUT YOUR INHERITANCE TAX PLANNING NEEDS. IT DOES NOT PROVIDE SPECIFIC ADVICE. IF YOU ARE UNSURE OF YOUR FINANCIAL POSITION OR ABOUT WHICH TYPE OF STRATEGY IS RIGHT FOR YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.

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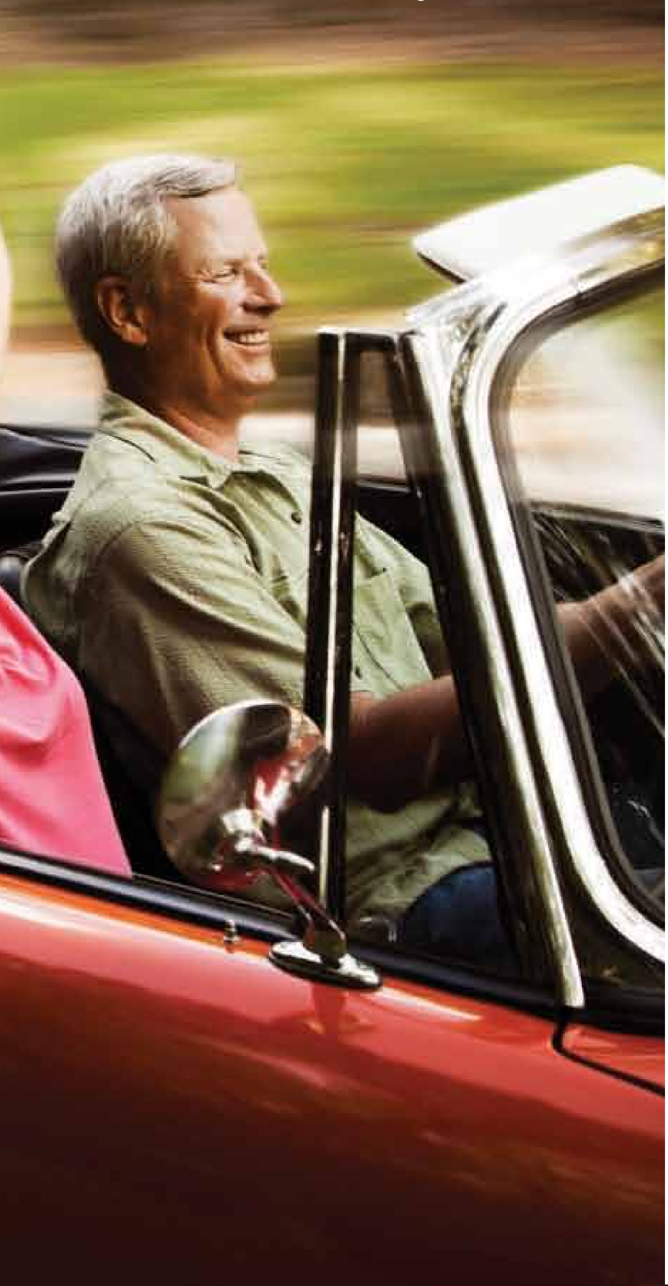

REDUCING AN INHERITANCE TAX BILL

WRITE A WILL

Making a Will is the first step to reducing your IHT bill. It helps you get an idea of what your estate is worth, therefore providing a good basis to understand how much IHT planning is required.

GREAT GIVE-AWAY

You can give away cash or assets up to the value of £3,000 a year without it incurring any taxes. This can also be backdated by one year if not already used, for example, a couple could effectively gift £12,000 in the first year if not already used and then £6,000 (£3,000 each) thereafter. Parents can also give up to £5,000 to each of their children as a wedding/civil partnership gift while grandparents can give up to £2,500. Others can also contribute to loved ones' weddings/civil partnerships but are only allowed to give up to £1,000.

You can make small gifts up to £250 to as many people as you like, as long as you haven't already gifted that person in the same tax year.

If you are still working and earning an income, you are also permitted to give away any surplus amounts of your income provided that, in making these gifts, your own standard of living is not affected. You must not then access your capital (savings and investments) to live off.

SEVEN-YEAR RULE

The seven-year rule allows you to make additional tax-free gifts providing you do not pass away within the next seven years. These gifts are called 'potentially exempt transfers' (PETs) and can be anything from cash to property. However, you cannot give something away and still benefit from it, for example, you can't give away the family home and then continue to live in it unless you pay the market rent.

If you were to pass away before the seven years were up, the assets would be taxable. However, the amount would vary and depend on how close to the seven-year milestone you were. For example, if you were to die within six years, the tax bill would be less than if you passed away within a couple of months. This is known as 'taper relief'.

A MATTER OF TRUST

Placing assets into a trust in your lifetime could be a good way to decrease your IHT bill. Limited to the nil rate band, these gifts count as potentially exempt transfers. This means the same rules apply, so if you pass away before the seven years are up, IHT will be due.

It is possible for a Settlor to place assets in excess of the nil rate band in a trust. These gifts are called 'chargeable transfers' as tax is payable immediately the asset goes into the trust. However, if the Settlor dies within seven years then there could be an IHT liability to pay too.

RURAL AMBITIONS

Buying farmland is an alternative way to help reduce a potential IHT bill, as farmland qualifies for agricultural property relief of up to 100 per cent after two years of ownership. The land has to be actively worked on for 'agricultural purposes' so, unless you have rural ambitions, this will not be an option for the majority.

Levels and bases of reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

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