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For Life

THE INHERITANCE TAX EDITION

2017 has already seen changes that may affect you and your family. With rising property prices and increased assets, more and more estates are becoming subject to inheritance tax.

In this issue of For Life we focus on inheritance tax. Some of these issues get quite complicated but if you find yourself with questions about anything you read here, please give a member of the team a call and ask for your free 15-minute phone consultation.

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New probate fee structure hits hard

Martin King writes about how a potential significant rise in probate fees threatens to eat into the value of many estates.

Discounted gift trusts explained

Independent Financial Adviser, Paul Chilver, explains how you may be able to benefit by giving away money and yet retaining the interest.

Inheritance tax changes

The introduction of the Residence Nil Rate Band promises to take some families out of the IHT bracket, as Joanna Millican explains.

The residence nil rate band

and how it may it affect you

The current amount you can leave without inheritance tax (IHT) becoming payable is £325,000. This is known as the nil rate band (NRB). Amounts above this are taxed at 40%, subject to some exceptions such as gifts to charities. Gifts you make during your lifetime that exceed £3,000 in a tax year may also reduce the NRB available to you when you pass away.

Transfers between spouses and civil partners are exempt from IHT and therefore if all of your estate passes to your spouse or civil partner there will be no IHT to pay, even if your estate exceeds the NRB. When the surviving spouse dies, they effectively have a double NRB to offset against their estate.

In April 2017 the Residence Nil Rate Band (RNRB), came into effect. In addition to the existing allowance, a further allowance - starting at £100,000 has been introduced. This will annually increase by £25,000 until 2020/21 when it will reach £175,000 per individual. This gives individuals a potential allowance of £500,000 and, if you consider the concept of transferring a NRB as above, could give a surviving spouse or civil partner an allowance of up to £1 million.

An estate will be entitled to the residence nil rate band if:

- The individual dies on or after 6 April 2017
- The individual owns an interest in a property that is included in their estate
- The individual's direct descendants inherit the property, or a share of it
- The estate is valued at less than £2m

The RNRB differs from the existing NRB in that it does not apply to lifetime transfers, i.e. transfers into trusts or gifts given within seven years of death. So the existing NRB could be used up by gifts made within seven years of death, but an estate would still be able to utilise the RNRB. The estate may still be entitled to the RNRB if a deceased person disposes of a former home or has downsized to a less valuable home.

In light of these changes, it is essential that you ask your solicitor to review your will to ensure that your estate can benefit from the new RNRB provisions. This is particularly relevant when you consider that the Office for National Statistics reported in April 2016 that the Government was on track to receive its highest annual intake of IHT in history - a forecasted figure of £4.6 billion (actual

Sorting out the estate of a loved one can be daunting. Due to proposed changes, new probate fees look to add to that pressure by eating into an estate's value.

Possible new probate structure...

...could hit families hard

In most cases where there is land or shares a Grant of Probate will be required. This is an authority from the court that allows the financial affairs of the person who has died to be concluded. At the moment there is a flat fee of £155 for the Grant of Probate, reflecting the fact that the work required by the Registry is the same whatever the value of the estate.

Proposed changes from the Government, which are currently on hold until after the general election, potentially impose a huge fee increase. The Government claims that the changes would raise some estates above the fee threshold. At present, estates worth less than £5,000 pay nothing. Potentially, if this plan comes into force, that threshold would rise to £50,000, but it isn't difficult to see how many estates – and almost all that include property – will be valued above that.

The changes see the introduction of a banded fee structure. At the top end, an estate in excess of £2M will pay a £20,000 fee instead of the existing £155 - a whopping figure yet to be released). Figures from the Office for Budget Responsibility show that the amount of families liable to pay IHT has risen from 15,000 in 2010 to 40,000 in 2016. This demonstrates how much the RNRB is needed; as the values of estates rise, so does the likelihood of falling within the IHT bracket. It may be with this in mind that the RNRB figure is set to increase 'in line with inflation' after 2020/21.

All this shows that estates have been paying more tax than ever. With values of homes in Essex up 16% last year (higher than London, at 11%) the values of estates are steadily increasing. Whether the RNRB will ease the tax pressure, only time will tell.

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Time to review your will

The changes highlighted in this newsletter show how important it is to have your will reviewed regularly by a solicitor. Not only will your family and personal circumstances have most likely changed, but new legislation could mean that the provisions so carefully worked out years ago, no longer hold the best options for you.

And in the light of the article on discounted gift trusts (on the back page), also remember that:

- Not all trusts created in a will can qualify for this relief
- If you leave a conditional gift to your grandchildren this will not qualify for RNRB; instead, it will be held as a Relevant Property Trust

This is a complicated area that shows the importance of expert financial and legal advice.

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12,900% increase! Of course most will not leave estates of £2M, but given the rising costs of houses in our region, an estate valued at £300,000 or even £500,000, is not uncommon; under the new fee structure such estates would pay £1,000 and £4,000 respectively.

If you have recently lost a loved one our advice is not to delay the administration of their estate. Naturally, dealing with legal matters is difficult when you are grieving. However, putting things off could mean that what your loved one has worked so hard to achieve is reduced significantly because of this stealth tax.

At Birkett Long our team includes members of Solicitors for the Elderly and the Society of Estate Practitioners (STEP), which means we are committed to treating clients with dignity, respect and sensitivity, avoiding unnecessary legal terminology.

If you would like to talk to an expert about probate then please do not hesitate to contact Martin.

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Discounted gift trusts explained

At the recent Birkett Long inheritance tax investment opportunities seminar we covered some of the options available to help an individual reduce their inheritance tax liability. These included a Flexible Reversionary Trust, a Discounted Gift Trust and information on the Main Residence Nil Rate Band, which came into effect on 6 April 2017.

In addition, we briefly covered some of these areas in our last Independent Financial Advice newsletter, but in this article I am going to concentrate on the use of a Discounted Gift Trust.

A Discounted Gift Trust is an arrangement that allows an individual to give away a sum of money yet retain the right to receive an income from it, usually 5% per annum as this takes advantage of the 5% tax deferred withdrawal facility under an investment bond. Once the income level is agreed and set it is irrevocable and therefore cannot be changed in the future. The actual gift goes into a trust for the individual's chosen beneficiary or beneficiaries.

This type of arrangement is called a Discounted Gift Trust because the value of the Gift may be discounted for Inheritance Tax purposes, with immediate effect.

The insurance company will decide what discount is to be given based on factors including an individual's health and age; therefore the younger and fitter you are, generally the higher discount. To provide an example: if Mr Smith, who is 65 years old and in good health, invested £100,000 and requested income at 5% per annum, the insurance company may value the initial discount at £60,000, leaving a gift of £40,000. This would mean that £60,000 would be outside Mr Smith's estate immediately and, should Mr Smith survive for a full seven years after the original gift, the remaining gift, together with any growth on the investment, will be outside Mr Smith's estate for inheritance tax purposes. The whole value of the investment bond will be held within the trust but the amount of regular withdrawals paid to Mr Smith will continue beyond the seven years.

A Discounted Gift Trust is not suitable for everyone but assuming you are in good health, likely to live seven years and require an income from the investment, this could be an excellent way of mitigating inheritance tax.

As stated earlier, the investment would be made to an investment bond. Our financial advisers would make a recommendation on the funds to be invested into this arrangement, taking into account your attitude to risk and your existing financial arrangements.

We are pleased to offer a free initial meeting of up to 30 minutes where we can discuss this arrangement in more detail. If you would be interested in arranging such a meeting, please get in touch.

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