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Rate Band

A person can leave up to £325,000.00 to friends or family free of inheritance tax, but any excess above this figure may be subject to inheritance tax at a rate of 40%. This allowance, called the “nil rate band” relates to the amount left to beneficiaries other than a spouse (or civil registered partner) or charities. Assets that are passed to spouses (or civil registered partners) or charities are free of inheritance tax, regardless of what they are worth.

There are various ways to save or minimise inheritance tax liabilities some of which are listed below:-

Make gifts

A person can give away up to £3,000 in each tax year, without being liable for inheritance tax, and the unused portion of the previous year’s exemption can be carried forward for one year.

It is also possible to give away £250 to any number of different people if the total gift to each person does not exceed £250.

There are also certain exemptions for wedding gifts.

Give away surplus income

If a person has surplus income year on year, it is possible to give it away free of inheritance tax. It is necessary to show that the gifts are part of the person’s regular annual expenditure and that they do not reduce that person’s standard of living. It is best to keep records of these gifts and also the net yearly income.

Make larger gifts

If a person gives away assets, cash or property in excess of £3,000 and if they survive for the period of 7 years after the gift, the gift will be free of inheritance tax. After a period of 3 years the beneficiary may get some tax relief and this will increase each year until the 7 year period has expired.

Business property relief

Certain categories of business and business assets may qualify for a 100% exemption from inheritance tax. Professional advice should be sought to determine whether such relief will apply.

Insurance

It is possible to arrange a policy of insurance to pay out a lump sum on death to cover an inheritance tax liability. The policy should be set up carefully to ensure that the proceeds of the policy do not form part of the estate to be subject to inheritance tax themselves.

Use the transferable nil rate band

In October 2007, the Government announced that married couples, and civil registered partners, can now transfer any unused element of the nil rate band from one person to the other thus giving a joint nil rate band of £650,000.

Continued...

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INHERITANCE TAX

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This means that spouses and civil registered partners will be able to transfer their unused nil rate band to the surviving person. When the first spouse or partner dies, their share of the home and any other assets can be transferred simply to the survivor. When the second spouse or partner dies, inheritance tax will only be paid if the total assets exceed the £650,000 threshold. This does not apply to unmarried couples. If a couple cohabits they can each use their own individual allowances of £325,000. They cannot leave assets worth more than £325,000 to each other without facing an inheritance tax bill. This could cause problems if one cohabiting person dies.

It is important to keep records following the death of the first spouse relating to their Will and estate and how much (if any) of the nil rate band was utilised on their death.



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