

What is Inheritance Tax and will I have to pay it?

Inheritance tax ("IHT") is payable on your estate, which is:

1. everything of value that you own anywhere in the world when you die (for example, your home, car, jewellery and other possessions, savings and investments etc.); after allowing for
2. any outstanding debts you owe; but also including
3. the value of any gifts you have made in the last 7 years.

However, only about 6% of people who die each year in the UK are wealthy enough for IHT to be payable on their estates. This is because IHT is only payable (at the rate of 40%) if your estate exceeds the "nil rate band" of £325,000, or, for married couples and registered civil partners, £650,000 (provided that on the death of the first spouse/civil partner, he/she leaves everything to the surviving spouse/civil partner, or another exempt beneficiary such as a charity).

Although IHT is usually only paid when you die, there are certain situations where it can be payable in your lifetime, for example, if you set up a trust and transfer assets into it. For more information on [trusts, please use this link](#).

When is Inheritance Tax paid?

Generally, IHT must be paid before the deceased's executors can apply for the Grant of Probate and at the latest within 6 months of the end of the month in which the death occurred. For further information on [Probate please use this link](#). Some banks or building societies and the NS&I allow payment of IHT from their accounts before Probate; otherwise a loan may be needed to pay it, repaid once Probate is issued and the estate assets encashed. It is worth checking if the deceased had any life insurance written in trust or death benefits which do not require Probate and can be used to fund the IHT. Find out more by following this link [Writing your Life Insurance Policy in Trust](#).

There is an option to pay the IHT that is due on certain assets in the estate (such as houses and land, or private company shares) in 10 annual instalments, which can be useful as it may reduce the amount of tax payable up front before Probate. However, interest will be payable on any IHT that has not been paid after 6 months from the date of death.

Who is responsible for paying Inheritance Tax?

This can vary. On death, the deceased's personal representatives (the executors, or if there is no will, the administrators of the estate) will be responsible for paying IHT but as it is payable out of the assets in the estate, the residuary beneficiaries of the estate will be ones who suffer the tax (as they will inherit less than they would have done otherwise).

Where assets are held in, or transferred into, a trust, the trustees are usually responsible for paying any IHT. Occasionally, someone who has received a gift from the deceased within the last 7 years of the deceased's life has to pay IHT, but this is not common.

Inheritance Tax Exemptions and Reliefs

Even if the value of your estate exceeds the nil rate band, your executors may not have to pay any IHT as there are various exemptions and reliefs which may apply. These include:

Spouse/civil partner exemption

If you are survived by your husband/wife/civil partner and he/she is domiciled in the UK (ie. he/she lives in the UK and has done so for 17 out of the last 20 years) at your death, any amount he/she inherits from you will be exempt from IHT. If he/she is not UK domiciled, the exemption is limited to £55,000.

Charity exemption

Any gifts you make to charity will be exempt from IHT. There are proposals for the tax year 2012/13 for the nil rate band to be extended if you make a gift of a share of your estate to charity.

Potentially Exempt Transfers

Provided that you survive for 7 years after making an outright gift to someone (ie. without setting up a trust), the gift will be exempt from IHT no matter how much it amounted to. However if you make a gift but reserve any benefit for it (such as giving away a property but continuing to live in it, then it will not be treated as an effective gift for IHT purposes and will remain part of the value of your estate, subject to limited exceptions.

Annual exemption

You can give up to £3,000 every tax year without any IHT consequences. You can also use any unused allowance from the previous tax year as long as you have used up the current year's allowance first.

Small gifts exemption

You can give up to £250 to as many people as you like in any one tax year without any IHT implications, but you cannot use this exemption in conjunction with the annual exemption.

Wedding/civil partnership gifts

You can give up to £5,000 to a child, £2,500 to a grandchild or £1,000 to anyone else as a wedding/civil partnership ceremony gift free of IHT so long as the gift is conditional on the wedding/civil partnership ceremony taking place. You can combine this exemption with the annual exemption.

Gifts out of income exemption

Provided that you leave yourself with sufficient income in each tax year to maintain your usual standard of living, any gifts you regularly make out of your surplus income will be exempt from IHT.

Business and Agricultural Property Relief

Subject to certain restrictions, relief from IHT (at either 100% or 50%) will be available on any interest you have in a trading business (eg. shares in a company or a partnership interest) or a farm.

For further advice on inheritance tax, please contact Eddie Reynolds in the Wealth Management Team at Coffin Mew on 023 8048 3780 or by email: eddiereynolds@coffinmew.co.uk.