INVESTMENT QUORUM
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Reduce your Inheritance Tax bill

10 ways to protect your estate for your loved ones

Even those who believe they have moderate wealth levels may still need to take action to minimise Inheritance Tax, particularly if they own property and have savings and investments.

Inheritance Tax is payable in the UK on death, and sometimes when you give away certain assets during your lifetime. It can be a great concern for individuals with wealth exceeding the current £325,000 nil-rate band (2020/21 tax year).

Naturally, you'll want to pass on as much as possible to your loved ones, rather than paying 40% to HM Revenue & Customs (HMRC). Are you worried your family could be left with an Inheritance Tax bill after you're gone?

HERE ARE 10 TIPS TO PAY LESS OR AVOID INHERITANCE TAX:

■ 1. Potentially exempt transfers

One of the better-known ways to pass on wealth free from Inheritance Tax is to gift it more than seven years before your death. Of course, there is a degree of unpredictability in the outcome. If you were to die within seven years of making the gift, Inheritance Tax may be charged, though the rate will be reduced if more than three years have passed.

■ 2. Personal gifts

Gifts up to a certain value can be made free from Inheritance Tax, even in the last years of your life. Your allowance includes: large gifts totalling no more than £3,000; unlimited small gifts of up to £250; and wedding gifts of up to £5,000 for your children, £2,500 for your grandchildren, or £1,000 for others

Gifts made within your regular pattern of income and normal expenditure (for example, quarterly payments towards a grandchild's school fees from your annual income) can usually be made free from Inheritance Tax, although you may need to document this pattern for three or more years.

■ 3. Charitable gifts

Gifts to registered charities can be made entirely free from Inheritance Tax, which can help you to reduce the size of your estate to within the Inheritance Tax threshold.

Additionally, if at least 10% of your total estate is gifted to charity, it will reduce the rate of Inheritance Tax payable on your remaining estate (above the nil-rate band) from 40% to 36%.

■ 4. Insurance

It is possible to take out a life insurance policy written in an appropriate trust that can provide a lump sum on your death to be used to pay the resulting Inheritance Tax bill. If this policy is within a trust, the lump sum paid out will not count towards your estate.

Insurance can also be taken out when making large financial gifts to cover the Inheritance Tax bill if you were to die within the following seven years (for example, before they are excluded from your estate). This is called a 'term assurance' policy.

■ 5. Pensions

Typically, though with some exceptions, pensions are excluded from the calculation of your estate and can be passed on free from Inheritance Tax. It is important to name a beneficiary to whom you wish to pass on your pension benefits.

It is also possible to make payments in your lifetime into another person's pension, which will protect this money from Inheritance Tax. For example, you can set up a Junior Self-Invested Personal Pension for a grandchild under the age of 18 and pay in up to £2,880 a year. But they will not usually have access to this money until they reach age 55.

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6. Discretionary trusts
A discretionary trust can help you to reduce your Inheritance Tax liability by holding money in the name of your beneficiaries while you retain control. You can use your nil-rate band to pay in up to £325,000, which will be excluded from your estate after seven years. Funds above the nil-rate band may attract a lifetime tax charge.

7. Loan trusts
If you would like to protect your money in a trust but need to know you can withdraw it if you need it, it's possible to loan money to a trust. You will always have the option to withdraw the original capital you loaned, but any growth on that capital will be protected within the trust from Inheritance Tax.

8. Discounted gift trusts
If you would like to earmark some wealth to be passed to a beneficiary or beneficiaries on your death, but you want any income generated to be paid to you in your lifetime, you can do this through a discounted gift trust. This will exclude the contents of the trust from your estate for Inheritance Tax purposes but still provide you with regular payments from it.

9. Business Relief
Business assets can usually be passed on either in your lifetime or after your death with Inheritance Tax relief of up to 100%. A business, interest in business or shares in an unlisted company will usually qualify for 100% Business Relief. Land, buildings and machinery related to the business will usually qualify for 50% Business Relief, as will shares controlling more than 50% of the voting rights of a listed company.

10. Agricultural Relief
If you own agricultural property (land or pasture used to grow crops or rear animals as part of a working farm), this can usually be passed on in your lifetime or after your death free from Inheritance Tax. ■

TIME TO PLAN YOUR ESTATE?
Inheritance Tax planning can be a complicated process, especially as rules and legislation seem to change every year. But with the right forward planning, it is possible to significantly reduce or even eliminate a potential Inheritance Tax liability. To identify the best ways to protect your assets for future generations, don't delay. Contact us to discuss your options.

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