

## **AVOIDING INHERITANCE TAX**

This kind of title is a switch-off to very many of us. First of all it reminds us of the need to pay taxes. Secondly it reminds us of our own mortality. Death and taxes are the only certainties in life, as the scribe has it, but thinking of either is really unpalatable.

Yet, Inheritance Tax is one of the few taxes where we can really do something positive. There are two really effective ways to avoid this tax - die poverty-stricken, or plan ahead.

### **PLANNING AHEAD**

Inheritance Tax is wrongly seen by many as the tax which only the very wealthiest among us has to pay. Again people wrongly believe that only those with moderate wealth will have to pick up the tab. That is simply not the case. Once you have assets worth more than £325,000, you face the prospect of having to pay tax at 40% on the excess. It is surprising how easy it is to get to this figure. We only need to think of a house, our savings, and our motor vehicle to get above this threshold.

### **THE STATISTICS**

It is interesting to see where the major components of Inheritance Tax come from. The statistics show the following:-

- 12% comes from shares and securities
- 26% comes from savings accounts, deposit accounts, and cash held
- 41% comes from the homes people live in
- 21% comes from insurance policies, other property we own, and the contents of our homes

So you can see that the family home easily comes top of the list. This shows that Inheritance Tax is not simply the preserve of the rich or the very rich.

## **DOES IT AFFECT ME?**

Take the case of a divorced woman. In the divorce she gets the house, which at the time of her death has risen in value to a current market valuation of £480,000. She then has house contents, jewellery and a car, which altogether come to £50,000. She has scrimped and saved during her life, and particularly after her divorce, to build up an investment portfolio of £480,000 (bringing her in about £18,000 a year in income). Once her allowance is taken off, and in the absence of any tax planning, the estate would face a potential bill for Inheritance Tax of £274,000.

I have been witness during my career as a solicitor to huge cheques being paid to the Exchequer for Inheritance Tax on estates where most people would have thought there was little if any tax to pay. People have generally led reasonably frugal lifestyles, and this has kidded them and those around them that there would be little to pay to the Government on their estate.

## **ESSENTIAL PLANNING**

With this Government keeping the threshold so low, inflation will quickly erode the lifetime exemption year-on-year. This in turn will drag ever more families into the tax net. The practicalities of essential tax planning are there for all to see. Ignore it at your peril. Appropriate and essential planning can literally save you hundreds of thousands of pounds.

## **EXAMPLES**

There are many ways to ameliorate the effects of this tax and to keep the burden of payment within reasonable limits. Did you know, for example, that there are at least a dozen Inheritance Tax planning techniques which protect the family home? Did you know that up to 15% of the Inheritance Tax bill can be taken off by changing the legal title you hold in your house? Did you know it is possible to avoid this tax simply by

moving around the UK? These are just the tip of the iceberg. With full details of your assets, appropriate provisions can be put in place.

## **LONG-TERM RESIDENTIAL CARE**

This is an absolute minefield, and one which my colleague Sharon Piper has written on a number of times. There is the worry about juggling Inheritance Tax with the concern when the day arrives when we are unable to care for ourselves in our own home. I have seen tragic examples of parents gifting houses to children, remaining in the property, and then moving into nursing care shortly before death. By taking no advice or bad advice, I have seen this give rise to very substantial Inheritance Tax bills, and then the child who now owns the house having to pay swingeing Capital Gains Tax on selling this property. So do please be warned. Many such transfers are done with the intention of avoiding paying residential care fees - but with rule changes and Court challenges by local authorities, I have seen these parts of the plan falling down and the local authority getting all their fees paid out of the property proceeds.

Such gifts are what are called “gifts with reservation”. If you have considered doing this, or need advice on exactly how you should go about it, take very good advice indeed.

## **ACTION**

So if you add up the value of all your assets, I think it is essential that you do take good and proper advice as quickly as possible. As I have said, there are many excellent tax-saving schemes which are entirely legitimate, and which can reduce the tax burden very considerably indeed. If you have children and grandchildren who you may want to benefit from your estate, do not leave it too late. The clock is always ticking, particularly when considering potentially exempt transfers which are tax-free after 7 years.

Sharon Piper here at Busbys has spent years working with clients and their assets, preparing Wills, trusts, and giving excellent advice on effective ways of reducing the Inheritance Tax burden. She is a member of the Society of Trust and Estate Practitioners, and has an excellent reputation. Busbys has the Lexcel accreditation. Lexcel stands for “Legal Excellence”, and you can be sure of the very best help and

advice. Contact Sharon on **01288 35 9000** or e-mail her at **sharon.piper@busbyslaw.co.uk**. We look forward to helping you.

**John Busby**

**Busbys Solicitors**

**Bude and Holsworthy**