TindleWEALTH

Disclaimer: This document has been prepared as a general guide only and does not constitute personalised tax nor legal advice. This is advice is not specific to the reader but is intended to be general in nature. To the best of our knowledge, we believe the below to be accurate as of October 2019 - but we do not guarantee the veracity of the information. It advisable to take specific tax and/or financial advice specific to your circumstances.

When does Inheritance Tax apply?

In the simplest terms, from April 2020 onwards, any estate worth more than £1 million will attract inheritance tax of 40% (unless exemptions apply). The 40% tax is paid on the value of the estate that is above the threshold amount (e.g. £1 million).

Technically, the 40% inheritance tax begins once an estate is worth more than £325,000. If you're married or in a civil partnership, you can combine this allowance with that of your spouse such that your combined minimum threshold amount becomes £650,000. If you own your own home and leave it to a family member, you have a residency exemption of £175,000 (from April 2020) which, if combined with a spouse's exemption, doubles to £350,000. Thus, from April 2020 onwards, a married couple with an estate worth more than £1 million will be subject to inheritance tax - unless mitigating steps are taken. Note that your estate includes your home (net of any mortgage).

One final wrinkle: if your estate is worth more than £2 million then the residency exemption declines gradually such that an estate worth £2.7 million receives no residency exemption - and therefore pays 40% inheritance tax on the value above £650,000.

How can you mitigate your Inheritance Tax liability?

It's important to understand that inheritance tax planning should be done as part of a wider plan for your own finances. There are various ideas outlined below but none would be appropriate if it wasn't in *your* best interests, including your ability to fund yourself for the rest of your life and to pay for potentially costly care in old age. Therefore, you should consider the below as possible options that can be combined to form a plan that focuses on *you* first and only then considers how to mitigate your estate's inheritance tax liability.

Below are a series of steps/strategies that might be appropriate:

Ensure you have a suitable will

An up-to-date will is fundamental to inheritance tax planning. For one, the residence exemption outlined above only applies if your home is left directly to your descendant(s). Many older wills hold assets in trust meaning that your estate would likely lose out on this valuable exemption.

Drafting a new will or updating an existing will is relatively easy to do - and absolutely essential to minimising your estate's inheritance tax.

Lifetime gifts

Giving away your money or assets is perhaps the most straightforward way of reducing your inheritance tax liability. Larger gifts are 'potentially' exempt from inheritance tax, provided you survive for at least seven years from the time at which you give the gift.

There may be other reasons that you would like to give away money including, for example, to contribute to your children or grandchildren's pension (which is often a good way to support your offspring without simply giving them a lump of cash). Similarly, you may wish to contribute to a grandchildren's 'Help to Buy' ISA or Junior ISA.

All of these gifts would be exempt from inheritance tax if you survived for at least seven years from the time of the gift. However, it is of course imperative that you do not give away *too much* - as you may need the money in older age to pay for your lifestyle and potentially to fund expensive care.

Gifts from income

Provided a gift is made as part of a regular pattern of giving and is funded from actual income (and not, for example, by selling assets) which exceed your own requirements, the gift is free of inheritance tax.

This can be a very useful exemption to utilise but it requires clear evidence that the gifting was regular and came from income - otherwise HMRC may demand inheritance tax be paid by those to whom you have made the gift (if you pass away up to seven years after the gift was made).

Charitable Giving

All gifts to charity are free of inheritance tax. Furthermore, if at least 10% of your estate is left to charity then the rate of inheritance tax applied to the portion of your estate that is liable for inheritance tax is reduced from 40% to 36%.

Make use of pensions
Pensions are (usually) free of inheritance tax. For this reason, they are often an exceptionally good way to both protect your future standard of living and to ensure that your beneficiaries are protected from the 40% inheritance tax. It is therefore sometimes advisable *not* to draw on your pension until necessary so that you spend money that is subject to inheritance tax. **Such a strategy is often contrary to the perceived wisdom and is one of the most overlooked strategies that we encounter.**

The use of trusts
Trusts are not just for the uber-wealthy. In fact, they often form an integral part of inheritance tax planning. You may be surprised at just how many 'normal' people utilise them.

A popular structure is a 'discretionary gift trust' which sets up a separate legal entity that both pays you an ongoing income and protects your assets from inheritance tax. Importantly, this structure allows you to continue to receive income from your assets while protecting them from the 40% inheritance tax charge.

Trusts can also be used to do things like protect your children/grandchildren or other beneficiaries from potential marital disputes and/or to delay giving money to your beneficiaries until they are at a more appropriate age. Similarly, they can be used to protect your own financial legacy if your surviving spouse remarries.

Life insurance
Life insurance is often used to negate an immediate inheritance tax liability. For example, if you own a holiday home and you were to pass away, your heirs may have to pay 40% of the value of that holiday home to HMRC. A life insurance policy that is, crucially, written in trust can be used to pay the inheritance tax - allowing your beneficiaries to keep the holiday home for their benefit.

You might want to purchase life insurance in order to protect your assets from a potential immediate inheritance tax liability and then reduce that life insurance as, over time, adroit planning reduces your potential inheritance liability.

Business Property Relief
Shares in certain businesses are free of inheritance tax. A number of companies that are listed on the AIM stock market (which is essentially London's 'junior' stock market) do not attract

inheritance tax. Similarly, investments in small private companies that qualify for the government's ‘Enterprise Investment Scheme’ are also free of inheritance tax.

Such investments, however, are risky and they are therefore not appropriate for everyone. Nevertheless, they can often form a small but effective part of one’s overall portfolio.

The Conundrum

Inheritance tax is a widely unpopular tax; very few people relish the idea of paying the government 40% of wealth that they have earned - and already paid tax on - during their lives.

The seemingly most straightforward solution - giving away money or assets at least seven years before you pass away - is, in fact, not straightforward at all. You, of course, want to ensure that you can live out your life in the standard of living to which you are accustomed - and to keep funds in reserve for potential additional expenses like care in your older age. There may be other considerations as well, like wanting to avoid giving away too much to beneficiaries at too young of an age.

The challenge, therefore, is to build a plan that reduces your inheritance liability while ensuring that you remain in control of as much of your assets as you need and desire.

About Tindle Wealth Management

Tindle Wealth Management was founded in 2017 by Scott Tindle, CFA. Scott and his team offer bespoke financial planning and investment management. We routinely advise clients on how to mitigate their inheritance tax liability while ensuring that they have the resources to maintain their standard of living.

You can learn more at www.tindlewealth.com or feel free to contact Scott directly on 0203 858 0637 / scott@tindlewealth.com.