

Will the budget changes to Inheritance Tax (IHT) affect you?

Inheritance Tax planning is still essential if you do not want part of your Estate going to the Government on your demise.

Inheritance tax is in two “bands”. The first “band” is £0 to £325,000 which **incurs** zero tax hence the name Nil Rate Band (NRB). On everything over that amount tax is due at 40%. There is no tax on money left between spouses and they can also benefit from the deceased’s spouse’s nil rate band giving them £650,000 tax free if it hasn’t been used elsewhere.

We have been waiting for an increase to the NRB for six years during which time House prices as we all know have increased considerably dragging more and more people into paying a tax that was never originally intended for them.

However instead of increasing the NRB to £500,000 the budget changes have added an extra allowance that will be introduced gradually until it eventually hits £175,000 in 2020. This allowance can only be used against a family home left to direct descendants who we understand to be children, grandchildren, step-children, and adopted or fostered children.

The NRB has been frozen at £325,000 until April 2021!

Whilst married people with children will welcome this change, by 2020 it could save their children £140,000 in tax but what about single folk and couples who choose not to or don’t have children? Unless they leave the money to charity or a political party, their beneficiaries will still have to pay 40% tax on assets that they have worked for and accumulated over their lifetime.

There are many ways to reduce the Inheritance Tax payable on death some of which are extremely high risk and therefore not suitable to all, some much more straight forward for example a good holiday.

When I first heard an 80 year old client mention that he and his wife were going Skiing, I was very concerned. I think the startled look on my face gave my feelings away as the client quickly pointed out they were in fact going to Spend the Kids Inheritance.

Some people still think that giving away a family home whilst still living there will solve the problem if they survive 7 years after the date of the gift, it does not. Capital Gains tax, previously owned assets tax, bankruptcy, divorce and so many other problems ensure this course of action simply does not work.

The budget could be good news for you but as always a good financial adviser will be able to help you work out your objectives and then find the solution that best meets your needs.