Inheritance Tax

Do I have to pay it?

YOUR QUESTIONS... ANSWERED
WHAT IS THE CURRENT ALLOWANCE?

Each person has a personal inheritance tax allowance of £325,000. This is your “Nil Rate Band” and will remain at the same rate until 2020/2021. You do not pay any inheritance tax on anything that you leave to your spouse, a charity or a community amateur sports club.

If you are married, any un-used Nil Rate Band can be transferred to your spouse after you die.

For example:

If you leave everything to your spouse then you have not used any of your Nil Rate Band as your gifts are covered by the spouse exemption and therefore you can transfer your full Nil Rate Band to your spouse so upon their death, they will have a £650,000 Nil Rate Band.

Alternatively if your estate is worth £325,000 and you leave 50% to your children and 50% to your spouse then you have used up half your Nil Rate Band on non-exempted gifts and so you can only transfer £162,500 to your spouse’s Nil Rate Band so they have a Nil Rate Band of £487,500 on their death.

There are various other tax reliefs such as business relief that apply in certain circumstances.
IF I DO HAVE TO PAY INHERITANCE TAX, HOW MUCH DO I HAVE TO PAY?

This is charged at 40% of anything you have over your Nil Rate Band.

For example if you are single and your estate is worth £400,000 then only £75,000 is taxable. You would pay 40% in tax which would be £30,000 of the taxable £75,000 paid to HMRC.

You can reduce your inheritance tax charging rate to 36% if you leave 10% or more of your net estate to charity.

IS INHERITANCE TAX ONLY PAYABLE ON MONEY I HAVE WHEN I DIE?

Gifts that you make in the 7 years before you die can be subject to inheritance tax on a sliding scale called ‘taper relief’ or the 7 year rule.

<table>
<thead>
<tr>
<th>YEARS BETWEEN GIFT &amp; DEATH</th>
<th>TAX PAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3</td>
<td>40%</td>
</tr>
<tr>
<td>3-4</td>
<td>32%</td>
</tr>
<tr>
<td>4-5</td>
<td>24%</td>
</tr>
<tr>
<td>5-6</td>
<td>16%</td>
</tr>
<tr>
<td>6-7</td>
<td>8%</td>
</tr>
<tr>
<td>7+</td>
<td>0%</td>
</tr>
</tbody>
</table>

If you transfer money into a Discretionary trust during your lifetime then this can be counted as a Lifetime Chargeable transfer and so you may have to pay inheritance tax on it at the date of the transfer though this will only be at a rate of 20% rather than the full 40% payable when you die.

An additional Nil Rate Band called the “Residential Nil Rate Band” was introduced on 5 April 2017 which applies when you leave your main residence to your “direct descendants” in your Will, under the rules of intestacy or by some other legal means. For the purpose of this additional threshold, the direct descendant of someone is:

- a child, grandchild or other lineal descendant
- a husband, wife or Civil Partner of a lineal descendant (including their widow, widower or surviving Civil Partner)

This also includes:
- a child who was a stepchild at any time
- an adopted child
- a child who was fostered at any time
- a child where you are appointed as guardian or special guardian whilst the child is under the age of 18 years

The value of the Residential Nil Rate Band is set out below:

<table>
<thead>
<tr>
<th>TAX YEAR</th>
<th>AMOUNT</th>
</tr>
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<tbody>
<tr>
<td>2017/2018</td>
<td>£100,000</td>
</tr>
<tr>
<td>2018/2019</td>
<td>£125,000</td>
</tr>
<tr>
<td>2019/2020</td>
<td>£150,000</td>
</tr>
<tr>
<td>2020/2021</td>
<td>£175,000</td>
</tr>
</tbody>
</table>

From April 2020 the residential Nil Rate Band of £175,000 added to the normal £325,000 can keep £500,000 free of inheritance tax for an individual. For a married couple this could potentially double up to £1 million!

This Nil Rate Band can only be applied to a single property and not split between multiple properties but Personal Representatives and Executors can choose which property to apply it to where you own more than one providing it has been your main residence at some point. A buy to let property will not count.

As with your Nil Rate Band above, any un-used Residential Nil Rate Band can also be transferred to your spouse providing the second spouse dies on or after 6 April 2017. It does not matter when the first spouse died.

The Residential Nil Rate Band will still be available if you choose to downsize or stop owning property on or after 8 July 2015 and you then pass the sale proceeds or equivalent assets to your children.

If your total estate is worth more than £2 million, then there are slightly different rules.
Factsheet - INHERITANCE TAX

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