

Inheritance Tax

What is inheritance tax?

Inheritance tax is a tax that may be payable on your death. Whether or not inheritance tax is payable on your death depends on the type, and value, of assets and property you own when you die.

How much inheritance tax is payable?

At present, if when you die, the total value of your assets is less than £325,000 then no inheritance tax is payable.

If the total value of your assets is greater than £325,000, then the first £325,000 is tax free, but any excess over £325,000 is taxed at 40%.

What can I do to reduce my inheritance tax bill?

There are some simple steps you can take to reduce your inheritance tax bill and help you leave more to your family.

- Inheritance tax is not payable on assets & property passing to your spouse or civil partner on your death. In these circumstances, you may not use up all of your tax free allowance of £325,000. This allowance will then pass to your spouse or civil partner, who will also have their own tax free allowance. This means that on the death of your spouse or civil partner, they could have a tax free allowance of up to £650,000. You should review your Will to make the most of this inheritance tax exemption.
- If you give money or assets away during your life, e.g. to your children, and you survive for 7 years after making the gift, the money or assets that you have gifted will not be taxed on your death.
- You can purchase insurance to meet the potential inheritance tax liability, e.g. where you have assets or property that are not readily realisable into cash to pay the tax due or the assets are important to your family and they would not want to have to sell them to meet a tax bill.
- You can give away £3,000 each year free of inheritance tax, £6,000 if you didn't make a gift in the previous year, so a couple could give away £12,000 tax free in the first year of planning.
- You can make a tax free gift of up to £5,000 to a child, up to £2,500 to a grandchild and up to £1,000 to any other person, when they get married.
- You can also make small gifts of up to £250 per person each year.
- In addition to these tax free gifts, if you have surplus income year on year you can make tax free gifts out of this income. The amount you gift can vary from year to year, but the gifts must be regular and must be paid out of income, leaving you with sufficient income to maintain your lifestyle.

Good planning may help to reduce your liability to inheritance tax.

I would like to give cash to my children now to reduce my tax bill but how can I stop them spending it all at once?

You could transfer the cash to a trust for the benefit of the children. You could be a trustee of the trust so that you retain control over the cash, but the cash would be used for the benefit of your children, for example to pay university fees or to help buy a flat or a house. Provided you survived for 7 years after the transfer to the trust, the cash would not be taxed on your death.

Can I pass the family business to my children free of inheritance tax?

There is a very important relief from inheritance tax called business property relief.

If you satisfy certain conditions then the business can pass to the next generation free of tax on your death or during your life if you gift it to them. There is a similar relief for farmers called agricultural property relief.

We can help

If you are concerned about the amount of money that the taxman will take on your death then the best thing you can do is to start planning now! We can help you put in place a plan to reduce the impact of inheritance tax on your death and benefit future generations of your family.

This Information Sheet is based on Scottish law. If you live in England or Wales, our English law team can help you ensure your power of attorney meets your needs.

For further information on these or any other personal law issues, please contact:

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