



# Inheritance Tax guide

## **Inheritance Tax guide**

Inheritance Tax (IHT) can be paid following your death on the value of your estate (and can also include the value of substantial lifetime gifts you have made, and some types of trust funds if you have received a benefit from them). Your solicitor or Institute of Professional Willwriters member will be able to advise you in more detail about this and importantly can relate this advice to your particular circumstances, but we have tried to provide a general explanation below about how IHT works in relation to estates which include charitable gifts.

## **The IHT threshold – the nil rate band**

If the total value of your estate is under £325,000 (the current IHT threshold) there should be no IHT to pay unless you have made qualifying lifetime gifts or have benefitted from qualifying trust funds.

If the total value of your estate is over £325,000 IHT will have to be paid from your estate, generally at 40%, on the amount over £325,000 unless there are any exemptions available.

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### Example 1

If at the date of death your estate is worth £400,000 and no further exemptions are available then the IHT payable would be calculated as follows:

$$£400,000 - £325,000 = £75,000$$

$$£75,000 \times 40\% = £30,000 \text{ IHT liability}$$

This means that if your estate is worth over £325,000, your beneficiaries will only keep £6,000 out of every extra £10,000 that you leave.

Gifts to charities, your spouse or civil partner in your Will are generally exempt from IHT. If you leave a gift to any of these, their value will be deducted from your estate before IHT liability is calculated.

### Example 2

If at the date of death your estate is worth £400,000 and the whole estate is left to your spouse or civil partner or charity then your whole estate will pass free of tax under spouse / civil partner or charitable exemption.

### Example 3

If at the date of your death your estate is worth £400,000 and 50% passes to charity and the remaining 50% passes to a non-exempt beneficiary (a friend for example), then the £200,000 passing to charity will be free from IHT and the £200,000 passing to your friend will also be free from IHT as this amount is within your £325,000 nil rate band (unless you have made qualifying lifetime gifts or have benefitted from qualifying trust funds).

#### Example 4

If at the date of death your estate is worth for example £800,000 and you leave 40% to charity (£320,000) and 60% (£480,000) to non-exempt beneficiaries, then your estate will potentially be taxable. If you do not have the benefit of any other exemptions, have made no qualifying lifetime donations nor received benefit from a qualifying trust fund then the IHT liability would be calculated as follows:

$$£800,000 - £320,000 = £480,000$$

$$£480,000 - £325,000 = £155,000$$

$$£155,000 \times 40\% = £62,000 \text{ IHT liability}$$

~~Because of the way the tax rules work, this~~ IHT liability would usually be paid solely from the non-exempt beneficiaries' share of the ~~estate, so that the charities would receive £320,000 and the non-exempt beneficiaries £418,000 (£480,000 less £62,000).~~ If your intent is to effectively share the benefit of the charitable exemption with all your beneficiaries you should take legal advice as there is very specific wording which will be needed in your Will.

#### **Transferable nil rate band**

Where the first spouse or civil partner in a couple has died without using all their IHT allowance, (for instance, if they gave their whole estate to their surviving spouse / civil partner), their unused allowance can now be carried forward and used ~~on~~ ~~the death of~~ the surviving spouse or civil partner, to increase the amount of their estate which can pass free of IHT to family or friends. The maximum increase is 100% of the current nil rate

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band if none of their allowance had been used, so currently up to £325,000 in addition to your own, making a maximum nil rate band of £650,000 available.

The application of this can be technical so please take appropriate legal advice if this is relevant to you.



### **The new 10% IHT charity relief**

~~You may also have heard~~, if you leave over 10% of your estate to charity, that the rate of any IHT due (on any part of your estate where IHT is payable) would be reduced from 40% to 36%. If your estate is over £325,000, use of this could enable you to leave a legacy to charity, whilst reducing the rate of IHT payable which could possibly have a positive impact on non-charity beneficiaries. In some circumstances, you can use this to leave a gift to charity at no cost to the other beneficiaries in the Will.

Again, this is quite a technical provision and, if it is of interest to you, we would suggest that you speak to a solicitor.

Changes to the IHT allowance or the value of your estate could make a big difference to the amount of tax on your assets, and tax rules do change, so be sure to review your Will frequently.