

Inheritance Tax:

An Emergency Guide to the Emergency Budget

There was much speculation in the press about potential, significant changes to inheritance tax rules that we were all keen to read about. However, it appears that the majority of the changes that will affect most of the UK population are deferred until 2017. Below is our immediate understanding of these rules. We will be issuing our comprehensive guide to inheritance tax planning shortly. In the meantime, if you have any questions please contact us on 0800 321 3582 or at iht@savingschampion.co.uk.

Inheritance Tax

The main residence nil-rate band

An additional nil-rate band when a residence is passed on death to direct descendants. This will be to the value of:

- £100,000 in 2017-18;
- £125,000 in 2018-19;
- £150,000 in 2019-20; and
- £175,000 in 2020-21.

It will then increase in line with CPI (consumer price index) from 2021-22 onwards.

Any unused nil-rate band will be transferred to a surviving spouse or civil partner and you will not lose the allowance if you downsize to a smaller property during your lifetime on or after 8 July 2015. A consultation on how this will work is due to commence shortly.

There will also be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2 million, withdrawing £1 for every £2 over the threshold.

The nil-rate band

The nil-rate band will remain frozen at £325,000 until April 2021.

Non domiciles

Permanent non-domicile status will be abolished for people who have been resident in the UK for the last 15 out of 20 years.

Anyone deemed to be permanently resident in the United Kingdom will pay Inheritance Tax on worldwide assets with effect from April 2017.

Deemed domicile: leaving the UK

With effect from 6 April 2017 any individual deemed to be UK domiciled will have to be non-UK resident for a period of 5 tax years to end their UK domicile status.

Individuals born in the UK

Where an individual with UK domicile of origin has been a UK tax resident for a period of 15 years prior to leaving the UK they will remain deemed UK domiciled for a period of 5 years (previously 3 years) following their permanent departure from the UK.

In addition, individuals with a UK domicile of origin returning to the UK to take up residence will be treated as UK domiciled for tax purposes as soon as they become UK resident and will be subject to inheritance tax on their worldwide assets.

Property assets and offshore companies

From April 2017 any individual owning residential property in the UK will be prevented from avoiding payment of inheritance tax on it by transferring the property to an offshore structure.

Planning with multiple trusts

Legislation will be introduced in the Summer Finance Bill 2015 which will impact on settlements created after 10 December 2014 or settlements in existence prior to 10 December 2014 where additions are made after that date.

Currently settlements falling into the Relevant Property Regime and created on separate dates each have their own nil-rate band of £325,000.

The effect of the new legislation is to align settlements which receive additions on the same day so that calculation of the 10 year periodic charge and exit charge are aggregated across all settlements for calculation of the tax charges.

Where additions are made from the estate of a deceased individual the date of death will be deemed to be the date of addition.

Appointment of benefits to surviving spouse or civil partner

Another significant change will allow for the appointment of benefits, settled by the Will, to a surviving spouse or civil partner under the spousal inheritance tax exemption.

The exemption will only be available as long as the appointment is made within 3 months of death.

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