INCLUDING
KEY CHANGES FROM THE
Emergency Summer Budget 2015
(see pages 9 & 10)

10 Steps to Cut Your Inheritance Tax Bill

A short guide by The Private Office LLP
Award-winning, Independent, Chartered Financial Planners

Find Out...

- **How IHT could affect you.**
- **How to take simple steps to reduce the amount of IHT paid on your estate.**
- **How some of our clients reduced their IHT bill.**

No.2 The Bourse
Leeds LS1 5DE

W: theprivateofficellp.com
E: enquiries@tpollp.com

T: 0845 1450115
F: 0113 245 3663

tpo
the private office

Why read this guide?

You work hard for your family, you save for their future. Yet without the right planning the Chancellor of The Exchequer may get more of your wealth than your children or other heirs when you've gone.

The DailyTelegraph © Telegraph Media Group Ltd

Planning is everything. Your loved ones will go through enough when you die without having to deal with an inheritance tax bill.

Careful and personal inheritance tax planning allows your partner, spouse and heirs to retain more of your assets after your death.

In this guide, we set out the details of inheritance tax and some of the planning measures you can take now to lower future inheritance tax bills.

Did you know families lost £3.1 billion in inheritance tax during 2012/13?

How much will your family lose when they lose you?

Office of National Statistics

What is Inheritance Tax (IHT)?

We all pay taxes throughout our lifetimes. Inheritance tax is the one we pay on certain transfers made during our lifetime and after we die.

Inheritance tax, or IHT, is levied on all your possessions, known as your estate, above a certain value. This must happen before your home, other belongings and investments can be passed to your heirs. Your estate includes businesses and, if you are UK domiciled, assets you own overseas.

IHT is regarded as a cumulative tax because earlier lifetime transfers may be taken into account when assessing tax due, either on death or on a later lifetime transfer. It is calculated after all your outstanding debts are paid, including your mortgage.

It may also be due on assets you give away before you die. A tax bill may occur at the time you give away assets, or later on certain gifts made within seven years of death.

If you or your spouse are not domiciled in the UK, then the rules can be even more complicated.

Can IHT be eliminated?

Yes, it can in many circumstances. If not, it can usually be substantially reduced.

Every person gets a part of their estate that is (currently) taxed at 0%. Assets above this part, the inheritance tax threshold or the Nil Rate Band, are liable for inheritance tax (unless specifically exempt).
Right now, the threshold is at £325,000 and it will remain frozen here until April 2021.

Any estate worth less than this can be inherited with no tax to be paid. However, an estate worth more will be taxed at 40% on its value above the Nil Rate Band (or 36% if 10% of the net estate is left to charity).

There are special rules applied to husbands, wives and civil partners. Assets passed from one to the other are completely tax-free providing that both partners are UK domiciles. Any percentage of the estate below the Nil-Rate Band that is not used upon the death of the first partner may then be used by the second partner's estate. If none of the first estate is used, the surviving partner's Nil Rate Band doubles to £650,000.

Will IHT affect my family?

If a home or assets worth more than £325,000 are passed to heirs, there may be a tax bill attached.

By providing for your family now you could be building a potential tax bill without even realising.

By June 2015, the average detached house in the UK was worth more than £294,351 alone. Add in investments, cash, shares and other v aluable possessions (such as ornaments) and you can see how inheritance tax bills could soar.

Mitigating inheritance tax won't just happen. It's down to forward thinking, careful planning and seeking good financial advice.

What's Taxed, What's Not?

You can give away some of your assets before you die to reduce your family's inheritance tax liability. Some of these gifts are tax-free, others not necessarily so. Below are some examples of gifts which can be made.

Gifts	Tax Free Limit
Husband, wife or civil partner domiciled in the UK	No Tax Due
Husband, wife or civil partner domiciled abroad	£325,000
Annual Exemption	£3,000
Small Gifts Exemption (e.g. Birthdays)	£250 to each recipient in any tax year
Weddings/Civil Partnership Gifts	£5,000 from each parent £2,500 from each grandparent/other relative £2,500 between bride, groom or civil partner £1,000 from everyone else
Normal Expenditure from Income and Family Maintenance	No Tax Due
Charities, Political Parties, and Gifts for the National Benefit	No Tax Due

Exempt Lifetime Gifts

Some gifts made during your lifetime are exempt from IHT because of the type and value of the gift or the reason(s) for making it. Below are some important Inheritance Tax exemptions that could help you reduce your bill.

The Annual Exemption

Any individual may give away up to £3,000 in each tax year free of inheritance tax.

Small Gifts Exemption

Individuals can make as many outright gifts as they like each tax year up to a total of £250 per beneficiary per tax year. However, these gifts cannot be made to the same people who have also received gifts that qualify under Annual Exemption. Gifts that qualify for Small Gifts Exemption will immediately be outside of the benefactor's estate and will no longer be liable for inheritance tax.

Wedding/Civil Partnership Gifts

Individuals can make wedding gifts free from inheritance tax to either the bride or the groom or either party in a registered civil partnership. The value of the exemption depends upon the donor's relationship to the couple.

Normal Expenditure from Income

Regular gifts from income are exempt from IHT if they do not reduce the usual standard of your living and your capital is not used.

Family Maintenance

Lifetime gifts made for the maintenance of a spouse, child or dependent relative are also generally exempt from inheritance tax. This exemption extends to stepchildren, adopted and illegitimate children.

Charities, Politicial Parties and Gifts for the National Benefit

Gifts of any amount to registered charities and some major political parties are exempt from IHT, whether made during your lifetime or upon death. Similarly, gifts to museums, libraries, universities and the National Trust are exempt. Gifts of land to housing associations are also exempt.

"The best things in life are tax free".

Joseph Bonkowski

Potentially Exempt Gifts

Other lifetime gifts may be exempt from or eligible for a reduction on inheritance tax depending on the circumstances. They are known as Potentially Exempt Transfers - or PETs for short.

If you make a gift and survive seven years, there is no IHT to be paid. However, if you die within 7 years and the total of the gift(s) exceeds £325,000 there may be some tax to pay.

If the total of gifts made to the beneficiary does exceed £325,000 it is important to note that it may also use up some, or all, of your own allowance for seven years after it is made.

Planning early has its benefits. The older you get, the more expensive it is to take out a protection plan and your family could be taxed on gifts if you die within seven years of making it.

Below details how much tax may be due on PETs within seven years after death:

These rules can be complex, but nothing in life - or death - is easy.

Timing of Gift	Reduction on inheritance tax
7 years or more before death	No tax due
6 to 7 years before death	80% reduction on inheritance tax
5 to 6 years before death	60% reduction on inheritance tax
4 to 5 years before death	40% reduction on inheritance tax
3 to 4 years before death	20% reduction on inheritance tax
Less than 3 years before death	No reduction on inheritance tax

Read our example of how tax reduction can be applied to PETs:

Mr Matthieson made a gift of £350,000 to his son in January 2011. He passed away in June 2014. Inheritance tax (at 40%) is now due on the amount of the gift over the nil-rate band at the time of his death, £325,000. However, as Mr Matthieson died 3 to 4 years after making the gift, the tax on the exceeding £25,000 is eligible for a reduction of 20%.

The initial IHT payable on Mr Matthieson's gift is £10,000. Applying a tax reduction of 20% on the inheritance tax means that £2,000 can be deducted from the tax due. As such, after the reduction, the total tax payable on Mr Matthieson's gift is £8,000.

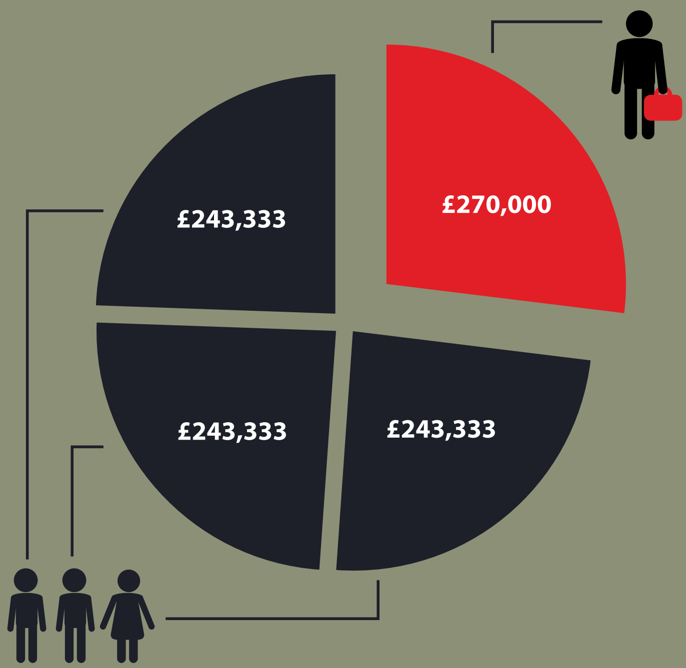
The easiest way to avoid inheritance tax is to spend your money whilst you can. That sounds fun but it may not be sensible or wise. You still need money to live on, however, making gifts before you die may help reduce the value of your assets included when the tax bill is worked out.

The Power of Planning

Here we demonstrate the effectiveness of careful IHT planning. In this example, you have saved hard throughout your working life, accumulated other wealth through investments and you have three adult children.

With no inheritance planning, more of your estate goes to the tax man than to each of your children.

No Inheritance Tax Planning



Your estate	£1,000,000
- Estate taxed at 0%	£325,000
Taxable estate	£675,000
Tax at 40%	£270,000
You pass on	£730,000
Each of your children receives	£243,333

If you think your loved ones are at risk, we'd like to help you assess your liabilities and mitigate your IHT bill.

*Contact us on **0845 145 0115** or click*

or visit our website
www.theprivateofficellp.com
for more information

With good advice and planning, each child receives an extra £90,000 and the tax man gets nothing.

With Inheritance Tax Planning

Your estate	**£1,000,000**
- Estate taxed at 0%	**£325,000**
Taxable estate	**£675,000**
Tax at 40%	**NONE***
You pass on	**£1,000,000**
Each of your children receives	**£333,333**

Our simplified example assumes tax planning allows all your assets to escape inheritance tax. Your personal circumstances may differ.

Real Life Scenarios

This real example paints a clearer picture of how IHT planning can help your situation, no matter how complicated.

Elizabeth, aged 89

Elizabeth is a widow in good health. Her husband died six months ago, leaving Elizabeth a substantial sum of shares. However, this has increased her own wealth, leaving her heirs with a potentially large inheritance tax bill. Elizabeth is keen to retain the assets in her own name as she does not know her cost of living and wants to be prepared for the potential costs of nursing home care.

Current Assets and Tax Position

House	£450,000
Cash and investments	£80,000
Shares in Elizabeth's name (Including capital gains of £265,000)	£316,000
Shares from Elizabeth's Husband	£635,000
ISAs	£98,000
TOTAL ESTATE	**£1,579,000**
(Estate taxed at 0%)	(-£325,000)
(Remaining estate taxed at 0% from Elizabeth's husband)	(-£325,000)
Taxable Estate	£929,000
Tax due at 40%	**£371,600**
Inheritance for Elizabeth's family:	**£1,207,400**

Past performance is not a reliable guide to the future. The value of investments and the income from them can go down as well as up. The value of tax reliefs depend upon individual circumstances and tax rules may change.

"With the expertise and experience of The Private Office, my inheritance tax bill was entirely eliminated. It's thanks to their personal service that I was able to retain the assets and monies that my parents had worked so hard for".

Mr C.N. East Yorkshire

Our Advice

Elizabeth sold her Shares and ISAs, totalling £1,049,000. Using this money, Elizabeth added £70,000 to her cash savings to meet her everyday needs, and invested the £265,000 gain from her Shares into other tax efficient schemes*. The remainder was invested into assets which qualify for Business Property Relief and was also appropriate for her attitude to investment risk.

It will take two years for the full benefits of the Business Property Relief investment to apply. Although it is possible to obtain the maximum 30% income tax rebate on the EIS investment, in Elizabeth's case her rebate was capped at the maximum amount of income tax (£35,000).

New Assets and Tax Position - two years later

House	£450,000
Cash and investments	£150,000
* Enterprise Investment Scheme (EIS) (inc. Income tax rebate £35,000)	£300,000
Business Property Relief investment	£714,000
TOTAL ESTATE	**£1,614,000**
(Estate taxed at 0%)	(-£325,000)
(Remaining estate taxed at 0% from Elizabeth's husband)	(-£325,000)
Business Property Relief and EIS	(-£1,014,000)
Taxable Estate	**£0**
Tax due at 40%	**£0**
Inheritance for Elizabeth's family:	**£1,614,000**

Enterprise Investment Schemes (EISs) and Business Property Relief (BPR) are high risk investments. These invesments may not be easily understood by someone outside of the Financial Services industry and carry significant risk of you losing some or all of the capital invested. We do not promote such products to clients without their specific permission to do so.

Emergency Budget 2015 Announcements

We summarise the key IHT announcements made by the Chancellor in his 2015 Emergency Budget:

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.

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.

10 Simple Steps
You can take now to cut your Inheritance Tax bill down to size

1 Make a List...or two

Work out what you own and what you need as income for the rest of your life. Many people can be surprised at exactly how much their estate comes to when they add it all up.

- List all your major assets with approximate values where you can.
- Write a monthly budget of your expenditure.
- Add in extra funds for unseen events.
- List all the debts you have.

2 Get Professional Advice

Inheritance tax is complicated so financial advice is a must. A qualified adviser will look at your assets, examine what you want to achieve financially, and help you plan for the future. This way, you can take care of your family even after you're gone.

- Ask about other taxes and allowances - capital gains and income tax may affect or be affected by the plans you make.
- Avoid pitfalls, an adviser can maximise your own tax efficiency and avoid costly mistakes.
- Pension plans and Individual Savings Accounts offer tax advantages too.

3

Share your Assets

Husbands, wives, and civil partners each have inheritance tax allowances, so use them.

- Consider putting assets in a partners name to use up their £325,000 taxed at 0%.
- Property and investments can be registered in a partners name.
- Consider changing the basis of ownership of your main residence from joint tenancy to tenants in common.

Latest research reveals 58% of UK adults don't have a Will and 1 in 10 adults without a Will believe their estate will go to the right people automatically.

www.unbiased.co.uk

4

Write a Will

A Will decides how your assets are divided and can save complications and arguments after death. It can also make sure your estate uses any available allowances and so can reduce the amount of inheritance tax due.

If you have a Will, review it. If you do not, it is time to write one.

- Review your existing Will arrangements.
- Think about who you want to carry out your Will.
- Consider what items you would like to leave and who you want to receive them.

Do you need a Will or does your current Will need reviewing?

*Contact us on **0845 145 0115***

tpo the private office

5

Tax Free Gifts

Those gift allowances are worth real money. Use them now to remove items from your estate and out of the tax man’s reach.

- Read the Gifts section on page 3 before drawing up your plans.
- Remember the seven year rule for PETs.
- Even small gifts can help use your allowances.

"In this world nothing can be said to be certain, except death and taxes".

Benjamin Franklin

6

Business Interests

If you own a business or agricultural property, your estate may get special relief from tax.

These property allowances allow you to pass on your business to your heirs with a lower inheritance tax bill.

- You can use Business Property Relief if you own all or part of certain businesses.
- Unlisted shares in a company qualify too.
- Avoid unnecessary tax. A qualified financial adviser can help you to maximise the tax efficiency of your business.

42% of UK adults have not thought about the impact that inheritance tax may have on their estate and 11% didn't know that it could affect their estate.

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7

Trusts

A Trust is a legal way to pass your assets to someone else to look after for the benefit of those you love.

The person caring for these assets is the ‘Trustee’.

You ‘trust’ the Trustee to care for the assets until you die and/or to generate an income for others whilst you are alive.

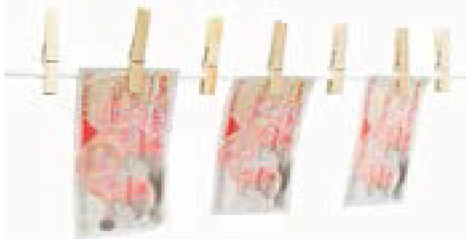
- Consider Trusts for assets that you will not use before you die.
- There are many types of Trust so advice is important.
- Some Trusts let you take income, others set out who eventually receives the assets or let the Trustee control how assets are invested.

8

Life Assurance

Life policies are a good way to ensure your family will be cared for. They pay out a set sum if you die. Naming who will get the life assurance money can mean the sum is not taxed as part of your inheritance.

- ☑ Check your current life assurance policies.
- ☑ Put the policies into a Trust to lower the tax bill. However, get advice on the best way to set up the Trust and which one to choose.
- ☑ The policy will pay out to the Trust, which pays out to your heirs.



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Pensions

If life policies can be written in a tax efficient way, so can pensions. There have been misconceptions that pensions have lost their value, however, careful planning and good quality advice can show that pensions are actually still tax efficient.

Some private and work-based pensions pay a lump sum on death, just like a life assurance policy. Sometimes this can be paid without any inheritance tax liability too.

- ☑ Check your pension arrangements.
- ☑ Take specialist advice on tax-efficient options.

"People who complain about taxes can be divided into two classes: men and women".

Anon

10

Mitigation, Not Evasion

No one likes to pay too much tax. But no one likes a tax evader. A tax scheme that seems too good to be true may cause major problems further down the line and end up costing more than it promised to save.

- ☑ Tax evasion is illegal.
- ☑ Tax mitigation is plain common sense.

"Some taxpayers close their eyes, some stop their ears, some shut their mouths, but all pay through the nose".

Evan Esar

What Next?

Thank you for reading this short guide, we hope you found it useful. This guide is designed to highlight some of the more general considerations of IHT. You should seek independent financial advice tailored to your individual needs and circumstances to ensure you are protecting yourself and your loved ones.

This document is provided strictly for general consideration and consequently we cannot accept any responsibility for any loss as a result of any action taken or refrained from as a result of the information contained within.

The Private Office offers a wide range of financial services, including inheritance tax planning.

For more information about IHT planning and what you can do to help yourself and your family please contact us on 0845 145 0115 for an initial, no obligation, consultation on what we do and how we can help. Alternatively click here to indicate which areas of financial planning are important to you.

No.2 The Bourse
Leeds LS1 5DE

W: theprivateofficellp.com
E: enquiries@tpollp.com

T: 0845 1450115
F: 0113 245 3663

tpo the private office