



July 2013 Newsletter -  
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Coming Up in  
September's  
Newsletter



We will be looking at how to make sure your digital legacy (online accounts/social media) doesn't get lost, taken over or abused.

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## INHERITANCE TAX EXEMPTIONS AND RELIEFS

In our first Newsletter on 7th March 2013 we highlighted our "Top 5 IHT Planning Tips" and stated that we would be giving you more information on these in the following months.

Our May Newsletter went into more detail on our first top tip – the importance of having a valid and up-to-date Will. You probably asked yourself "How can having a Will save me Inheritance Tax?"

**Without the valid Will in place your estate would pass according to the laws of intestacy and Inheritance Tax could be levied on the estate for numerous reasons but primarily because:**

- If you are married, the spouse or Civil Partner gets only a certain amount of your estate (tax free) and the rest will pass to your children, parents or other family members and it's this that could be taxed if it exceeds your tax-free threshold;
- If you are an unmarried couple there will be tax on second death as you might have wasted one of your tax-free thresholds; and
- Some or all of your estate has passed through intestacy to your parents and, although it might not be taxed on your death because its value is below the tax-free threshold it might be taxed on your parents' deaths when aggregated with their own estate value.

**So, hopefully, you and all your friends and family now have valid Wills. If not, please get in touch or pass their details onto Cornerstone Wills.**

Even with a valid Will in place you might still have an IHT liability; so what more can you do to reduce the tax bill?

**This July Newsletter gives more information on our second top tip – Making use of all your IHT Reliefs and Exemptions. This is a fairly large topic so please make the time to read all of this Newsletter as there will undoubtedly be some important information contained within it that will apply to you, your parents, another family member or friend that you might want to pass on.**



### Spouse/Civil Partners Exemption

Generally, transfers between a husband and wife or between Civil Partners are exempt from Inheritance Tax. Although in the case where one is UK domiciled and the other is not, the exemption is limited to £55,000 on top of their tax-free threshold – soon to increase to £325,000 once the 2013 Finance Bill receives royal assent.

Use of the spouse exemption is very important in tax planning by Will. A lot of people we meet are concerned about either long term care costs or perhaps their children potentially missing out on their inheritance where they are in a second relationship.

Because of this they make the decision to instruct a solicitor (or they take it upon themselves) to make a gift of some of their assets or (even worse) their share of the family home to their children either in their lifetime (a potential disaster) or as a first death gift in their Wills.

Both of these could have disastrous consequences for the surviving spouse –



- a) what if the children get divorced or go bankrupt? and
- b) inheritance tax might be paid .

However, by coming to Cornerstone Wills we would construct Wills giving a lifetime interest (or shorter if required) to the surviving spouse ensuring that, on the survivor's death the assets passed to the right people (e.g. the children from a previous relationship). By incorporating the right trust in the Wills we can eliminate any inheritance tax on first death. Additionally, if the survivor subsequently terminated their interest whilst alive and survived for 7 years it would eliminate any inheritance tax on the trust assets on 2nd death (see Potentially Exempt Transfer below).

For some of our unmarried clients marriage has seemed an attractive alternative to paying huge sums of Inheritance Tax: and on more than one occasion it has led to our recommendation to get married!

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## Business and Agricultural Property Relief – BPR and APR

If you own business property or agricultural property, it is possible that the assets qualify for 100% Inheritance Tax relief – and this is on top of your personal allowance of £325,000. Note that AIM shares currently qualify for 100% BPR. (But note that certain criteria have to be met for the tax relief to apply).



But if you have simple Wills without the appropriate trusts for inheritance tax planning (or even worse no Will at all) then what could happen if and when your beneficiaries sold the assets? On their death the proceeds would be taxed!

However, by making a gift of the business or agricultural property to one or more discretionary trusts for the benefit of the surviving spouse and children, say, then on any sale the proceeds of such sale would be held in a trust and not in anyone's taxable estate. A "double-dip" tax saving could be made if someone subsequently bought the property from the trust and died more than two years later still owning the assets. Note that under new rules recently announced by HMRC you wouldn't be able to take out a loan to buy the assets as still expect the loan to be deducted from your taxable estate on your death.

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## Understanding IHT Exemptions & Gifts

### Annual Exemption

You can give away gifts worth up to £3,000 in total in each tax year and these gifts will be exempt from Inheritance Tax when you die. You can bring forward any unused part of the £3,000 exemption from the previous year, but if you don't use it then you lose it! So a couple, for example, could give away £6,000 each in year one and £3,000 each in subsequent years. Although it doesn't sound a lot over 10 years, say, £26,400 inheritance tax is saved.



### Exempt Gifts

In addition to the annual exemption there are other exemptions for certain types of gifts:

#### Wedding gifts/civil partnership ceremony gifts

Wedding or civil partnership ceremony gifts are exempt from Inheritance Tax, subject to certain limits:

- £5,000 by parent
- £2,500 by grandparent
- £1,000 by anyone else

#### Small gifts

You can make small gifts up to the value of £250 to as many individuals as you like in any one tax year. However, you can't give more than £250 and claim that the first £250 is a small gift. You also can't use your small gifts allowance together with any other exemption when giving to

the same person.

### **Regular gifts or payments that are part of your normal expenditure**

Any regular gifts you make out of your after-tax income, not including your capital, are exempt from Inheritance Tax, regardless of the value of the gift. These gifts will only qualify if you have enough income left after making them to maintain your normal lifestyle.

For example, let's say your parents own assets that, perhaps not in today's climate but in the future, generate £10,000 of interest every year that they don't need – they can maintain their current lifestyle without it. They can gift it, perhaps to pay for their grandchildren's education, and the gift will be totally free of Inheritance Tax (so long as it is done regularly). They would still get their £325,000 tax-free allowance and still get their £3,000 annual exemption.

### **Lifetime Gifts and the 7-Year Rule – the Potentially Exempt Transfer**

Any gifts you make will be exempt from Inheritance Tax as long as you live for seven years after making the gift. These sorts of gifts are known as 'Potentially Exempt Transfers' (PETs).

However if you give an asset away, but keep an interest in it, e.g. you give your home away but continue to live in it rent-free, this gift will not be a PET as it will have breached the Gift with Reservation of Benefit rules.

If you die within seven years and the total value of gifts you made is less than the £325,000 Inheritance Tax threshold, then the value of the gifts is added to your estate and any tax due is paid out of the estate.

However, if you die within seven years of making the gift and the gift is valued at more than £325,000, Inheritance Tax will need to be paid on its value, either by the person receiving the gift or by the representatives of the estate.

If you die between three and seven years after making a gift, and the total value of gifts that you made is over the threshold, any Inheritance Tax due on the gift is reduced on a sliding scale. This is known as 'Taper Relief'.