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Adviser Spring 2018

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Inheritance tax under the spotlight

The government has requested an inheritance tax review

In January of this year the Government requested a review of inheritance tax (IHT), stating that the system for inheritance tax is too complex.

The Chancellor asked for proposals for simplification, 'to ensure that the system is fit for purpose and makes the experience of those who interact with it as smooth as possible'. He condemned the overly complicated rules on passing on wealth after death.

How inheritance tax works

Inheritance tax may have to be paid on your estate (your money and possessions) when you die or on certain lifetime transfers.

Having worked hard to create your wealth, it is natural to want to pass it on to the next generation. Inheritance tax is due at 40% on anything above the threshold of £325,000 - but there's a reduced rate of 36% if the person's will leaves more than 10% of their net estate to charity.

The residence nil-rate band (RNRB)

From 6 April 2017 in addition to the IHT threshold, residence nil-rate band (RNRB) became available. In the tax year 2018-2019 the RNRB could potentially cut the IHT bill on your estate by £50,000 (40% of £125,000).

This new relief can be valuable for many families; the measure was announced in the 2015 Budget to reduce the burden of IHT for most families by making it easier to pass on the family home to direct descendants without a tax charge.

You can claim residence nil-rate band (RNRB) against the estate of someone who has died providing you meet the following conditions:

- the deceased died on or after 6 April 2017
- the estate includes a residence (or assets of equivalent value in accordance with the downsizing) owned by the deceased.
- the residence in the estate is inherited by the direct descendants of the deceased.

Current residence nil-rate band measures:

£125,000 in 2018 to 2019
£150,000 in 2019 to 2020
£175,000 in 2020 to 2021
Then increasing in line with CPI annually thereafter.

Who is likely to be affected by change to inheritance tax?

Individuals with direct descendants who have an estate (including a main residence) with total assets above the Inheritance Tax (IHT) threshold (or nil-rate band) of £325,000 and personal representatives of deceased persons.

Careful planning can protect your legacy

Gifts

There’s usually no Inheritance Tax to pay on small gifts you make out of your normal income, such as Christmas or birthday presents. These are known as ‘exempted gifts’.

In the UK married couples and civil partners can pass unlimited assets to each other without any charge to inheritance tax. This is called the spouse exemption.

The unlimited spousal exemption is restricted to those spouses 'domiciled' in the UK irrespective of whether they live in the UK permanently. This exemption is currently restricted to £325,000 if the receiving spouse is not UK domiciled.

You can gift £3,000 a year, plus make unlimited small gifts of £250 (providing this doesn't form part of a larger gift), free from inheritance tax.

Wedding gifts are also exempt, although the amount depends on how close you are to the bride or groom. The limits are up to £5,000 from a parent to their own child, £2,500 to a grandchild or great-grandchild, and £1,000 to anyone else.

One less well-known type of unfettered gifting is to contribute to the living costs of someone else - younger or older relatives for example - but only if you can prove it's coming out of spare income and meets other stringent criteria.

People you give non-exempt gifts to will be charged Inheritance Tax if you give away more than £325,000 in the 7 years before your death.

The 7 year rule

If there’s Inheritance Tax to pay, it’s charged at 40% on gifts given in the 3 years before you die. Gifts made 3 to 7 years before your death are taxed on a sliding scale known as ‘taper relief’.

Years between gifts and death	Tax paid
Less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

Trusts: gifts with strings attached

With trusts, you are still giving money away and the ‘7 year rule’ still applies, but you have more control than if you simply hand over your cash to someone else.

Pension pots: pass your retirement savings on to loved ones

The rules on inheriting retirement savings were relaxed in April 2015, but how much your heirs benefit depends on what type of pension you have and your age when you die.

Give to charities

You can gift or bequeath money to charities and political parties (providing they meet certain criteria) and it will be excluded from your estate when inheritance tax is calculated.

Lifetime allowance for pension savings

The lifetime allowance applies to all UK registered pension schemes

The lifetime allowance (LTA) is a limit on the value of pay outs from your pension schemes – whether lump sums or retirement income – that can be made without triggering an extra tax charge.

The lifetime allowance for most people is £1 million in the tax year 2017-18.

It applies to the total of all the pensions you have, including the value of pensions promised through any defined benefit schemes you belong to, but excluding your State Pension.

Increase in Lifetime allowance

The Government has confirmed that the lifetime allowance 2018/19 will rise in line with inflation, from £1m to £1,030,000 to match consumer price index.

While the increase to the lifetime allowance seems small, it still provides planning opportunities. Delaying taking some or all benefits until after April may help reduce or eliminate the tax charge which faces people with larger pension pots.

Charges if you exceed the lifetime allowance

If the cumulative value of the pay outs from your pension pots, including the value of the pay outs from any defined benefit schemes, exceeds the lifetime allowance, there will be tax on the excess – called the lifetime allowance charge.

The way the charge applies depends on whether you receive the money from your pension as a lump sum or as part of regular retirement income.

Investors need to be aware of the impact of the LTA on their total potential pension savings. This can include such assets as former or current workplace pensions, so it's important to get up-to-date valuations for your LTA calculations.

Protection from the lifetime allowance charge

Two forms of protection, fixed protection 2016 and individual protection 2016 were introduced on 6 April 2016. They were introduced when the lifetime allowance reduced to £1 million.

These schemes can help you avoid unnecessary additional tax charges.

Fixed Protection 2016

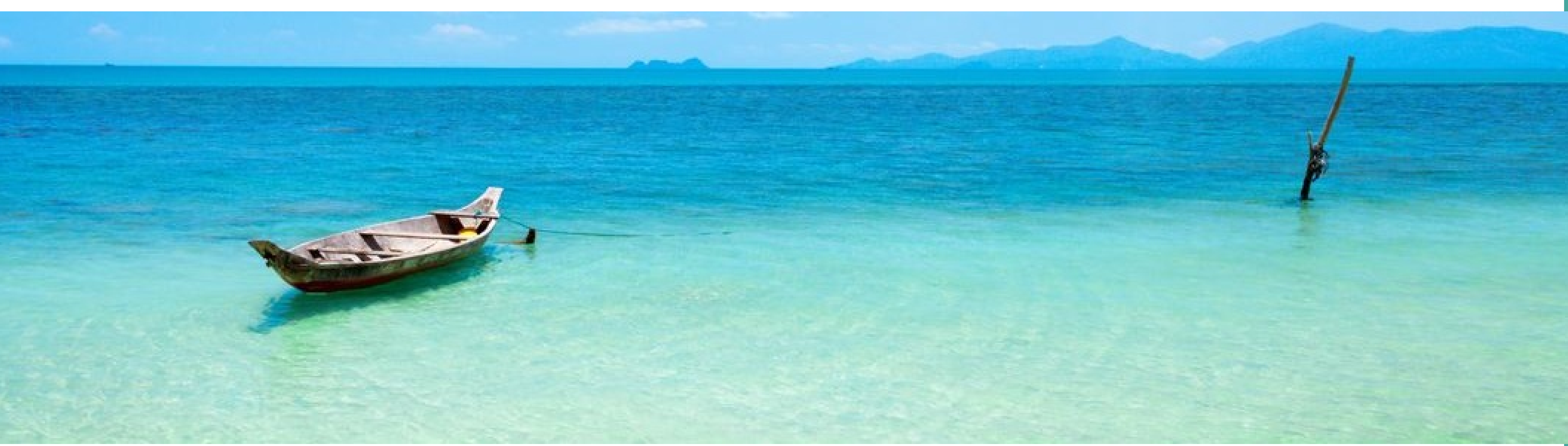
Fixed protection 2016 lets you fix your lifetime allowance at £1.25 million, but only if no pension contributions have been made after 5th April 2016, including relevant accruals made under DB schemes.

No more pension contributions can be made once fixed protection is in place.

Individual Protection 2016

Individual protection 2016 may apply even if there have been contributions. This provides a personalised lifetime allowance equivalent to the value of your pension on 5th April 2016, which cannot exceed £1.25 million.

Individual Protection 2016 is only available if the value of your pension savings on 5 April 2016 was over £1 million.



Upbeat Spring Statement

The UK's public finances have reached a turning point

The Chancellor Philip Hammond was upbeat on growth and spending in his Spring Statement saying economy will beat forecasts and that Britain's best days lie ahead of us.

Philip Hammond indicated that the UK's public finances have reached a turning point, with borrowing down and the first sustained fall in debt for 17 years.

The Spring Statement was relatively brief, focusing instead on a series of policy consultations in advance of the 2018 Autumn Budget.

Consultations and other papers

Progress on tackling housing challenges

An investment program of at least £44 billion over the next five years was announced at Autumn Budget 2017, the Spring Statement confirmed we were making progress.

Other measures announced included £100 million to back the Mayor of the West Midlands' ambitious plan to deliver 215,000 homes and confirmation of an £1.67 billion funding package for London to build affordable homes that families living in the capital so desperately need.

Helping businesses with business rates

During the Autumn Budget 2017 it was announced that business rates revaluations would take place every three years, rather than every five years so that bills could more accurately reflect the current rental value of properties.

The Spring Statement announced that the next business rates revaluation was to be brought forward to 2021. This will mean businesses can benefit from the change to three-year revaluations earlier, with the first taking place in 2024.

A fair share of tax

Chancellor Philip Hammond announced a consultation on the future of cash and digital payments. The need for evidence to better understand the role of cash and digital payments, in order to keep pace with changes in the ways that people pay for goods and services.

The government will be looking into barriers businesses and consumers face, in view of being able to play a role in reducing them.

VAT threshold

The Office of Tax Simplification recommended that the government examine the current approach to the VAT threshold in their review of VAT published last year.

The Chancellor has said he would consult on whether the design of the VAT threshold could better incentivise growth.

In the meantime, The taxable turnover threshold which determines whether a person must be registered for VAT, will remain at £85,000.

Single-use plastic waste

The government is consulting on how changes to the tax system or charges could be used to reduce the amount of single-use plastics we waste by reducing unnecessary production, increasing reuse and improving recycling.

Businesses and universities will be also be given money to research ways to reduce the impact of plastics on the environment.

Self-funded work-related training

The government has launched a consultation on plans to extend the existing tax relief available for self-funded work-related training by employees and the self-employed, as part of the government's focus on creating an environment for individuals to develop their skills to boost productivity in the UK.

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The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

Tax treatment varies according to individual circumstances and is subject to change.

The Financial Conduct Authority does not regulate some forms of auto enrolment.

The Financial Conduct Authority does not regulate tax advice or estate planning.

Not all products and services are regulated by the Financial Conduct Authority.

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