Protecting family wealth – for and sometimes from future generations

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WE believe the era of inheritance tax affecting only those at the top of the wealth ladder is a distant memory. In 2009/2010 just 2.6 per cent of deaths resulted in estates paying inheritance tax, generating tax receipts of £2.4 billion. In 2015/2016 this had risen sharply to 7.1 per cent of deaths resulting in estates paying tax generating inheritance tax receipts of £4.7 billion. (Source: Office for Budget Responsibility)

Despite the numbers affected having almost tripled and tax revenue having doubled, mitigating inheritance tax continues to drop down the list of priorities for many people. We think the reasons for that may be that Inheritance tax is not widely understood and planning is often associated with giving away wealth and a loss of control of wealth.

Inheritance tax has been static in its simplest form for several years now. On death, tax at 40 per cent is payable on assets over £325,000.

The Residence Nil Rate Band has been introduced, rising over the next four tax years. The headline outcome is that when fully implemented, some estates worth £1 million will pass free of inheritance tax. The reality is significantly more complex than the headline concept, is not always available, and careful planning is needed to make the most of it.

Identifying the current tax bill is the first step to mitigate the potential tax bill for your estate. The next is to reduce the tax bill with a plan that suits your family circumstances, priorities, what you want to happen to your wealth and, equally important, what you do not want to happen.

There is no one size fits all solution to the problem of inheritance tax. An up to date Will is usually at its heart. Beyond that, the plan can include gifts of capital and/or income, using Trusts to provide protection for future generations, tax advantageous investments and using life assurance. It may also include reviewing how pension death benefits and life assurances are structured as, without careful planning, either of these elements can potentially make the inheritance tax bill significantly higher.

Your plan should achieve all of this with one very important caveat – it should not impact on how you live and enjoy life. It should ensure you have control, a plan for the inevitable and the security of knowing that you have protected the wealth you have accumulated. The last stage of the process is reviewing that plan regularly. We think this is vital – as life shifts and changes, so does your tax position. A business sale, divorce, retirement and changes in tax rules are just some of the factors which can affect your plan.

This is an area where we offer highly specialist planning and it is a fundamental element to the ongoing work we do with our clients.

Please note: Taxation and reliefs are subject to change and dependent on your individual circumstances. This article is for information only. No action should be taken based on this information alone.