



How Inheritance Tax Works



Inheritance Tax (IHT) is paid on your estate when you die and also when money is transferred into some trust funds. Some other transfers during one's lifetime may also be subject to IHT. The first £300,000 (at 2007/8 rates) of the estate is exempt from IHT. This is called the nil rate band. The assets in the estate are valued on death, the nil rate band subtracted and the remainder of the estate is taxed at 40 per cent.

In the Autumn Statement on 9th October 2007 the Chancellor made a headline grabbing announcement. In simple terms he said that from 9th October 2007 the nil rate band applicable upon the death of a surviving spouse or

civil partner may be increased according to the percentage of the nil rate band unused on death of the first spouse or civil partner. If everything passes to the surviving spouse or civil partner on the first death the nil rate band on the second death may be doubled to £600,000 at current rates.

There are also exemptions from IHT for the following:

- Property transfers between spouses or civil partners (not between unmarried partners);
- Gifts to institutions such as the National Trust, charities and political parties; and
- Gifts in consideration of marriage or civil partnership (within permitted limits), annual gifts to the value of £250 to anyone and gifts which are part of normal household expenditure (such as birthdays).

You are also allowed to give away up to £3,000 per annum. This allowance can be carried forward to the next year, if not used in a tax year. The carry forward is for one year only. Gifts made 'out of income' are also excluded. These must be of a scale that does not affect the lifestyle of the donor and

must normally be regular – an example might be school fees paid by a grandparent.

"Whatever action you do take, make sure you take good professional advice. In particular, it is essential to have a proper will drafted. We can do this and can also review your financial situation and advise you of any IHT reliefs which may be available and whether property is held in the most advantageous manner. If your family is facing a potential IHT burden, contact us for advice on the right steps to take."

For further information please contact David Cocksedge
david.cocksedge@bwblegal.com

Legal Services for Suffolk & Essex

For business

- Commercial & company law
- Commercial property
- Commercial litigation/mediation
- Commercial German legal services
- Employment
- Environmental law
- Health and safety
- Licensing
- Rural business matters

For individuals

- Accident claims
- Employment
- Estates, Trusts and Wills
- Family and children
- Litigation/mediation
- Residential property