If you have life assurance policies which will be payable to your own estate when you die, it's possible to assign them to someone else or to a trust – then they won't be liable for the IHT charge on the proceeds. If you have spare cash or assets which you're sure you won't need, you can give those away during your lifetime. As long as you survive seven years after the gift, they will escape IHT.

Business property can currently enjoy a 100% relief from IHT. If you run a business, maximising the value of it is good IHT planning. The relief even applies to investments in some Alternative Investment Market shares, as long as you have owned them for two years.

Trusts have traditionally been a standard way of protecting children from the dangers of owning too much too young, and have also been used to minimise IHT. In 2006 the rules were changed so that more IHT is paid on trusts, but they can still be part of tax planning if used carefully.

There are other opportunities involving insurance policies, as well as a number of reliefs and exemptions that may apply in your particular circumstances.

How we can help

We can help you take stock of what you own and make a sensible plan for where it's going. Most importantly we can explain the possible impact of IHT on your estate and review all the possibilities for reducing it. Remember, it's not a tax for the rich – it's a tax for the unprepared.

OUR SERVICES

Essex Abel are here to help guide you through the issues detailed in this guide or any other business or taxation issue you may have.

We offer a FREE initial consultation to discuss your individual requirements, from which we will be able to provide a clear and concise plan of action to address the issues discussed.

All our clients (whatever their size or needs) all have something in common – they receive the same professional, reliable, friendly, quality service that forms the basis of our core business values.

We offer an extensive range of services, including the following:

- Tax Planning Advice
- Tax Returns
- Business Start-up Support
- Business Plans & Forecasts
- Year End & Management Accounts
- VAT Returns & Bookkeeping
- Payroll & CIS Bureau
- Statutory Audits
- Company Secretarial Services

For further information on our services, please see our website www.essexabel.co.uk or contact us directly on 01509 267827

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2008–2009 GUIDE TO

Inheritance tax

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2008–2009 GUIDE TO

Inheritance tax

Some people might argue that IHT is the perfect tax: you pay it only when you're dead, so why worry?

A tax for the rich?

When estate duty was first introduced, it was only paid by the seriously rich – it was a tax for the aristocracy. Increases in the value of property have made it much more democratic: a recent study suggested that over 3 million individuals in the UK now have estates over the threshold for paying the latest version, inheritance tax (IHT).

The rate of IHT payable on a deceased's estate is 40% – that takes a sizeable chunk of the assets once the threshold is reached.

Chargeable estate in 2008/09	Tax liability
£312,000	Nil
£320,000	£3,200
£400,000	£35,200
£1m	£275,200

A perfect tax?

Some people might argue that IHT is the perfect tax: you pay it only when you're dead, so why worry? The money you would be leaving to your children is simply extra cash for them which they haven't earned, so they should be happy with their 60%. If you believe that, you don't need to do any planning for IHT.

An alternative view

Some people think they should be able to hand on their life savings to their children without the State taking a shovelful out. After all, the State has had income tax while you've been earning it, so why should they have another go when you pass it on?

If that's your view, read on. You will need to think about whether your estate is liable to IHT, and whether you can do anything about that.

What are you worth?

The starting point is to make a list of your assets. It's the current market value that is charged when an estate passes on – not what you paid for things. House price inflation is the factor that has put so many people into the IHT bracket. The threshold is going up by an average of 5.9% a year for the next two years, but how much will the value of your house rise in that time? The Chancellor says that only 6% of estates pay IHT – you don't want to be one of them.

Tax year	IHT Nil band
2008/09	£312,000
2009/10	£325,000
2010/11	£350,000

What you are worth may not be obvious. You are allowed to take off debts you owe such as a mortgage on your house, but might they be paid off by insurance on your death? You may not think of your life insurance policies as "your wealth", but they will count towards your estate if the proceeds are payable to your personal representatives.

Making a proper list and putting realistic values on it will give you an idea of the IHT that you would pay today, and it gives you some idea of what you might pay in the future.

Where's it going?

The most important thing to decide is where you want the money to end up. Might you need to spend it yourself during your lifetime? Do you want to give some to charity? If you are married or in a civil partnership, you will want to make sure that the survivor is properly provided for. Then you may want to leave the rest to children or to other relations. The next thing is to decide when you think it ought to get there. You might not want to give money straight away to your children, even if you don't need it, because they might be too young to handle it. When you have a clear idea of what you want to do with your estate in the long run, you can write a Will – or bring one up to date – taking IHT into account.

Survivors

A big change to IHT was announced by Alistair Darling on 9 October 2007. Up to then, the nil rate band of a spouse or civil partner was wasted if the Will left everything to the survivor – that legacy would be exempt from IHT anyway. Many Wills have been written to set up a "nil band trust" which made sure both partners' nil bands were used.

Where a surviving spouse or partner dies on or after 9 October 2007, and the first to die did not use their full nil rate band, the survivor's band will be increased – even if the first death was years ago. This means that it's worth looking again at existing IHT planning to see if it's still the best arrangement.

Cutting IHT

There are some things that are very easy to do to reduce IHT substantially. They mainly require action long enough in advance. If you wait, you pay.