

How can I reduce my inheritance tax bill?



The Government's 40pc levy on estates of the deceased may seem inevitable or even inescapable, but there are ways to cut or even avoid it, writes **Rosemary Bigmore**

The sentiment that “in this world nothing can be said to be certain, except death and taxes” is most often attributed to Benjamin Franklin. If so, then inheritance tax (IHT), the levy paid by those who inherit your estate upon your death, merits a place on the list of certainties.

But it is possible to reduce or even avoid IHT with some astute planning. Here's how...

1 Leave your money to a spouse IHT is levied at 40pc but the first £325,000 of everyone's estate is tax-free. Property and assets can pass between spouses and civil partners without incurring a liability (except when passing from a UK domicile to their non-domicile spouse), so you can structure your will to leave money to each other to help reduce the tax. You can also pass any unused portion of your allowance to a civil partner or spouse to reduce the bill later.

2 Pass your home to direct descendants The residence nil-rate band (RNRB) is available if you leave a property you live in to a child or grandchild. The additional sum is £150,000 per person until April 2020, then £175,000, increasing with inflation. You can pass this unused allowance between couples. If you downsize or go into care, you can claim

“*The rules around using trust structures vary widely so seek advice*”

this part of the exemption only if you leave assets worth the same as the former residence to a direct descendant. The RNRB tapers down to zero on estates worth more than £2m, so those with very valuable estates end up paying a greater proportion of IHT.

3 Keep it in the family Your pension is outside your estate for IHT purposes, so passing it to relatives is tax-efficient.

4 Make IHT-free gifts Prevent your family paying IHT on your estate by giving it away while you are alive. Anything you give away more than seven years before death is exempt from IHT. You can also give away £3,000 each year IHT-free and small gifts.

5 Use a trust structure Some trust structures let you leave money without it being subject to IHT. However, the rules around this vary widely for different structures, so talk to a professional first.

6 Talk to an expert IHT is complex and can make a big difference to the legacy you leave. An expert financial adviser can help you to make a workable plan, and you may also need to amend your will.

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