

Inheritance Tax Changes: so what?

In 1984 the inheritance tax rules were introduced as we currently know them, with a nil rate band, on which assets would not be subject to inheritance tax of £71,000 (effective 1986). Over the years this value has been increased, but has been frozen since 2009 and failed to keep pace with inflation. In particular the average house in 1986, when the rules changed, was valued nationally at less than £35,000 and today we have exceeded £180,000. For those living in the South East of England, the difference is more pronounced, with the average detached property exceeding half a million, such that any property that is unmortgaged is likely to take a significant chunk out of the nil rate band.

In 2007 the concept of the inheritable nil rate band was introduced, formalising the ability for a spouse or civil partner to pass their inheritance tax nil rate band to their survivor when they died. This had been achieved for many for many years through the use of Discretionary Nil Rate Band Trusts, but became more simple, being a right rather than a “trick” of estate planning.

Last week’s announcement by the Chancellor was an unsurprising but progressive step to making inheritance tax more in line with where it should be based on inflationary increases. However, the increase to £1m for couples with a family home, that is passed to their children, still means many individuals who are not inherently “high net worth” will be likely to pay inheritance tax on second death simply because they own a property in the home counties or London. A tapering of the relief back down to the “normal” tax free limit of £650,000 means still wealthier individuals won’t benefit.

We would recommend individuals take appropriate estate planning advice, for example, ensuring that life assurance policies and pension funds are nominated to appropriate trusts, and allowances for gifting, where affordable are used in their lifetime. For those in their 50s, 60s and 70s, life insurance can still be a valuable way of mitigating the risk of inheritance tax for a finite period, allowing room to breathe while an individual understands what their lifestyle is likely to be like in retirement.

We specialise in Financial Planning, which aims to understand what you are likely to need in your lifetime to achieve your long term financial objectives. We see this as being the cornerstone that comes before estate planning, due to the need to understand the capital that you require before any gifting or other planning strategies are adopted. If you wish to discuss anything in the light of the Chancellor’s announcement please do not hesitate to contact us, using the contact links on this page.