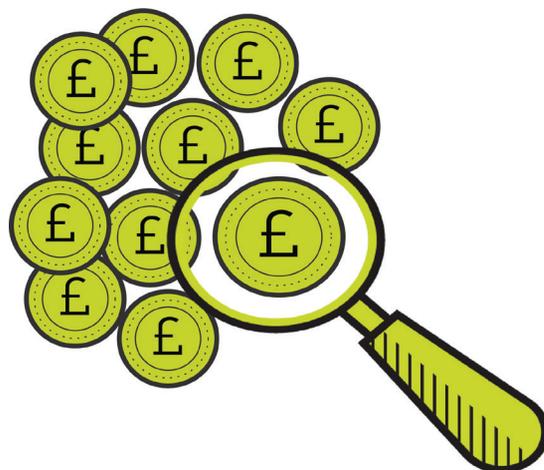


Inheritance Tax



Broad Summary

Inheritance Tax (IHT) is payable on certain lifetime chargeable transfers (namely transfers to trusts) and on death. On death, it is the duty of the deceased's Executors (providing the deceased had a Will) to collate the assets in the deceased's estate and prepare probate papers to enable the Executors to act and to pay any IHT due on the value of the deceased's estate.

Providing the deceased was UK domiciled for UK inheritance tax purposes (this is complicated, but is broadly the case if the deceased had been resident in the UK for more than 15 of the previous 20 tax years), the value of the deceased's worldwide assets fall into their chargeable estate for inheritance tax purposes. On this basis, the entirety of the deceased's estate would be subject to UK IHT.

The current rate of IHT is 40% and the IHT nil-rate band (upon which no IHT is payable) is currently £325k per taxpayer (the standard nil-rate band).

Gifts made by an individual within the final seven year period (ending on the date of death) of their life are also treated as falling within the individual's chargeable IHT estate.

Any value transferred to a person's spouse via their will is exempt from inheritance tax by virtue of the spousal exemption. Consequently, any of the

person's nil-rate band that is left unutilised on their death can be transferred to the surviving spouse to be offset against their chargeable estate on their death. (Note that this was not always the case, if the nil-rate band was not used it was lost, hence prudent tax planning for wills made before October 2007 was to include clauses to ensure that the nil-rate band was used – these are now largely redundant for tax purposes).

Any value transferred to charity is also exempt for inheritance tax purposes, and in addition, a specific relief can apply to reduce the rate of IHT (to 36%) on the qualifying element of the chargeable estate.

There are various IHT reliefs available, the main reliefs being agricultural property relief (generally applies to agricultural land and property) and business property relief (generally applies to trading businesses, shares in a trading company or assets used in a trading business) that are available in respect of certain qualifying assets and certain situations. There are minimum ownership periods required for such assets to qualify for these reliefs. The relief may be at 50% or 100% of the value of the qualifying assets depending on the circumstances.

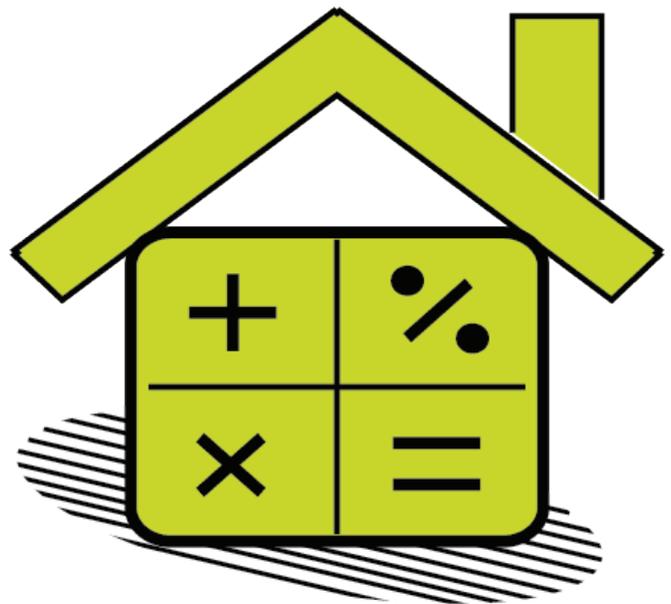
An additional nil-rate band was introduced from 6 April 2017, for estates that include an interest in a residential property used by the deceased as their residence at some point, and left in their will to direct descendants (to include child, step-child, adopted child or foster child). The value of the so-called residence nil-rate band (RNRB) is the lower of:

- the net value of the interest in the property (after deducting any liabilities e.g. mortgage); and
- the maximum RNRB available, currently £175,000.

The RNRB has been phased in from 6 April 2017, starting at £100,000 in 2017/18 and now £175,000 in 2020/21. Following the Budget 2021 announcements, the RNRB will be frozen at £175,000 until 6 April 2026 at the earliest.

The RNRB is restricted and tapered away by £1 for every £2 that the net value (after liabilities but before reliefs and exemptions) of an estate exceeds £2m.

As with the standard nil-rate band, any unused residence nil-rate band on the first spouse/civil partner's death can be transferred to the surviving spouse/civil partner's estate by way of a claim made by the personal representatives of the surviving spouse.





Big picture
accountancy
in Cornwall

If you would like to find out more about these reliefs and how we at RRL can assist, please contact our Tax Partner, Steve Maggs:



01872 276116 / 01736 339322



steve.maggs@rrlcornwall.co.uk



www.rrlcornwall.co.uk

Updated May 2021

This publication has been prepared by RRL LLP. It is to be treated as a general guide only and is not intended to be a comprehensive statement of the law or represent specific tax advice. No liability is accepted for the opinions it contains, or for any errors or omissions. All rights reserved.