Monmouthshire Independent Financial Advisers can offer you advice on:

- Inheritance tax planning
- Investments
- Corporate & personal pensions
- Long term care
- Key person and shareholder protection
- Income protection
- Retirement planning
- Residential and commercial mortgages
- Lifetime mortgages
- School/university fee planning

Please contact us for further information

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Inheritance Tax

Find out how to reduce or avoid **Inheritance Tax** – no longer only a tax for the rich

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Don't leave your money to the taxman

We would all prefer not to think too far into the future, but when we do, most of us imagine leaving our hard-earned money or much-loved home to friends or family, with perhaps a few other legacies to good causes. Certainly not to the taxman. Yet that's what thousands of people do every year because they do not plan ahead to reduce their estate's liability for Inheritance Tax.

Your estate is the total value of everything you leave, including your home, your possessions and your savings – less any outstanding debts or commitments, such as a mortgage.

Inheritance Tax

These days, you don't need to be ultra-rich to fall into the Inheritance Tax trap. Although the 'threshold' above which tax is due rises every year, it doesn't usually keep pace with the rise in house prices, so each year it becomes easier for an estate to be liable for Inheritance Tax (IHT).

Tax year	IHT threshold
2006 - 2007	£285,000
2007 - 2008	£300,000
2008 - 2009	£312,000
2009 - 2010	£325,000

This means that anyone who leaves an estate worth over £285,000 in the tax year 2006-2007 will have to pay a share to the taxman (or HM Revenue & Customs, as he's more formally known).

£285,000 may seem a substantial amount of money, but nowadays many people leave more than that amount. Suppose your home is worth £250,000. Then you only need to have £35,000 wrapped up in your car, furniture, pictures, jewellery, savings and life assurance – and your estate will be liable for IHT.

IHT takes 40% of the value of your estate over £285,000. So if you leave an estate worth £500,000, your family and friends would have to give £86,000 to the taxman*. Even if you've paid tax all your working life.

(*£500,000 minus £285,000 = £215,000; 40% of £215,000 = £86,000)

The assets which can form part of your estate for IHT purposes can include property, savings, investments, cars, antiques and jewellery. Without adequate IHT planning, your family might end up having to sell some of your treasured possessions, perhaps even your family home, to pay the tax bill.

Effective planning can reduce the tax you pay

The good news, however, is that you can reduce your estate's liability for IHT, or even avoid it altogether, with careful planning. **Monmouthshire Independent Financial Advisers** are part of the Monmouthshire Building Society Group and can help you look at different ways to achieve this.

If you'd like to speak directly to one of our independent financial advisers about IHT, just get in touch. You can call us on 01633 844 456 or drop in to any Monmouthshire Building Society branch, where you can arrange an appointment to discuss IHT or receive any other financial advice you may need.

Lord Jenkins in 1986 stated:

"Inheritance tax is a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue"

What happens if you do nothing?

In some ways IHT is not your problem. It's your friends and/or family who'll have to decide how to pay it. However, given the choice, who would you rather leave your estate to – the Taxman or people you love? The decision lies with you.

How much might your family have to pay?

Inheritance Tax could be the largest tax bill your family will ever have to pay. For every £1 of your taxable estate (the amount above the £285,000 threshold), 40p goes to the taxman. The table below shows you how much the potential tax bill might be.

Taxable estate value	Amount Taxable	Inheritance tax Payable at 40%
£285,000 or less	£0	£0
£300,000	£15,000	£6,000
£400,000	£115,000	£46,000
£500,000	£215,000	£86,000
£750,000	£465,000	£186,000
£1,000,000	£715,000	£286,000

Your Options

There are many ways to reduce reduce your estate's IHT liability. For example:

Leave everything to your spouse or civil partner

If you leave your entire estate to your husband, wife or registered civil partner, they won't have to pay any tax, even if the total value is above the threshold.

However, IHT will be payable when they die (unless they've remarried or found a new partner and left it all to them), so it's more tax-efficient to use other gifts to reduce their future liability for IHT.

Give it away

Current HM Customs & Revenue rules allow you to give away a set amount each year – more in certain circumstances such as weddings. For example, you can give away £3,000 each year, or wedding gifts of up to £5,000 to your children, £2,500 to your grandchildren, or £1,000 to anyone else.

Potentially Exempt Transfers (PET)

Gifts made over and above the annual entitlement are known as potentially exempt transfers. This is because after seven years they are no longer liable for IHT. So you need to survive for seven years after making them! If you die within seven years, the gift is liable for tax on a scale that reduces each year.

Write a will

As you know, a will ensures that your estate is distributed in line with your wishes in the event of your death. However, you may not realise that an appropriately prepared will can also help you reduce the amount of Inheritance Tax payable from your estate. For example, legacies to charities can be used to reduce the amount liable for IHT.

Talk to your solicitor or professional adviser and make sure your will is always legal, valid and up to date. Some family events, such as marriage, can invalidate your will, and an out-of-date will can be as bad as no will at all.

Insure against it

Another option which is suitable for some people is insuring against Inheritance Tax. This means that when you die the insurance pays a lump sum to your beneficiaries which will cover your estate's IHT liability. This option does not suit everyone, and it can be expensive.

Using investments, life assurance policies and trusts

Reorganising your savings and investment portfolio can also help you to reduce future Inheritance Tax. This might mean writing existing investments or life assurance policies in trust, or investing existing funds in more appropriate ways designed to reduce tax. Different options will be suitable according to your circumstances. Ask your financial adviser whether a trust could help reduce your estate's IHT liability.

Investing in the future

One way of reducing Inheritance Tax is with an investment bond written under a discounted gift trust. This lets tax-conscious investors reduce their estate's potential liability to Inheritance Tax while still receiving a regular income from their investment. This kind of bond provides numerous benefits:

- Immediately reduces your IHT liability;
- It gives you an 'income'. There's a flexible choice of 'income' levels, including the option to have the 'income' level linked to the retail price index
- Depending on your age, it moves around 50% of your investment outside your estate straight away - the rest of your investment will follow after 7 years;
- Your investment can continue to grow, and this growth also falls outside your estate for IHT purposes.

Another way of reducing Inheritance Tax is with a loan trust. All growth outside the estate is exempt from Inheritance Tax. 'Income' can be variable but limited to the amount of the loan. Access to the outstanding loan is available.

Several providers offer these products and **Monmouthshire Building Society offer their own cash-based fund** within a suitable bond. So you can keep all the benefits of your relationship, without paying the taxman a penny more than you need.

The word 'income' refers to the withdrawal of capital

Take action now –

Find out more about inheritance tax

If you want to reduce or avoid Inheritance Tax, whether you're thinking of your own estate, or an inheritance you hope for from your parents or other relations, don't leave it too long. Act now to make sure the taxman gets as little as possible.

If you would like further information about how to reduce Inheritance Tax, please telephone Monmouthshire Independent Financial Advisers on 01633 844 456.

Our financial experts will be delighted to hear from you and help you keep your hard-earned cash away from the taxman.

Monmouthshire Independent Financial Advisers are part of the Monmouthshire Building Society Group and provide personal and corporate independent financial advice.

Our experienced financial advisers are qualified to deal with your enquiry impartially, and are able to search the whole of the market place to find the products most suited to your needs.

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