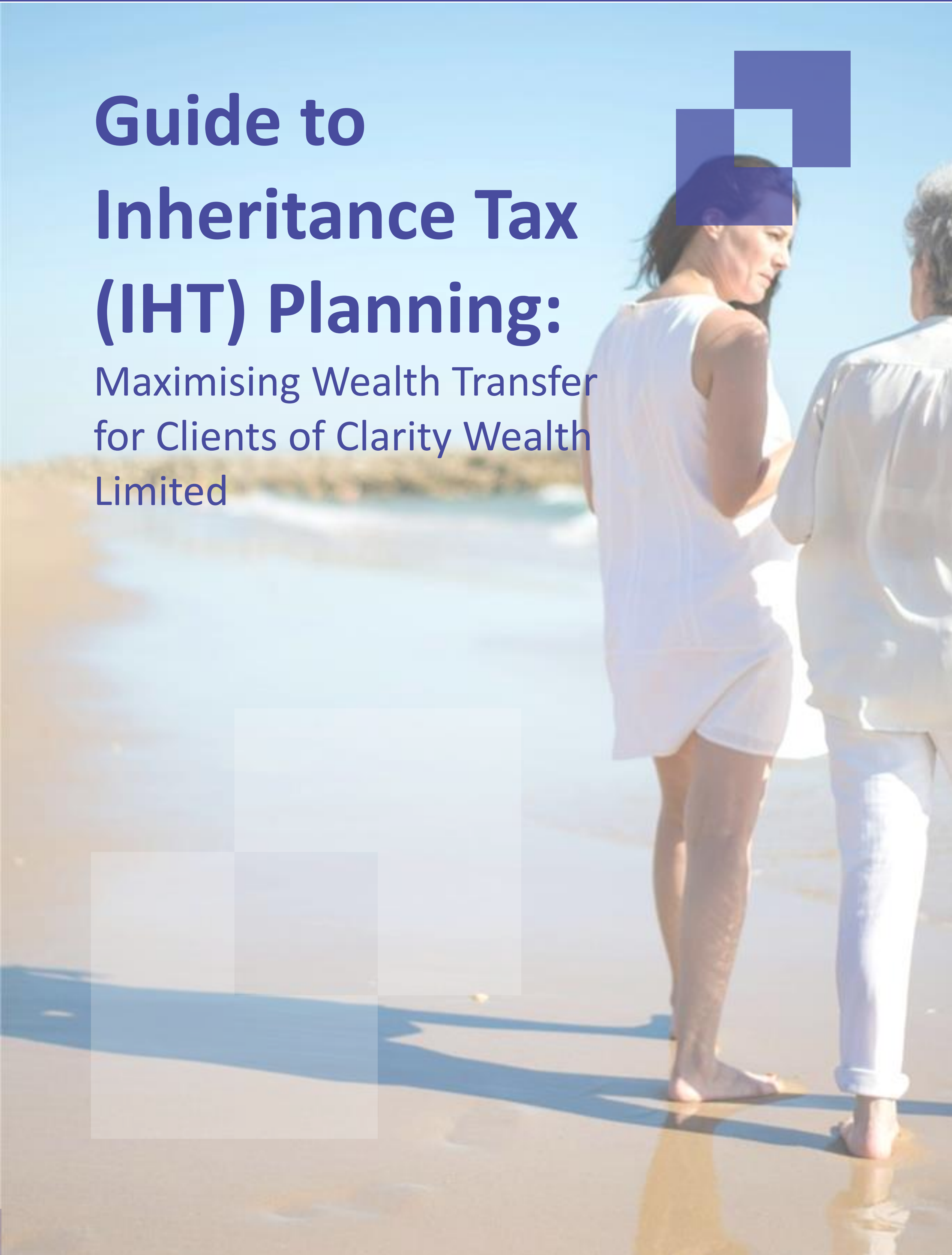
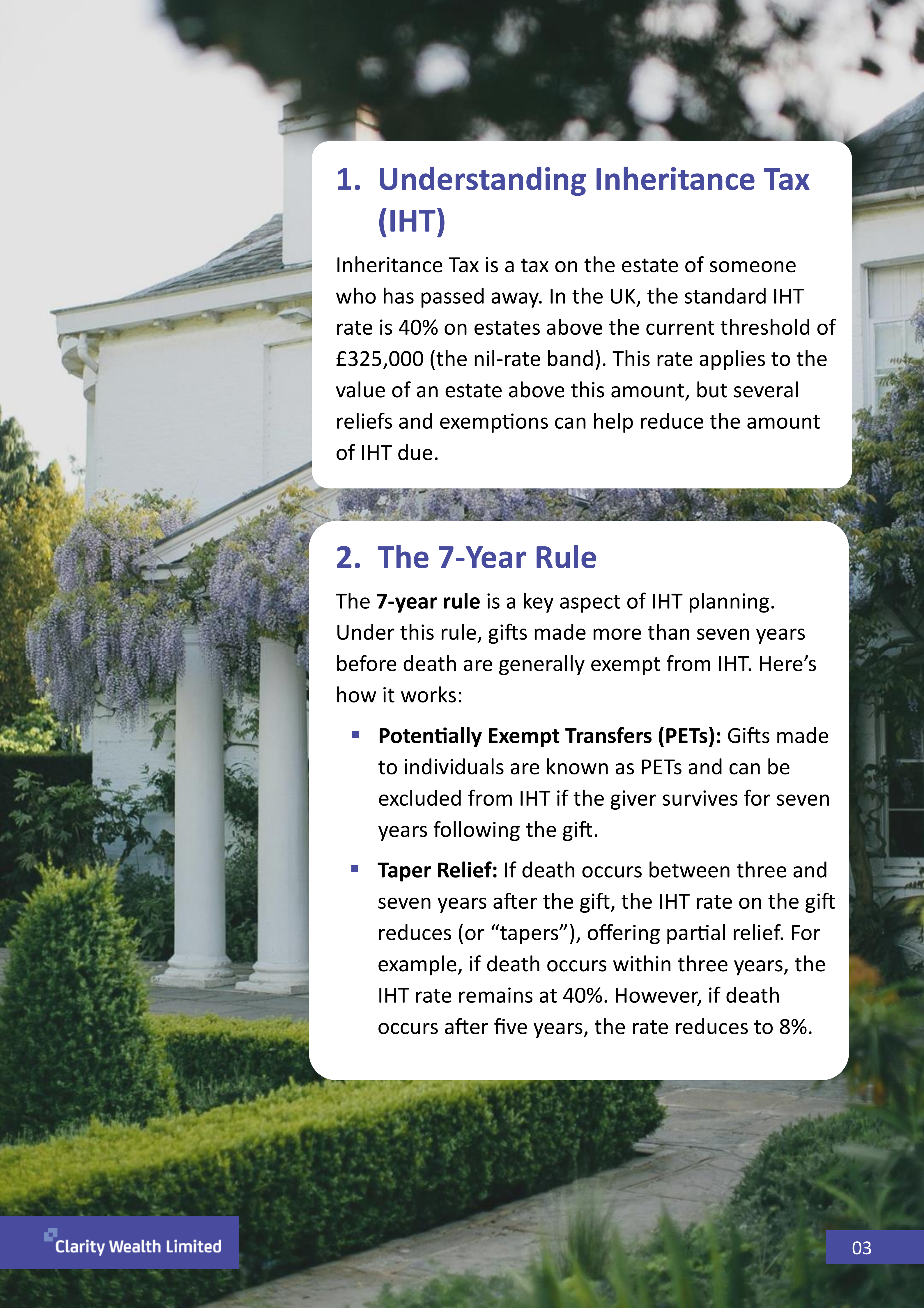
Guide to Inheritance Tax (IHT) Planning:

Maximising Wealth Transfer for Clients of Clarity Wealth Limited



Inheritance Tax (IHT) planning is essential for those seeking to protect their wealth and pass on as much as possible to their beneficiaries. In the UK, careful planning around IHT can significantly reduce the tax burden on your estate, ensuring that your legacy benefits your loved ones. Here’s a guide to IHT planning that covers effective strategies, from the use of trusts to Business Property Relief (BPR) investments, as well as allowances that apply to married couples and the Residence Nil-Rate Band.



1. Understanding Inheritance Tax (IHT)

Inheritance Tax is a tax on the estate of someone who has passed away. In the UK, the standard IHT rate is 40% on estates above the current threshold of £325,000 (the nil-rate band). This rate applies to the value of an estate above this amount, but several reliefs and exemptions can help reduce the amount of IHT due.

2. The 7-Year Rule

The **7-year rule** is a key aspect of IHT planning. Under this rule, gifts made more than seven years before death are generally exempt from IHT. Here's how it works:

- **Potentially Exempt Transfers (PETs):** Gifts made to individuals are known as PETs and can be excluded from IHT if the giver survives for seven years following the gift.
- **Taper Relief:** If death occurs between three and seven years after the gift, the IHT rate on the gift reduces (or "tapers"), offering partial relief. For example, if death occurs within three years, the IHT rate remains at 40%. However, if death occurs after five years, the rate reduces to 8%.

3. Using Trusts for IHT Planning

Trusts are an effective tool for estate planning as they allow you to control the distribution of assets and potentially reduce IHT liability. Here are some trust types relevant to IHT planning:

- **Discretionary Trusts:** These trusts allow you to set aside assets that your beneficiaries can access at a later date. Assets in a discretionary trust are usually subject to IHT only when the trust is established or every 10 years thereafter.
- **Bare Trusts:** In a bare trust, the beneficiary has an absolute right to the assets. Any IHT liability applies at the time the trust is created, which can be beneficial for long-term planning.
- **Interest in Possession Trusts:** This type of trust provides beneficiaries with an immediate right to income generated by the trust's assets. While some IHT applies, it can be managed to reduce the overall estate's tax burden.

Trusts are complex, so seeking advice from Clarity Wealth Limited's experienced advisers can help determine the best approach based on your estate size and family dynamics.

4. Business Property Relief (BPR) Investments

Business Property Relief (BPR) can provide valuable relief on qualifying business assets, reducing IHT on these assets by up to 100%. Key points include:

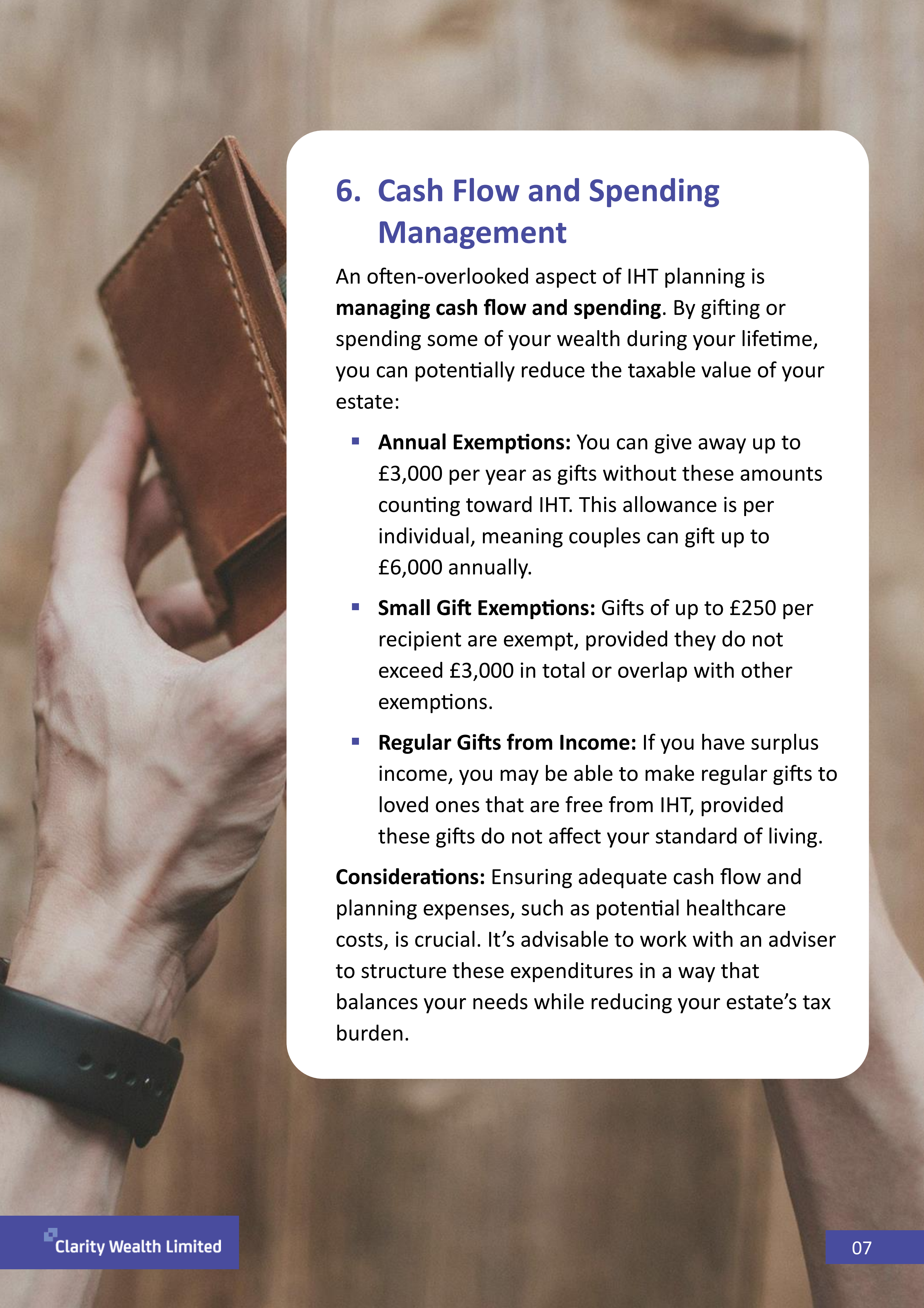
- **Qualifying Assets:** Shares in a private business, an unlisted company, or specific types of AIM-listed shares may qualify for BPR.
- **Ownership Requirement:** To qualify for BPR, you must hold these investments for at least two years before death.
- **Reduced IHT Exposure:** BPR allows eligible assets to be passed to beneficiaries free of IHT, making it a compelling option for those interested in investing in private or AIM-listed companies.

BPR can be a sophisticated strategy, but it also involves investment risks. An adviser can guide you on the most appropriate BPR investments to consider, based on your risk tolerance and estate planning objectives.

5. Residence Nil-Rate Band and Spouse's Allowance

The Residence Nil-Rate Band (RNRB) provides an additional allowance that applies when the family home is left to direct descendants, such as children or grandchildren. This can add up to £175,000 per individual to the IHT threshold, on top of the standard nil-rate band. Key points include:

- **How RNRB Works:** If an estate includes a family home and is left to a direct descendant, the RNRB can add £175,000 per individual or £350,000 for a married couple.
- **Spouse's Allowance Transfer:** If one spouse passes away and their estate does not use up the full nil-rate band or RNRB, the unused portion can be transferred to the surviving spouse's estate, effectively doubling the allowance. This means that married couples can have a combined IHT-free threshold of up to £1 million if they pass on their primary residence to direct descendants.
- **Deferred IHT on Spousal Transfer:** No IHT is payable when assets are transferred between spouses upon the first death, making the full IHT liability only due on the estate after the second death. This can be highly advantageous for couples as it allows assets to pass to the surviving spouse tax-free and allows for IHT planning during the survivor's lifetime.

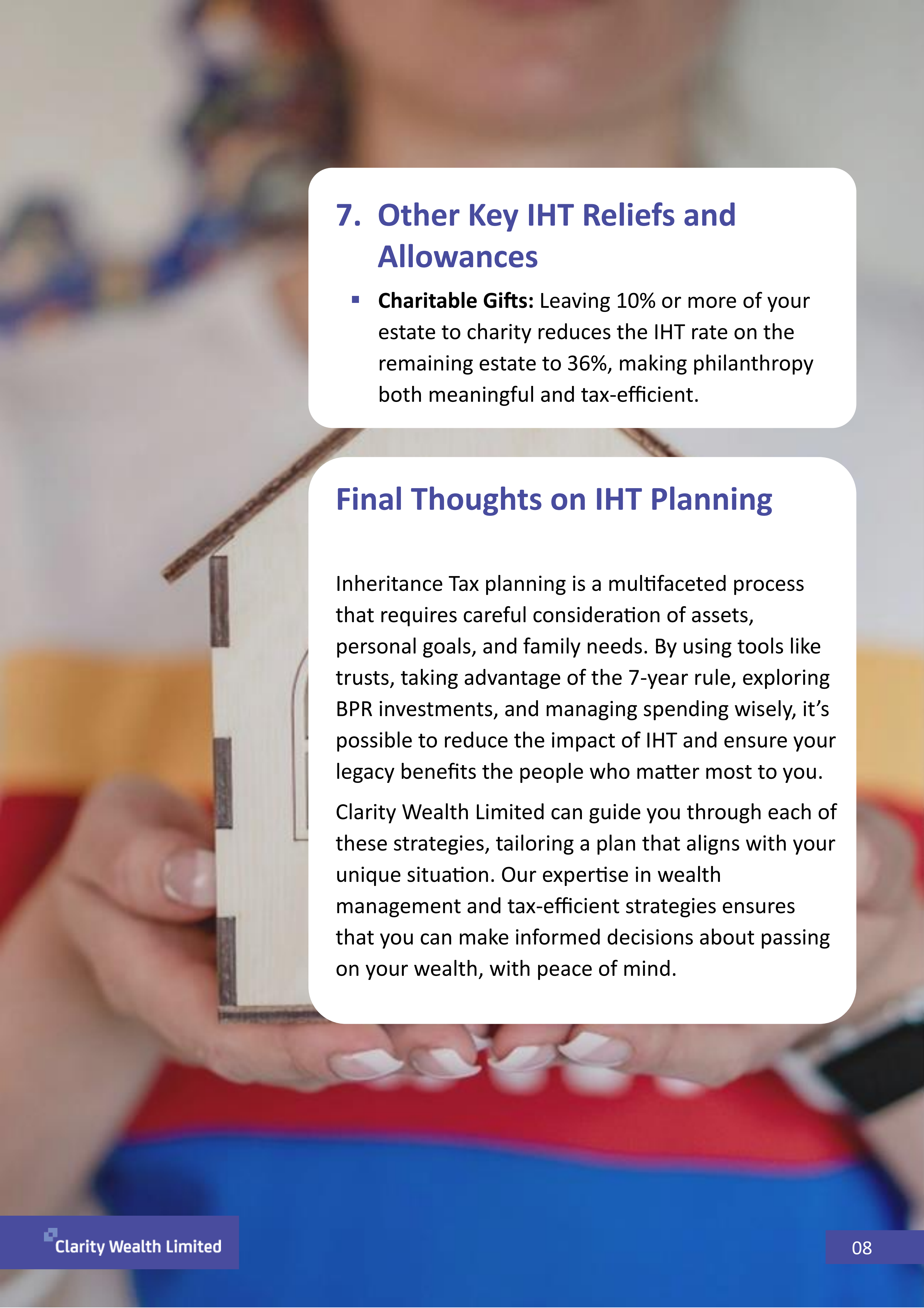


6. Cash Flow and Spending Management

An often-overlooked aspect of IHT planning is **managing cash flow and spending**. By gifting or spending some of your wealth during your lifetime, you can potentially reduce the taxable value of your estate:

- **Annual Exemptions:** You can give away up to £3,000 per year as gifts without these amounts counting toward IHT. This allowance is per individual, meaning couples can gift up to £6,000 annually.
- **Small Gift Exemptions:** Gifts of up to £250 per recipient are exempt, provided they do not exceed £3,000 in total or overlap with other exemptions.
- **Regular Gifts from Income:** If you have surplus income, you may be able to make regular gifts to loved ones that are free from IHT, provided these gifts do not affect your standard of living.

Considerations: Ensuring adequate cash flow and planning expenses, such as potential healthcare costs, is crucial. It's advisable to work with an adviser to structure these expenditures in a way that balances your needs while reducing your estate's tax burden.



7. Other Key IHT Reliefs and Allowances

- **Charitable Gifts:** Leaving 10% or more of your estate to charity reduces the IHT rate on the remaining estate to 36%, making philanthropy both meaningful and tax-efficient.

Final Thoughts on IHT Planning

Inheritance Tax planning is a multifaceted process that requires careful consideration of assets, personal goals, and family needs. By using tools like trusts, taking advantage of the 7-year rule, exploring BPR investments, and managing spending wisely, it's possible to reduce the impact of IHT and ensure your legacy benefits the people who matter most to you.

Clarity Wealth Limited can guide you through each of these strategies, tailoring a plan that aligns with your unique situation. Our expertise in wealth management and tax-efficient strategies ensures that you can make informed decisions about passing on your wealth, with peace of mind.

Contact Clarity Wealth Limited today to start crafting an IHT plan that protects your legacy.

The Information is Correct as of September 2024- This can be liable to change due to legislation and we cannot be held accountable. You should seek professional advice to ensure any investment or financial decisions align with your own personalised circumstances.

This guide is provided for informational purposes only and should not be considered as tax, legal, or financial advice. Inheritance Tax (IHT) planning involves complex laws and regulations that can vary based on individual circumstances and may change over time. The strategies discussed, including trusts, Business Property Relief (BPR) investments, and other allowances, may not be suitable for everyone and should not be implemented without professional advice.

Clarity Wealth Limited recommends consulting with a qualified tax adviser or financial professional before making any decisions regarding estate or IHT planning to ensure compliance with current laws and alignment with your specific financial situation. Tax treatment depends on individual circumstances and is subject to change.