

IHT planning is all well and good...

...But how do you calculate
IHT payable when
somebody dies

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

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Learning Objectives

By the end of this session you will be able to:

Understand the mechanics of an IHT calculation and identify relevant matters for consideration

Calculating IHT

Step		£
1	Total market value of the estate 1&2	£XXXX
2	Deduct allowable debts	(£XX)
3	Deduct Reliefs (APR, BPR)	(£XX)
4	Assets left to spouse/civil partner/charity	<u>(£XX)</u>
	Taxable estate	£XXX
5	Total NRB & RNRB available 2	<u>(£XX)</u>
6	Chargeable estate (No IHT if this is a negative)	<u>??</u>

- 1 If client has an IIP in a trust then that's taxed as part of the estate with tax payable by the trustees.
- 2 Ignore exempt gifts, but non exempt lifetime gifts made within 7 years of death will reduce the NRB. If gifts exceed the NRB then excess is cumulated with the death estate.

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2 Ignore exempt gifts, but non-exempt lifetime gifts made within 7 years of death will reduce the NRB. If gifts exceed the NRB then excess is cumulated with the death estate (note however that the estate is not primarily liable for any tax due).

IHT & death, there's a lot to think about

1

IIPs

2

Exempt gifts
on death

3

NRB & RNRB

4

APR & BPR

5

Gifts within
seven years of
death

Interest in Possession

- 1) Why are we discussing IIPs?
- 2) What does the term IIP mean?
- 3) What is an IPDI?



Leo's IPDI

Kim who was married to Leo had three children from a previous relationship. She died four years ago and in her will she included a provision stating that her estate will pass to trustees where Leo will be entitled to (income) and on his death the capital will pass absolutely to her three children. Leo has now just died.

- The spousal exemption would have applied to these funds passing on Kim's death.
- Leo's life interest will qualify as an IPDI.
- On Leo's death - trust fund is inside his IHT estate.
- The trust isn't subject to relevant property regime.



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Exempt gifts on death



Spouses &
civil partners

Charities

Exempt gifts on death



Spouses &
civil partners

Charities

Five things you need to know about the Charity exemption



1

Qualifying rules



2

Limitations?



3

'Needy' individuals



4

Reduced rate

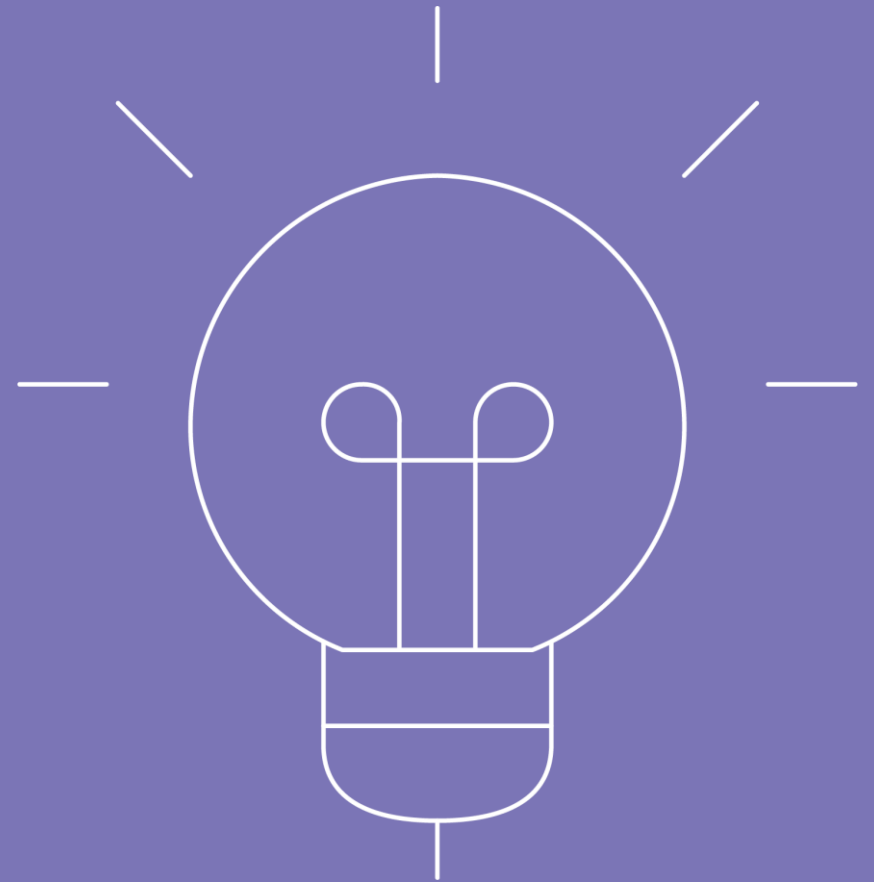


5

Deed of variation

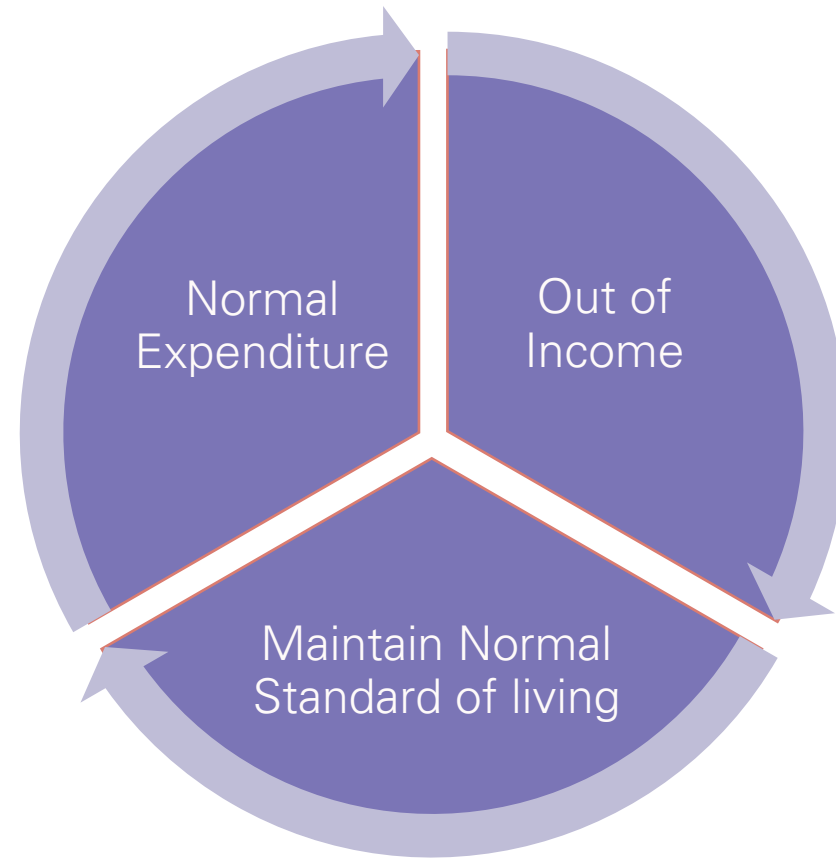
Before we move on from exemptions

- We've looked at those applying in both life & death
- Other exemptions apply only to lifetime transfers
 - The fab four...



The two distinct groups of
IHT exemptions

IHT exemption with no monetary limit





Gifts and other transfers of value

Schedule IHT403

When to use this form

Fill in this form to tell us about any gifts the deceased made on or after 18 March 1986.

Do not tell us about any gifts where the total value was £3,000 or less in any tax year, small amounts of £250 or less or if the gifts were made to a spouse or civil partner.

To work out the total value of the estate (on which tax is charged) we may need to add the value of these gifts to the value of the estate at the date of death.

Taper relief

Do not deduct taper relief on this form. Taper relief is only available on the tax on gifts that both:

- have a combined value that is more than the Inheritance Tax nil rate band available for the estate
- are made between 3 and 7 years before the date of death

If tax is due on the gifts HMRC will send you separate calculations and include any taper relief due.

For more information about taper relief go to www.gov.uk/inheritance-tax

Name of deceased

Date of death DD MM YYYY

Inheritance Tax reference number (if known)

Help

Please read the guidance notes for form IHT403 in the IHT400, 'Notes' before filling in this form.

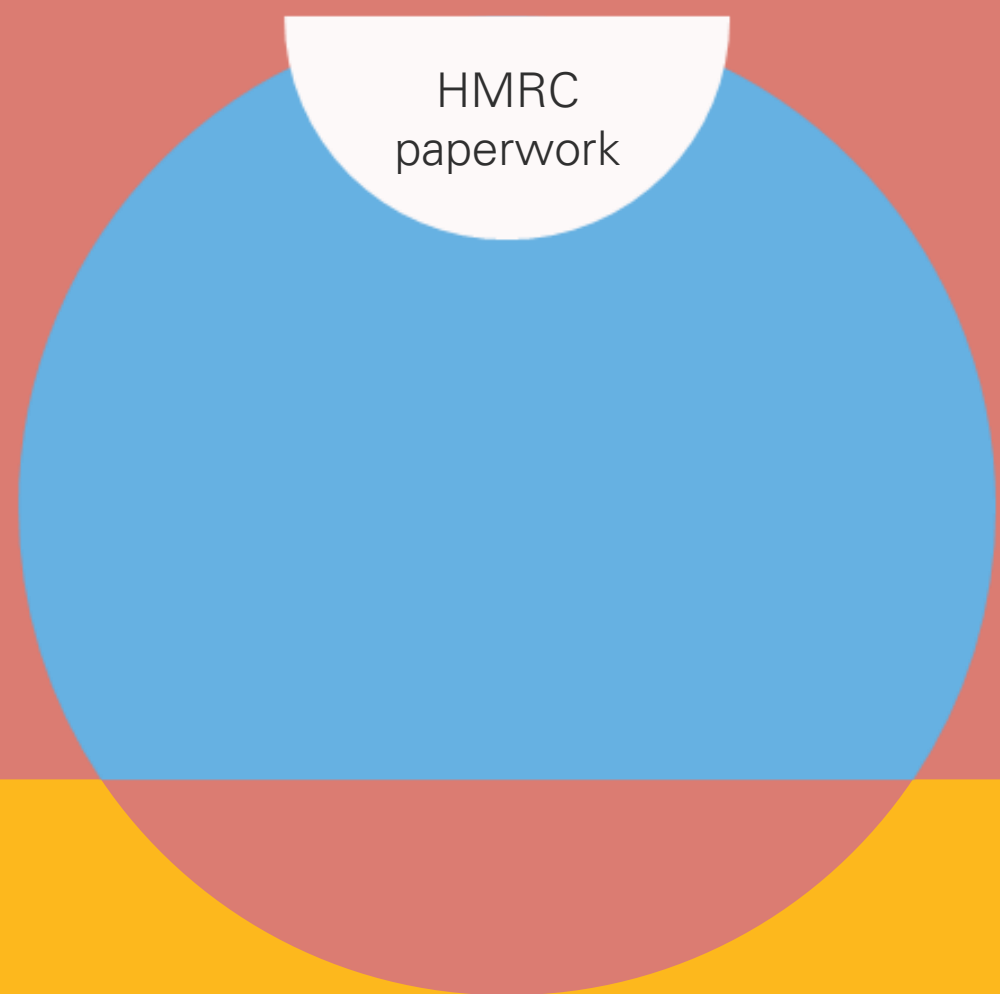
For more information or help or another copy of this form:

- go to www.gov.uk/inheritance-tax
- phone our Helpline on 0300 123 1072 - if calling from outside the UK, phone +44 300 123 1072

Gifts made within the 7 years before death

<p>1 Did the deceased make any gifts or transfer assets to or for the benefit of another individual, charity or other organisation?</p> <p>No <input type="checkbox"/> Yes <input type="checkbox"/></p>	<p>4 Did the deceased pay any premium on a life assurance policy for the benefit of anyone (other than themselves) who was not their spouse or civil partner?</p> <p>No <input type="checkbox"/> Yes <input type="checkbox"/></p>
<p>2 Did the deceased create a trust or settlement?</p> <p>No <input type="checkbox"/> Yes <input type="checkbox"/></p>	<p>5 Was the deceased entitled to benefit from any assets held in trust or in a settlement which, during their lifetime, came to an end (either in whole or in part)?</p> <p>No <input type="checkbox"/> Yes <input type="checkbox"/></p>
<p>3 Did the deceased transfer additional assets into an existing trust or settlement?</p> <p>No <input type="checkbox"/> Yes <input type="checkbox"/></p>	<p>6 Are you claiming that gifts should be treated as exempt as 'gifts out of income'?</p> <p>No <input type="checkbox"/> Yes <input type="checkbox"/></p>

i If you answered 'Yes' to any of these questions, give full details on pages 2 to 7. If you answered 'Yes' to question 6, give full details on pages 2 to 8.



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Transferable NRB example



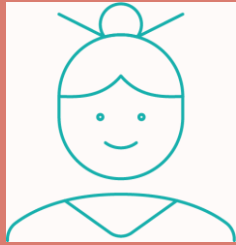
Janet died in 2008/09 when NRB was £312,000



She left £156,000 to the children and balance to husband John who later died when the NRB was £325,000

50% of Janet's NRB was unused (£156,000/£312,000)

Transferable NRB example



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She left £156,000 to the children and balance to husband John who later died when the NRB was £325,000

50% of Janet's NRB was unused (£156,000/£312,000)

John's £325,000 NRB will be increased by 50% to £487,500

Three further points to remember about the Transferable NRB



1

Claim on
2nd death



2

Time limit for
claiming is
24 months



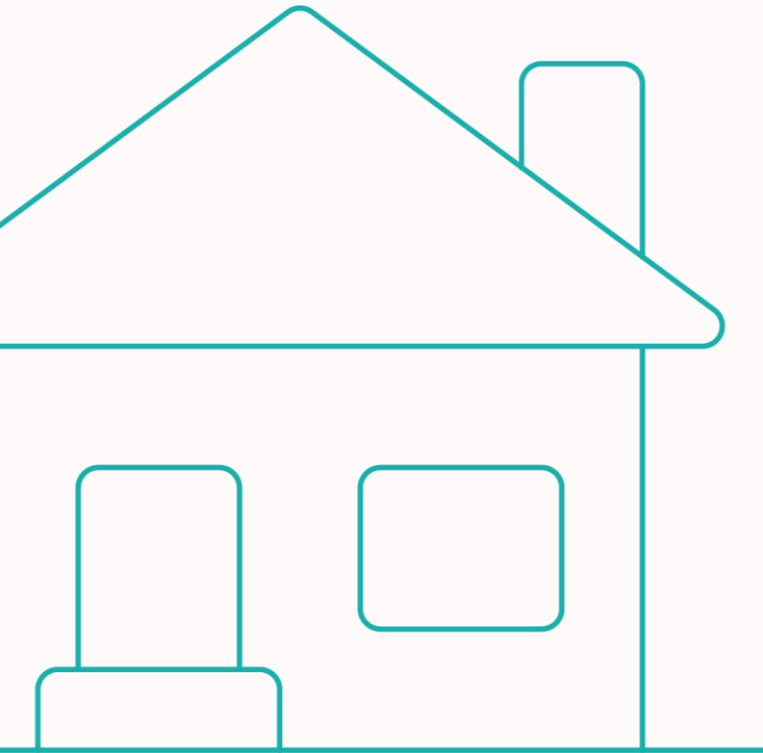
3

Maximum uplift
on 2nd death
is 100%



RNRB

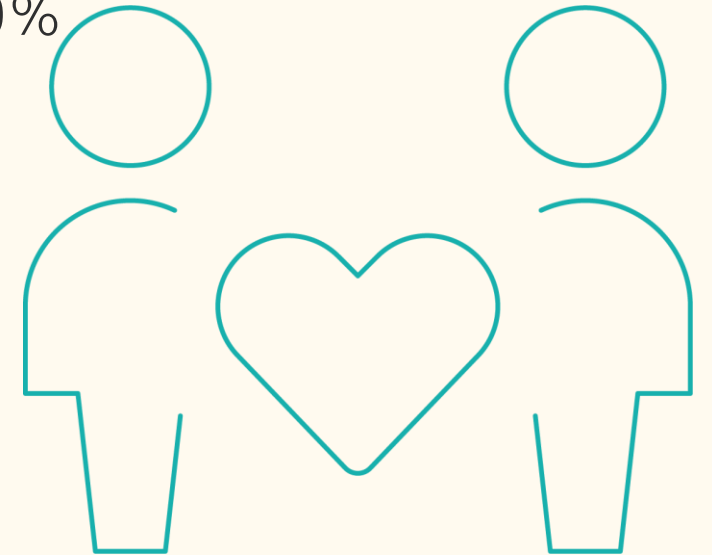
Residence NRB three fundamentals



- 1) Does the estate include a home?
- 2) Will the home be 'closely inherited'?
- 3) The amount of RNRB available?

Married couples & civil partners

- Unused RNRB is transferable to survivor who dies after 5 April 2017
- Applies regardless of when first death occurred
- No need for first death estate to include a home!
- Unused percentage is transferable - maximum increase is 100%



HNW clients and the £2m taper

- Tapered withdrawal of RNRB for estates with a net value more than £2m
- Reduced by £1 for every £2 over threshold
- Spouses & civil partners? (Consider £2m threshold on 1st & 2nd death)

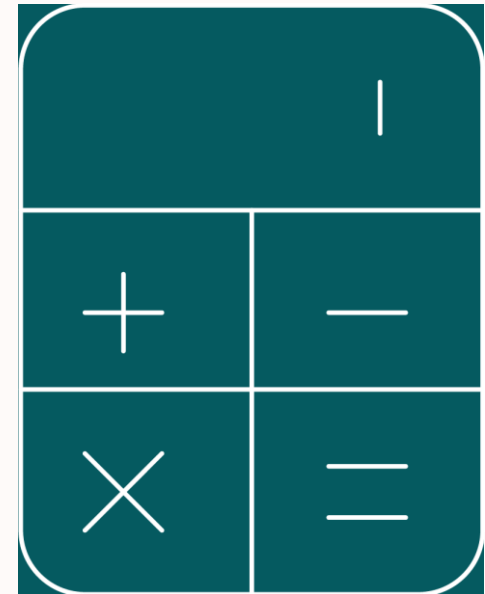
Calculating the estate for the £2m threshold

Total of all the assets less any debts or liabilities

Do not deduct exemptions (e.g. spouse exemption)

Do not deduct reliefs (e.g. BPR)

Do not add back lifetime gifts



Client dies in 2024/25

Original estate £2,350,000 – RNRB £0

'Deathbed' gift (£350,000)

RNRB OF £175,000 now reinstated – IHT saving of £70,000 (20% tax relief)

IHT & death, there's a lot to think about

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IIPs



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Exempt gifts
on death



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NRB & RNRB



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seven years of
death

Business Relief for IHT (BPR)

5 things *you need* to know

1

Up to 100%
relief is
available

2

Business must
pass the trading
test

3

Two year
ownership test

4

Investing to
obtain BPR

5

What if IHT
rules change?

IHT & death, there's a lot to think about



IIPs



Exempt gifts
on death



NRB & RNRB

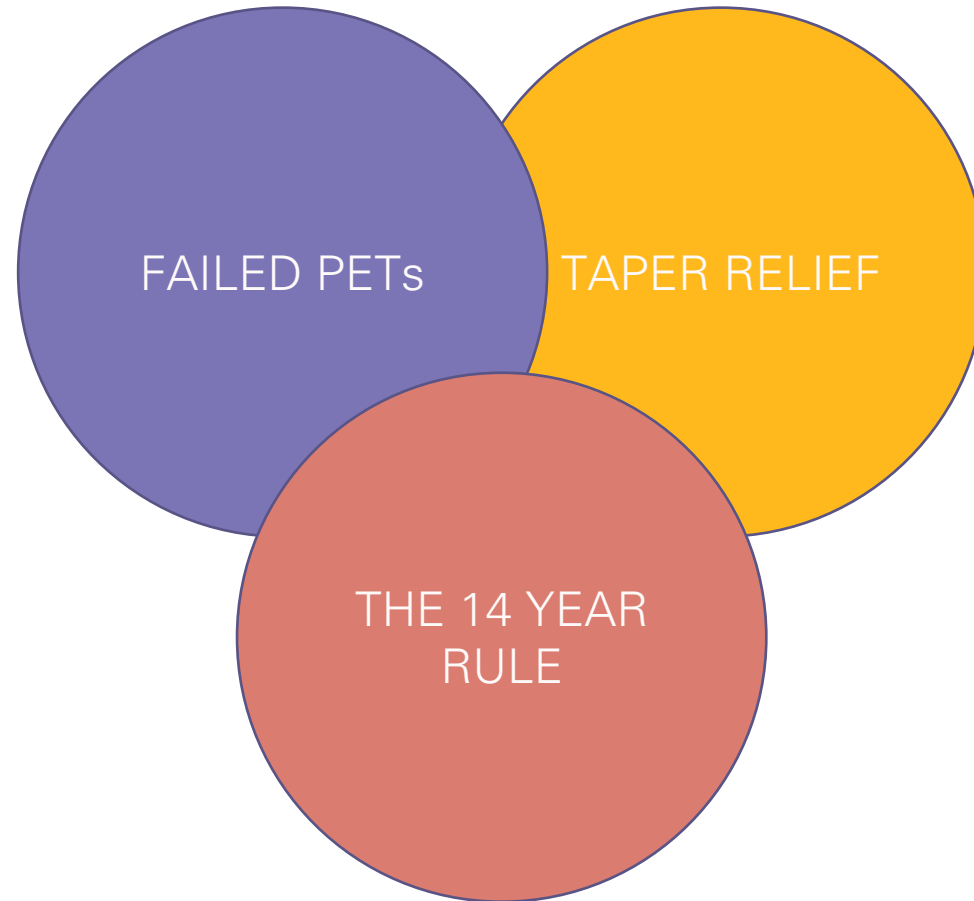


APR & BPR



Non exempt gifts
within seven
years of death

Lifetime non-exempt gifts



Failed PETs

- 1) Become exempt when?
- 2) Become chargeable when?
- 3) Meet Michael...



Becoming chargeable

Example of death within seven years

Michael makes the following transfers (after exemptions and reliefs):

- £170,000 to his son, Noah, in August 2021
- £170,000 to his daughter, Olga, in February 2022

Michael dies with a death estate of £225,000 in October 2024 when the NRB is £325,000.

The gift to Noah becomes a chargeable transfer and absorbs £170,000 of the NRB at date of death. No tax will be due on the failed PET

The gift to Olga will use up the remaining NRB of £155,000 meaning that the excess of £15,000 becomes chargeable in its own right and is cumulated with the death estate to calculate the IHT payable. IHT is charged on the cumulative total of £240,000.

Olga is primarily liable for the tax due on the failed PET (no taper relief will be due.)

Why is there no taper relief?

Example of death within seven years

Michael makes the following transfers (after exemptions and reliefs):

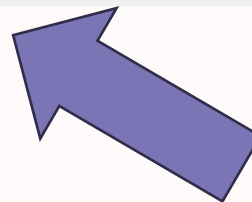
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Olga is primarily liable for the tax due on the failed PET (no taper relief will be due.)



Taper Relief doesn't apply

Arthur makes a £300,000 gift. He dies three to four years later. The value of his gift is below the IHT NRB at the date of death.

There is no tax directly attributable to the gift and so no taper relief applies.



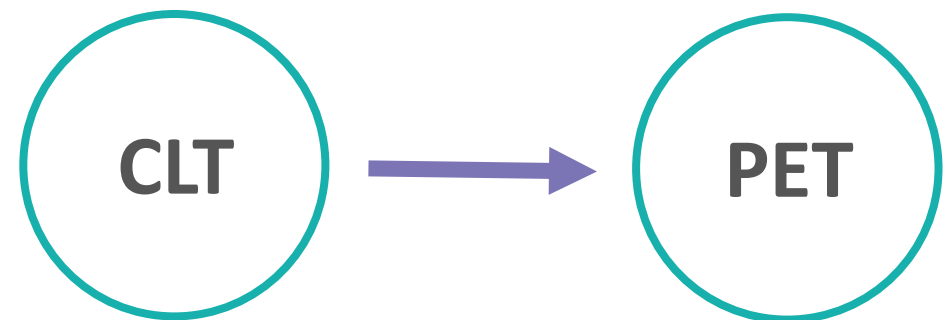
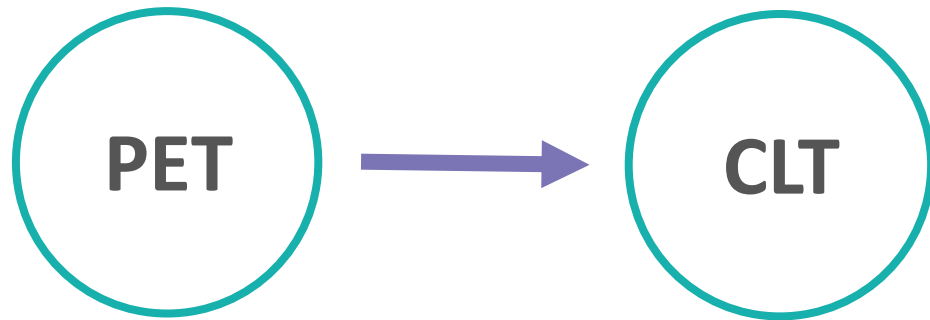
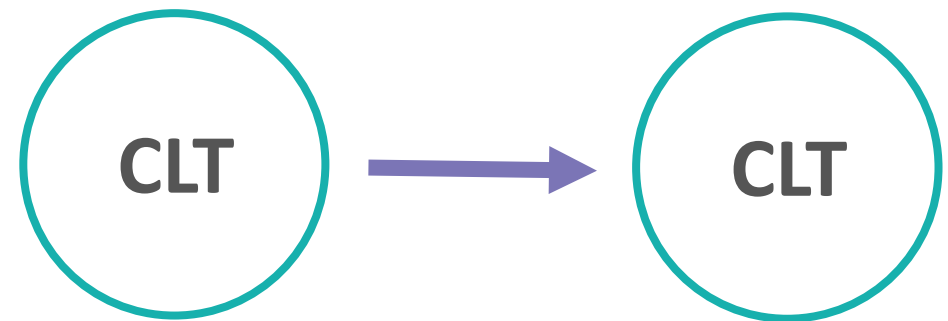
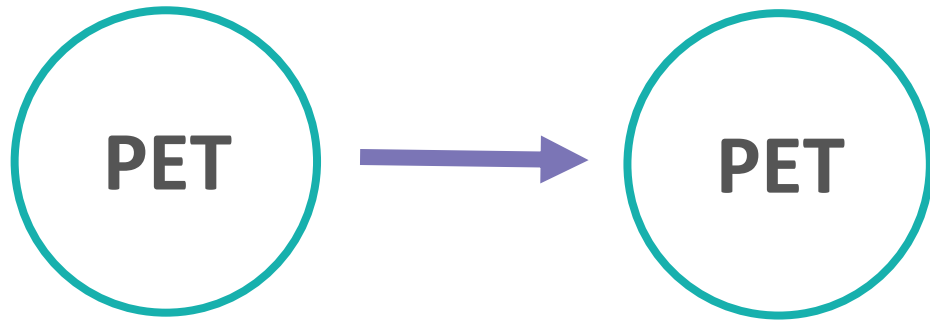
Taper Relief does apply

Alice makes a £375,000 gift. She dies three to four years later. The gift exceeds the NRB by £50,000.

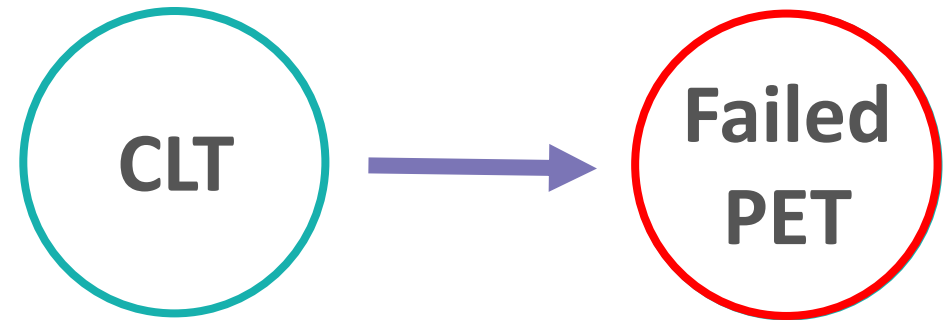
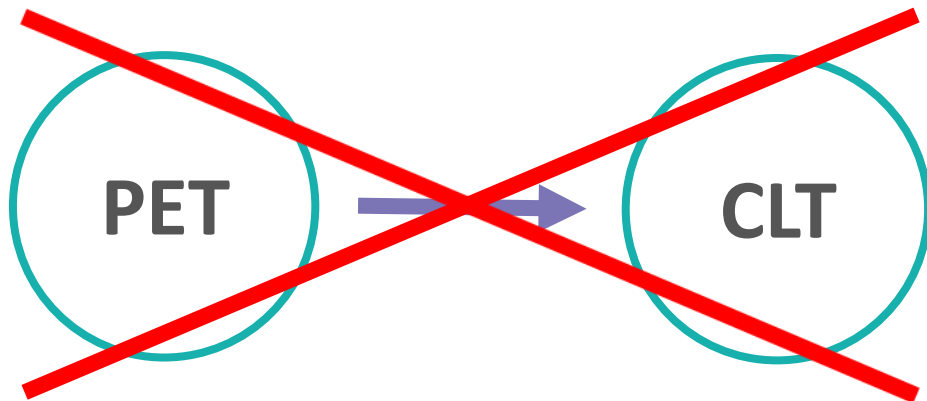
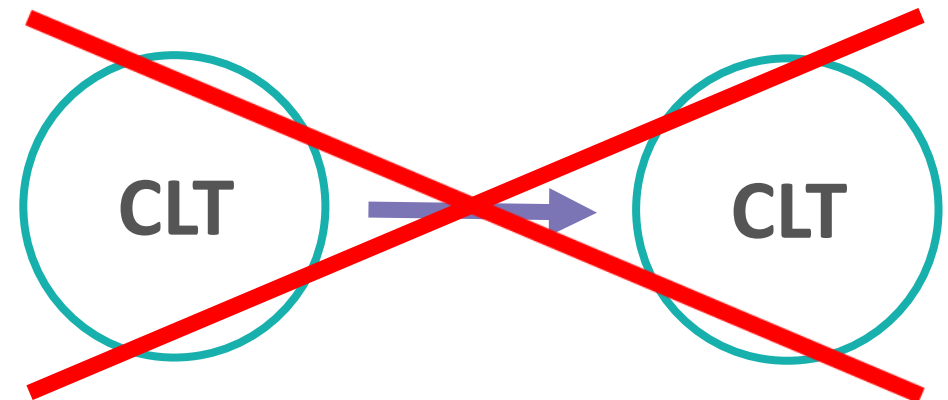
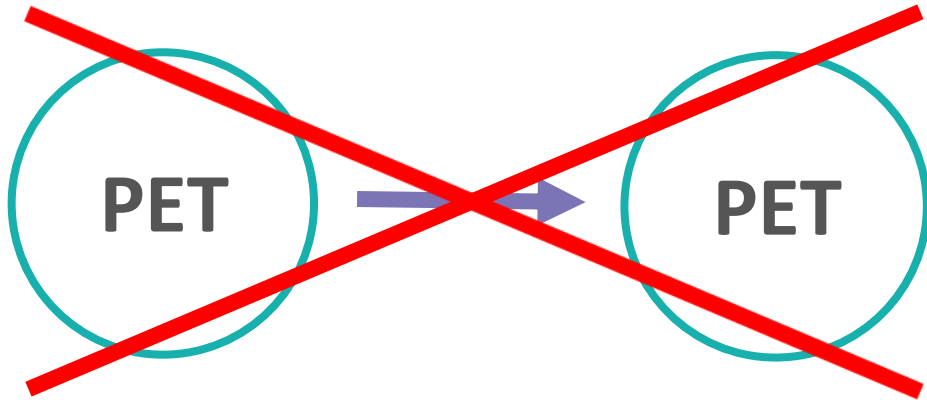
40% tax on £50,000 is £20,000. Taper Relief of 20% reduces the tax bill to £16,000.



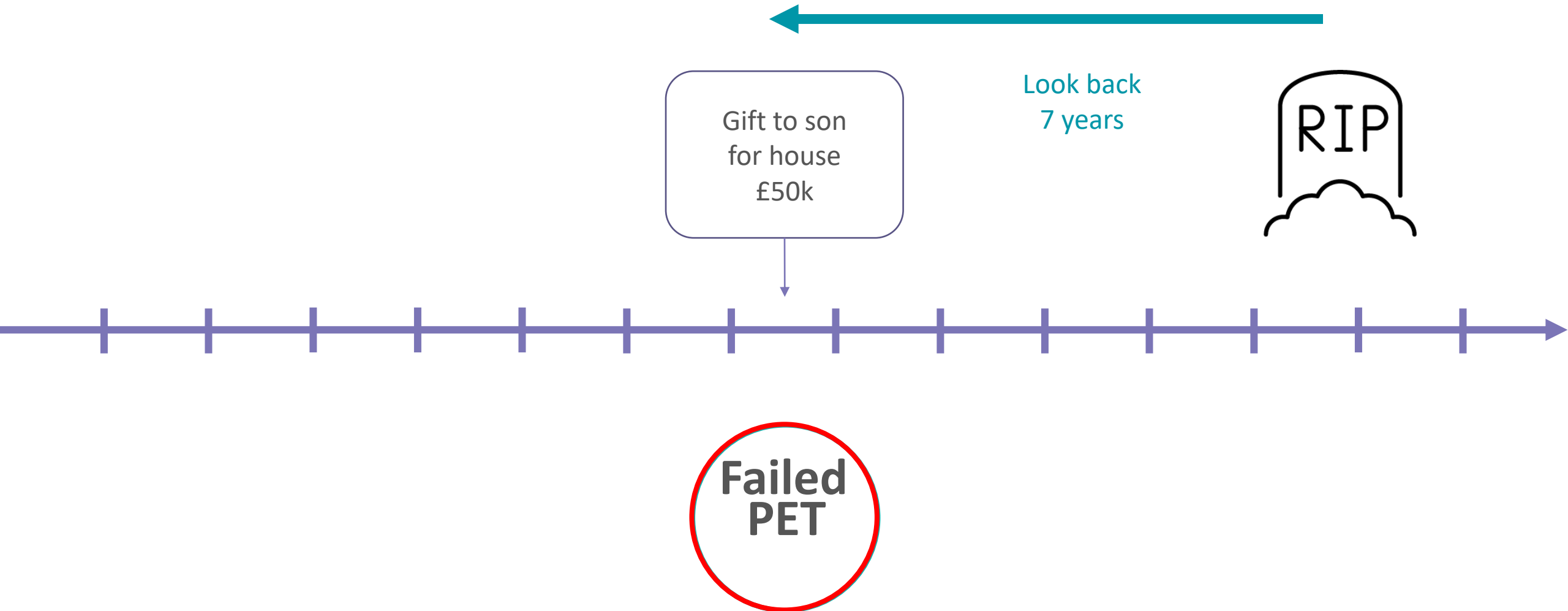
When does the 14 year rule apply?



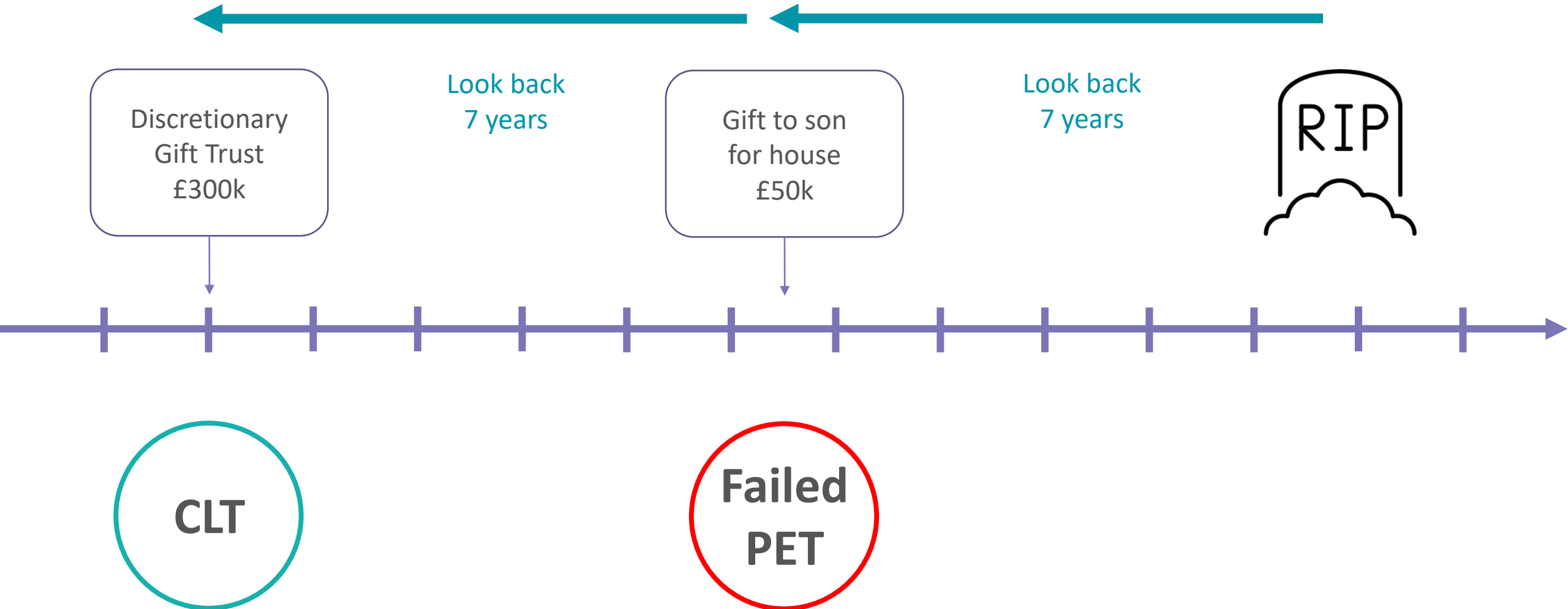
When does it apply?



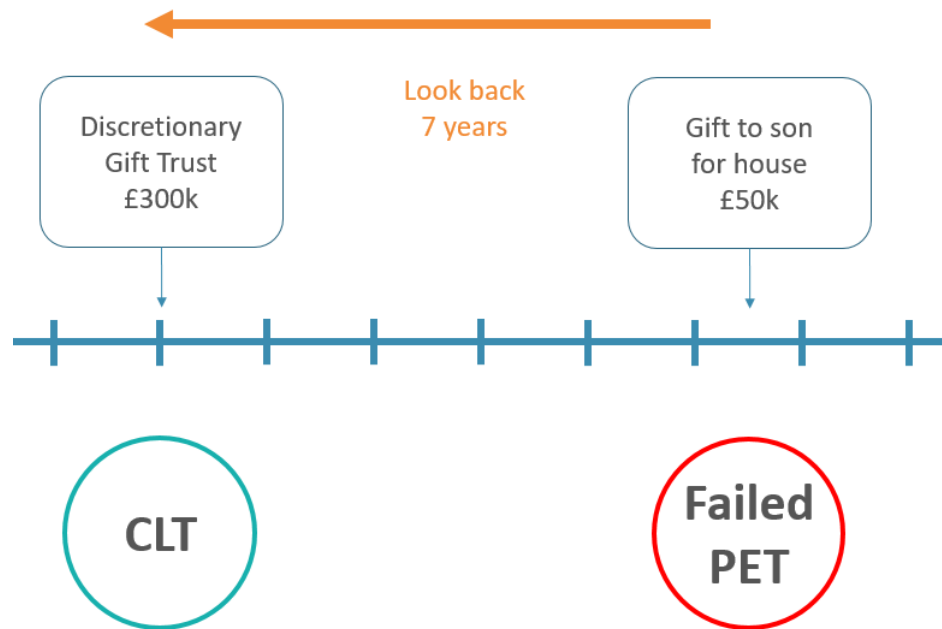
Gifts in 7 years before death



The "14 year rule"



Calculation 2 - Tax on Failed PET (the extra bit!)



Nil Rate Band	£325,000
Less CLT to discretionary trust	£300,000
Nil Rate Band available for Failed PET	£ 25,000
Amount of PET in excess of Nil Rate Band	£ 25,000
IHT charged at 40%	£ 10,000

IHT & death, there's a lot to think about



IIPs



Exempt gifts
on death



NRB & RNRB



APR & BPR



Non exempt gifts
within seven
years of death



And finally, calculating IHT on Fred's death

	£
Gifts within seven years of death	100,000
Value of estate	<u>350,000</u>
	450,000
Bequest to spouse	<u>(100,000)</u>
Chargeable estate	350,000
NRB	<u>(325,000)</u>
Balance	25,000
IHT @ 40%	10,000

In 2022, Fred gives £50,000 each to his son and daughter after taking off annual exemptions. In 2024 he dies leaving an estate worth £350,000. His will gives a legacy of £100,000 to his wife. His estate is held in cash and stocks and shares. He has never owned a residence, as he was a tenant farmer all his life and lived in rented accommodation.

Learning Objectives

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