

Plan early to beat IHT blues

Four in ten households are now at risk from inheritance tax (IHT), researchers have found.

A record number of middle-class families face paying the duty according to a study that measures property wealth and other assets.

But, says Mike Horne, partner at Burgess Hodgson, one of the South East's leading accountancy firms, although Chancellor Gordon Brown has closed many of the avenues previously used for IHT planning, there are still ways of minimising your IHT burden – provided you get the right help from an expert in the area.

Some 5.3m households now have property worth more than the tax threshold of £285,000, meaning their dependents would have to pay a 40% tax on anything they left over that amount. However, another five million people would top the threshold through a combination of property, other assets and savings.

The number of people paying the tax every year is on course to treble under Labour. It was running at 18,000 in 1997 and is likely to top 50,000 by 2008. Critics complain it is a penalty on the prudent and hard working. Latest figures suggest 41% would have to pay something under the current tax rules.

"Chancellor Gordon Brown has consistently refused pleas to raise the tax threshold in line with increasing property prices," says Mike. As a result, the Treasury has taken 80% more in IHT in the last six years – up from just over £2bn in 1999-2000 to an expected £3.6bn this year.

The Chancellor raised the IHT threshold this year by 3% from £275,000 to £285,000. However, property prices rose by 6%, meaning more families were caught in the tax trap.

Mike said: "IHT is no longer a rich man's tax: it is a tax that affects more people every day.

"It is important people understand what inheritance tax is, and how families will be affected upon the death of a loved one."

There are several ways people can minimise the tax bill on their estate. The most popular are making a will, setting up a trust, business property relief and giving away money.

Making a will

There are lots of good financial reasons for making a will, not least making sure you don't pay more IHT than necessary. It is possible, for

married couples (including civil partnerships) to take advantage of the exemption for transfers between spouses, whether made during their lifetime or on death. This is known as 'equalisation of the estate' and effectively enables both parties to use their 'nil rate band' (currently £285,000) effectively meaning that £570,000 will escape IHT. These can also be done retrospectively by Deed of Variation, but the Government has also been reviewing this practice for several years, and may, at some stage, abolish it.

Trusts

There have been extensive changes to trusts in last year's Budget. The normal life interest trust is no longer tax efficient and people are moving more towards discretionary trusts. These are still quite efficient for gifts up to the nil-rate band of £285,000 and enable the individual to get the money out of their estate but still have some control over who has those funds. In particular, it is useful for someone who wants to make transfers at an early stage but doesn't want to have to commit to who in the family receives that money.

Maximising business property relief

Certain assets qualify for business property relief at 100% such as shares in an unquoted trading company that have been held for at least two years. This can allow even greater value to be gifted from the donor's estate without triggering an immediate IHT liability. Although the value of, say, a family trading company – and qualifying AIM listed shares – are currently fully relieved from Inheritance Tax now, (subject to certain conditions) they may not be in the future if business property relief is either reduced to 50% or even abolished.

Giving Away Money

In any tax year, an individual can gift up to the annual exemption of £3,000 to a person or trust of their choice. Any unused exemption from the previous tax year can be carried forward to the current tax year but no further.

A husband and wife could thus gift assets to a value of £12,000 in the 2006/07 tax year if they each have the previous years' exemptions available. Over a 20-year period, both husband and wife could thus gift up to £120,000 of value out of their combined estates tax-free and achieve a combined potential IHT saving of £48,000. But warns Mike: "Don't give away more than you can afford. It has to be a complete gift – and, once given, you can't get it back."

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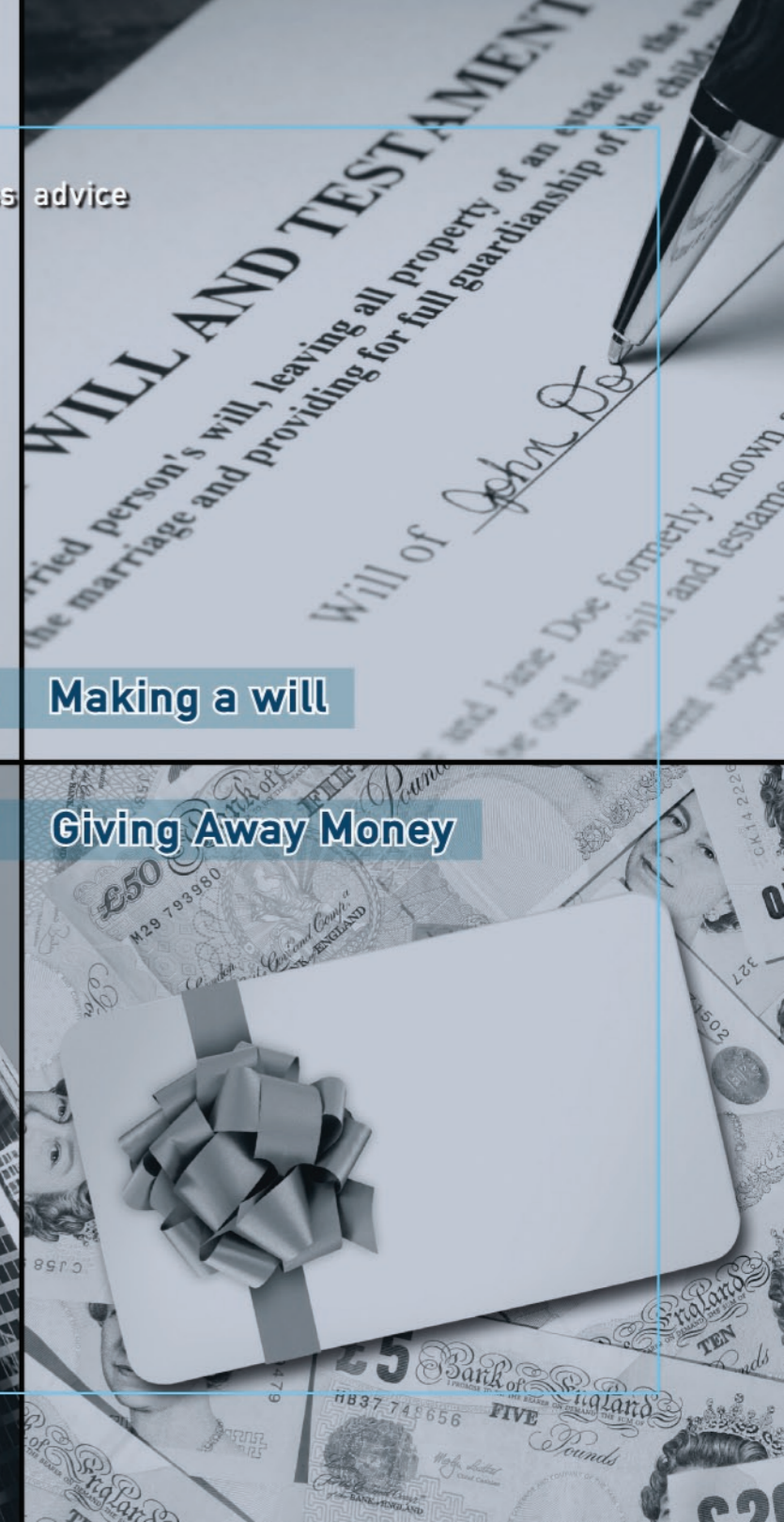


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Partner profile



Mike Horne

Everyone knows rugby is a tough sport, most of all Mike Horne who has spent over 30 years playing for Dover Rugby Club, and even held his place in first team at the ripe old age of 42. Heaven knows why he donned his boots nine years later, aged 51, in a tour game - he's still got the scars to prove it!

Thankfully, nowadays he's more likely to be seen supporting his son Adam from the touchline, although Adam has chosen a round ball instead of an oval one. It also means he can indulge his second love: tax. As a former fully-trained Inspector of Taxes, there's not much Mike doesn't know about the workings of the HMRC, and he brings this knowledge to bear with all his clients. As Mike says: "The efficient arrangement of one's affairs or transactions can often make considerable difference in terms of tax paid." Mike was born in Deal and went to school in Dover before obtaining a degree in economics at Cardiff University. He joined the practice in 1986 as Taxation Manager and became a Partner in 1997. Married to Frances, he also has a daughter Fiona who recently graduated from Manchester University. Mike is also a Chartered Taxation Adviser, and is looking forward to growing his client base and new challenges ahead. Just don't ask him to don his rugby boots without a little warming up!

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