

Five Tips to Reduce Your IHT Burden

The level of Inheritance Tax paid to HMRC has been increasing year on year and indications are that it will exceed £7bn for the year 2022/23. Yet much of this could have been avoided by some careful planning and thinking ahead. Below are some scenarios that can help reduce the IHT burden but, as ever, we strongly advise that you take professional advice before acting on any of these points.



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1. Gifts from Income

Most people are aware of lifetime gifts, i.e. the £3,000 annual exemption limit and the 7 year survival rule for larger amounts. However you can also make regular gifts of money free of IHT if the funds you gift arise solely from income (e.g. a pension or investment). Such gifts can be any amount and are not subject to the 7 year rule but in order to qualify, you must be able to prove that you can make your normal every day outgoings from this income without having to touch the capital. Keeping accurate records is essential in order to calculate how much you can comfortably give and to satisfy HMRC in the event of an enquiry.

2. Gifts of Property

Lifetime gifts may also be subject to 'reservation of benefit' rules particularly in the case of gifts involving land and property. For example if you continue to live in a property that you've gifted to one of your children, you must pay a market rent to carry on living in it – and the rent should be reviewed regularly to ensure it remains at market levels. If not, HMRC will take the view that you didn't really relinquish anything in the gifting of the property and it therefore remains part of your estate for IHT purposes.

3. Loans to your Children

If you have loaned a large sum to an adult child, e.g. for a property purchase, you can avoid this becoming part of your estate by releasing the loan if you can afford to do so. This ensures that after 7 years it is no longer an asset of your estate and subject to tax. However the important element here is to ensure the loan is released correctly otherwise HMRC will not accept that a valid release has taken place.

4. Securing Business Relief

If you own a business you need to have the correct arrangements in place to secure business relief otherwise your share in the business will be included in your estate for tax purposes. In the case of a shareholders agreement for example, if the other shareholders have the right to purchase your shares upon your death, HMRC will view this as a contract to sell and therefore an asset, whereas using cross options to change this to an option to buy/sell, gets around this issue.

5. Ownership of Business Premises

As a business owner with the business premises ownership in your own name, the maximum applicable business relief to your estate would be 50%. However, changing ownership of the premises to the business instead, means that you still have an interest in the value of the premises and on your death this would attract full business relief at 100%. Additionally, this should not affect any entrepreneurs' relief that would be applicable on the sale of your interest in the business.

For help and advice regarding IHT planning please call us on: 01789 263257 or email: justask@jjsfsltd.com

The content of this briefing note is based on our understanding of current tax and pensions legislation, which may change in the future. Information in this document is valid for tax year 2023/24

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