A E Thomson Ltd

Independent Financial Advisers

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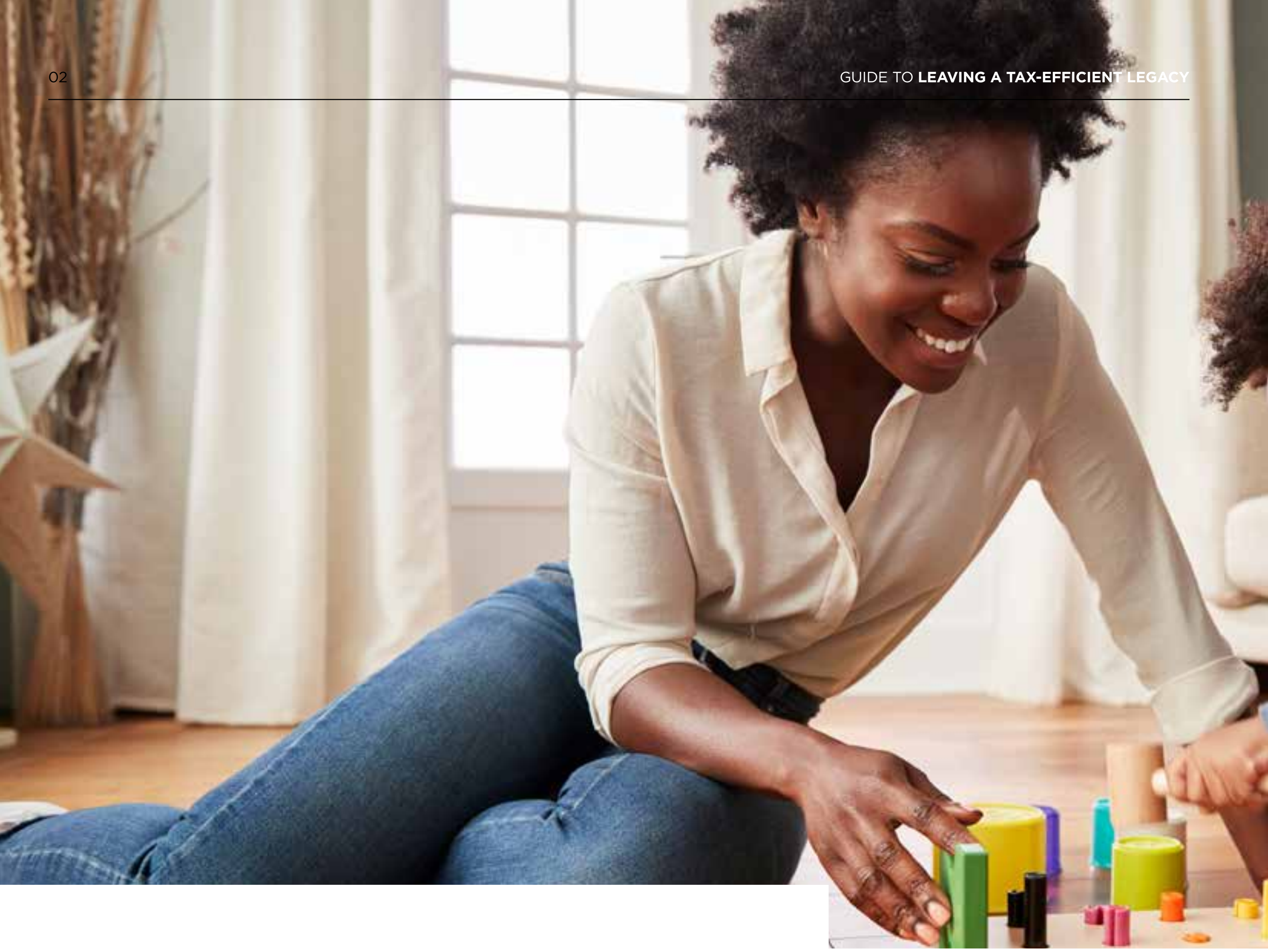
GUIDE TO

LEAVING A TAX-EFFICIENT LEGACY

Passing assets to the next generation

A E Thomson Ltd
62b High Street, Sutton, Ely, Cambridgeshire, CB6 2RA
T: 01353 778738 F: 01353 777898 E: enquiries@aethomson.com

www.aethomson.com



GUIDE TO

LEAVING A TAX-EFFICIENT LEGACY

Passing assets to the next generation

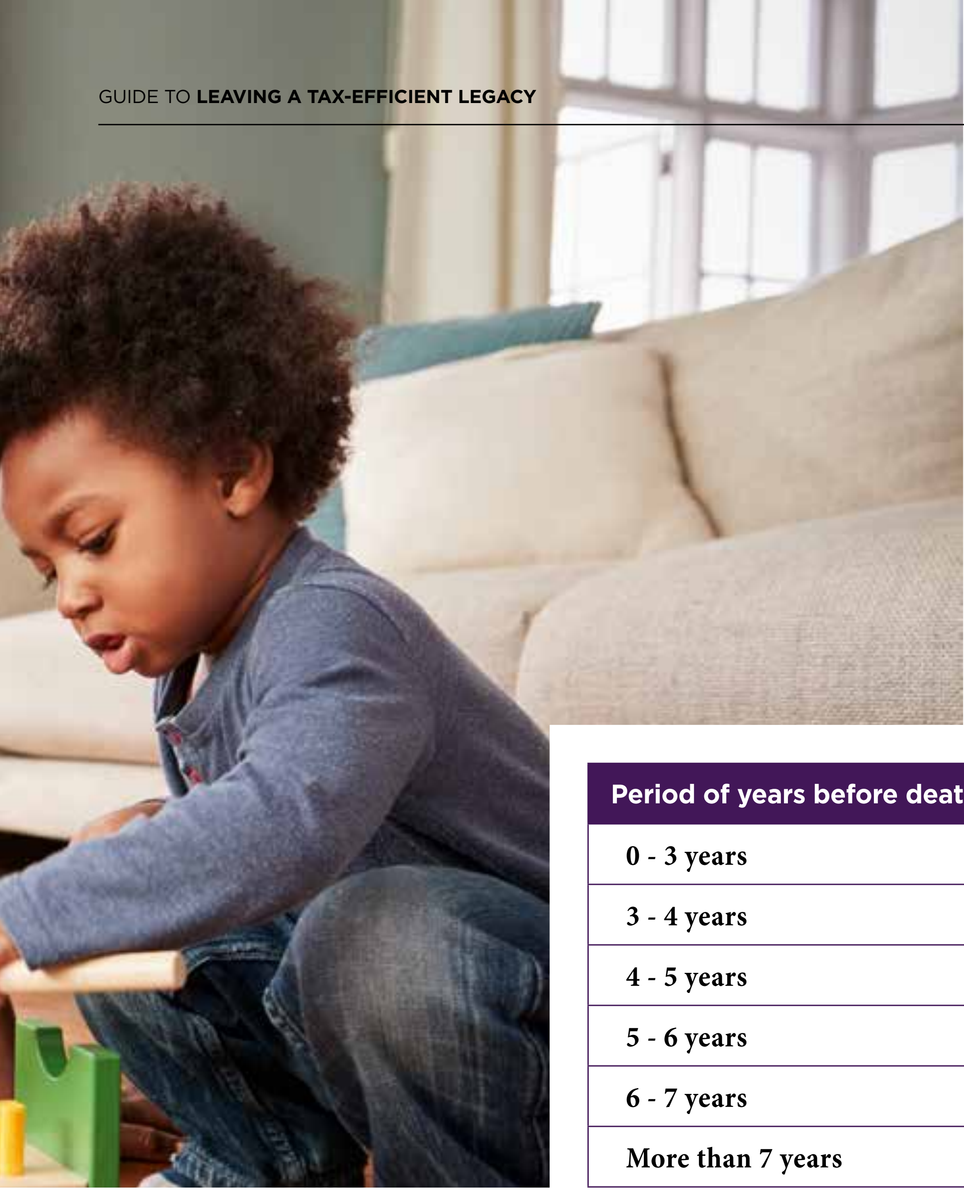
If you thought Inheritance Tax was just for extremely wealthy people to worry about, think again. Rising property prices have meant more estates than ever are likely to face an Inheritance Tax bill.

You've worked to build up your wealth. But now it's time to make plans so your loved ones can get the most from the estate you intend to leave behind. If you think you might be affected by Inheritance Tax, it can be tempting to hold off making plans to do anything about it. But the truth is that it's better to plan earlier for Inheritance Tax.

Estate planning is an essential element of preparing your finances for when you are no longer around but want to make sure that as much of your estate as possible is exempt from Inheritance Tax. Current thresholds are frozen until at least 2026, so it's likely more estates could trigger a 40% Inheritance Tax bill over the coming years.

Inheritance Tax planning options

On your death, the first £325,000 nil-rate band (2022/23) of your estate is exempt from the 40% Inheritance Tax. However, you can also make financial gifts that will reduce the value of your estate when you die. For those who have accumulated a reasonable amount of wealth and who have children, the seven-year rule can be taken full advantage of.



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Period of years before death	% Reduction (Taper Relief)
0 - 3 years	Nil
3 - 4 years	20%
4 - 5 years	40%
5 - 6 years	60%
6 - 7 years	80%
More than 7 years	No tax

This is one of the most popular, and cost-effective, Inheritance Tax planning options relating to gifting some of your wealth to loved ones before you die. The idea being that the people who matter to you most could start to benefit from some form of inheritance earlier.

Gift reduces each year

It also reduces the value of your estate. Meaning, when it's assessed for Inheritance Tax, your potential liability could prove lower. Or, even better, you don't have one at all. In order for bigger financial gifts to be fully exempt from Inheritance Tax, you need to live for at least seven more years.

If you die within seven years of making the gift, it is still considered part of your estate and it will be included in your Inheritance Tax assessment.

If you die between three and seven years, you would still have to pay some tax on the gift if it exceeded the available nil-rate band. The amount payable on the gift reduces each year once you have survived the gift by over three years. Only after seven years is the full gift no longer part of your estate for Inheritance Tax purposes.

Maximise the amount of inheritance you leave to loved ones

There are many ways you might be able to reduce (or even eliminate) a potential liability. But the longer you wait, the more expensive some of these options might prove.

It goes without saying that none of us knows when our time will come. That's why it can really help to start making plans now. Doing so could help you maximise the amount of inheritance you leave to loved ones. ■

WANT TO START A CONVERSATION?

Making financial gifts to your loved ones could make a big difference to their financial security and wellbeing. It could also be more effective for Inheritance Tax planning purposes to gift money while you're still alive than to pass it on through your Will when you die. To find out more, please contact us for more information.

READY TO DISCUSS HOW YOU CAN LEAVE A TAX-EFFICIENT LEGACY?

If you are concerned about leaving an inheritance to your loved ones and then having them pay tax on your legacy – whatever your ambitions are for your family wealth, it's important to talk about how to achieve them.

To discuss your plans for the future and how we can help, please contact us.

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