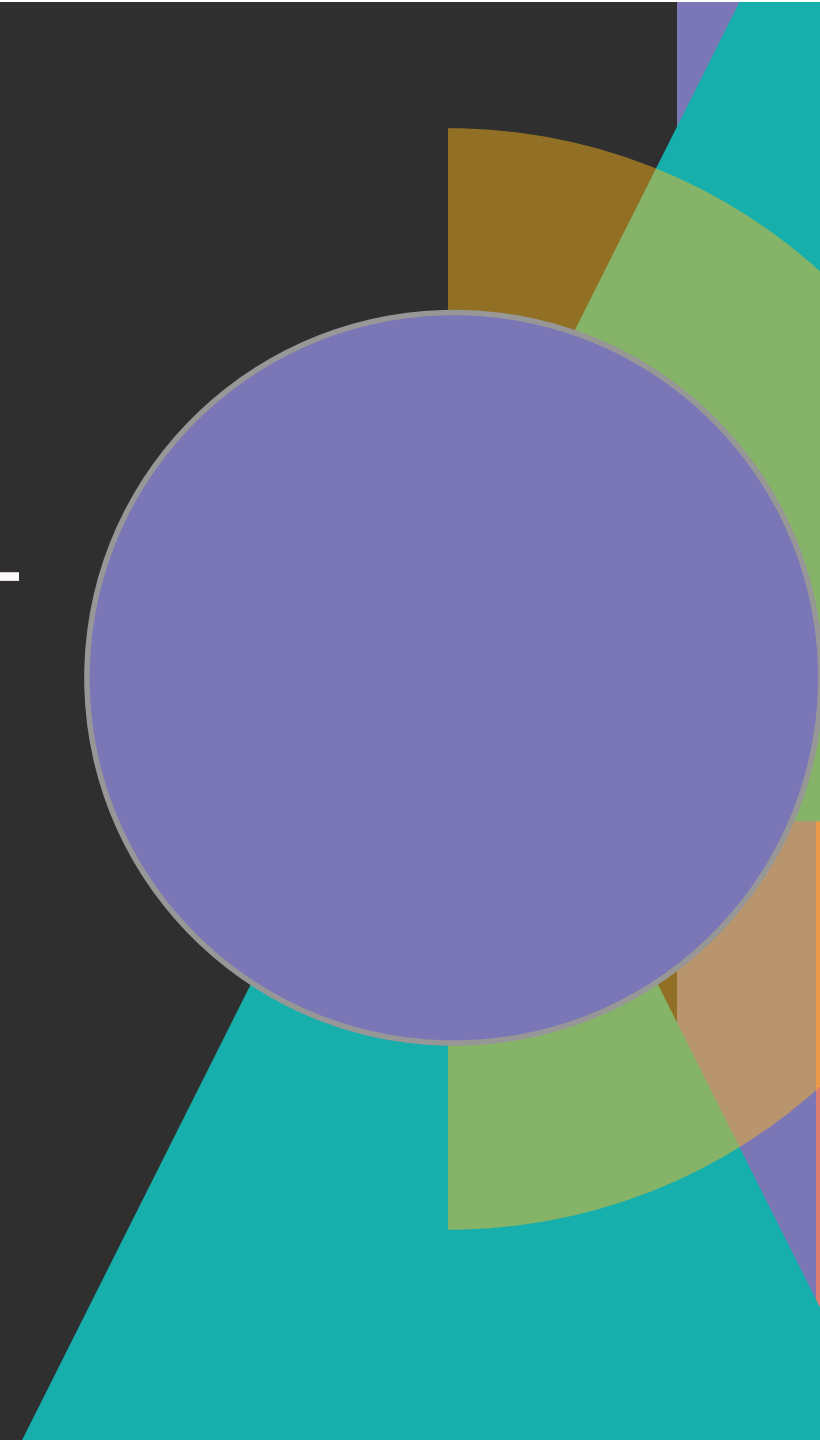


The building blocks of IHT planning



The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice as of September 2023 all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients

Important Information

This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Learning Objectives

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

Estimate the likely
IHT liability
someone will
have

Evaluate the
different options
available to
mitigate an IHT
liability



Receipts are rising

IHT receipts are rising

12.1 Inheritance tax: analysis of receipts

This table contains data on receipts (in £millions) by HMRC of charges arising from wealth transfers taxable at death, taxable lifetime transfers and charges on trusts.

Year of death	2012 to 2013	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
Transfers taxable at death [note 1]	2,955	3,303	3,659	4,449	4,647	5,004	5,081	4,814	5,074	5,774
Transfers to discretionary trusts [note 2]	9	20	13	14	18	21	22	26	24	42
Charges on discretionary trusts [note 3]	141	80	132	187	159	180	255	282	229	237
Net cash receipts	3,105	3,402	3,804	4,650	4,824	5,205	5,359	5,122	5,326	6,054
Additional non-cash [note 4]	42	15	22	24	16	13	25	40	24	26
Total receipts	3,147	3,417	3,825	4,673	4,840	5,218	5,384	5,161	5,351	6,080

End of worksheet

NRB - £325,000

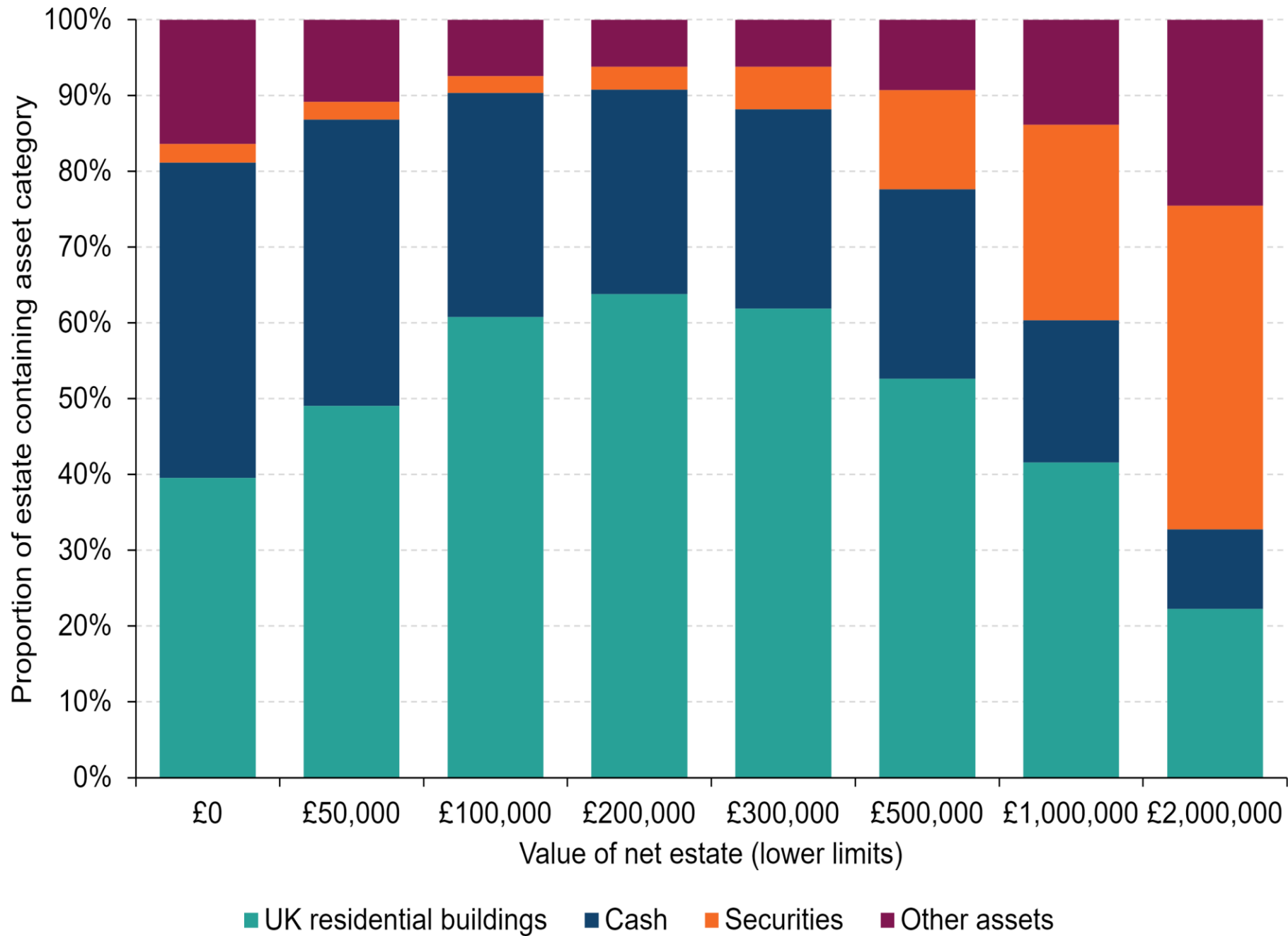
RNRB – now £175,000

IHT receipts are rising

12.10a Inheritance Tax: Tax liability by region

Estimated numbers of estates liable to tax passing on death in the 2019 to 2020 tax year by region.

Region	Number	Amount (£ million)
United Kingdom	23,000	4,960
England	19,400	4,230
North East	371	61
North West	1,540	278
Yorkshire and the Humber	982	192
East Midlands	1,070	196
West Midlands	1,310	220
East of England	2,540	470
London	4,190	1,260
South East	4,990	1,080
South West	2,440	472
Wales	699	97
Scotland	1,240	231
Northern Ireland	235	42
Unknown, missing or other [note 1]	1,430	361





Estimating the liability

Estimating the liability

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 (note however that the estate is not primarily liable for any tax due).

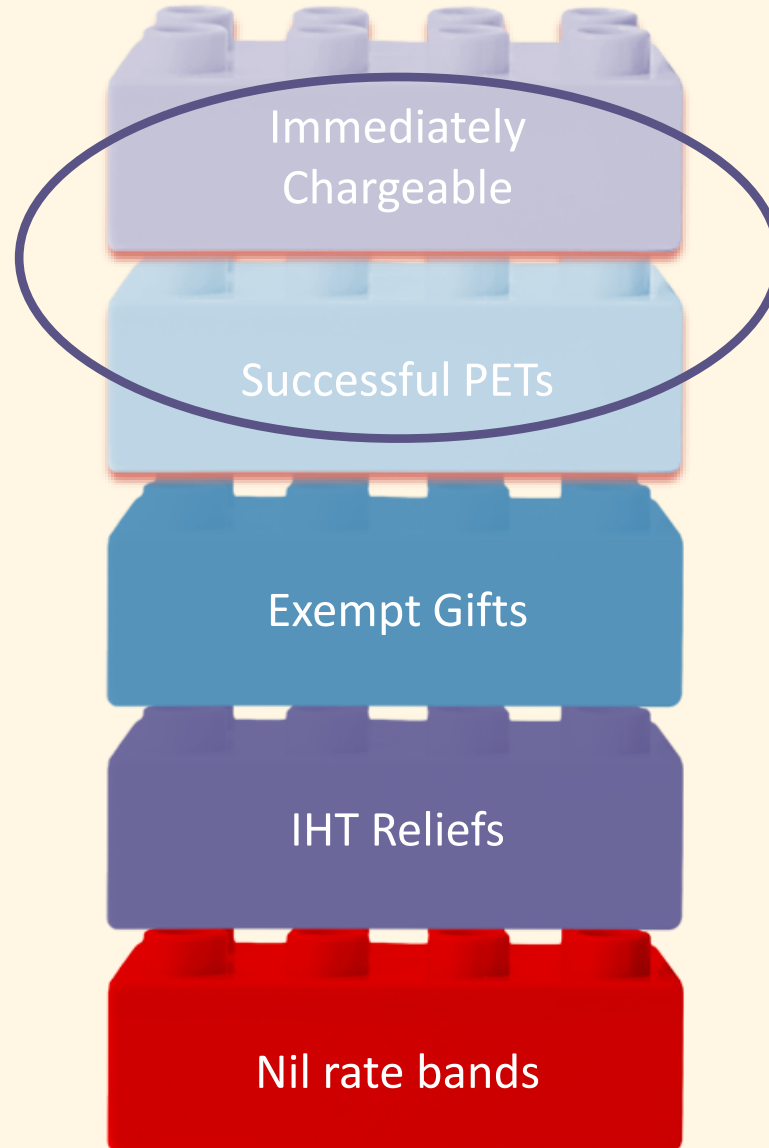
Estimating the liability

Step		£
1	Total market value of the estate 1. 2.	£XXXXX
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>

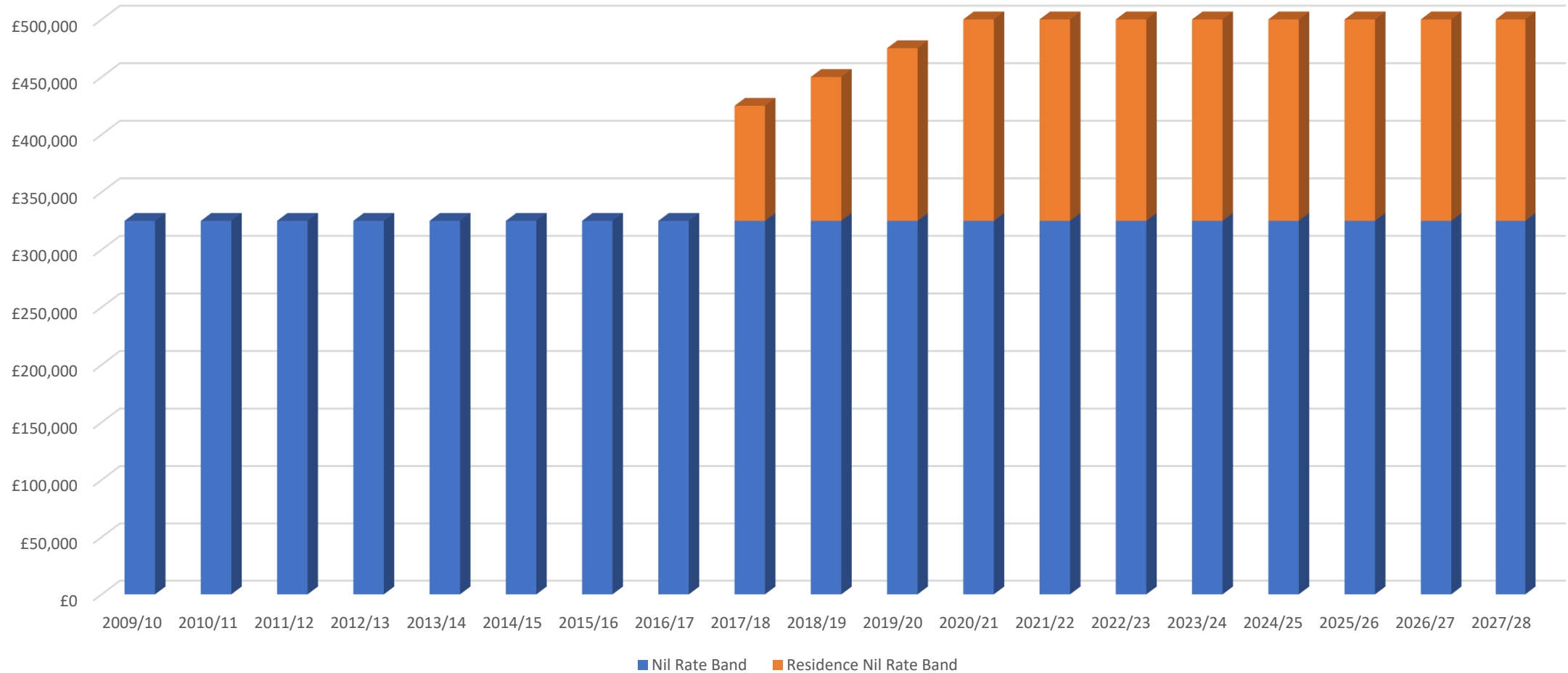
1. If client has an IIP in a trust then that's taxed as part of the estate with tax payable by the trustees.

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 (note however that the estate is not primarily liable for any tax due).

Building blocks



Zero IHT within NRB limits





Transferable NRB facts and planning

Transferable NRB fast facts

5 things you need to know

1

Claim process on
2nd death.

2

Only available on
death

3

Time limit for
claiming is
24 months

4

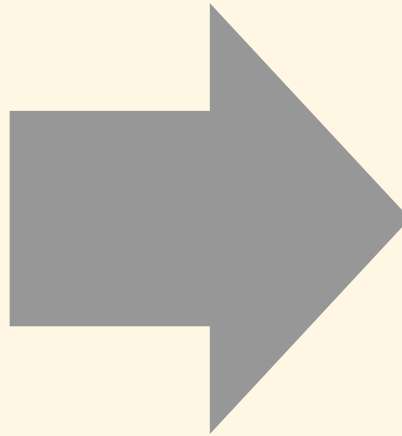
Survivor's NRB
increased by %
unused

5

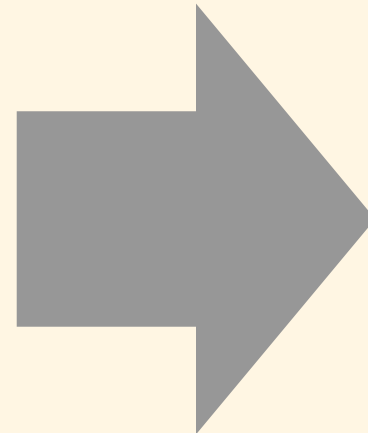
Maximum uplift
on 2nd death
is 100%

Transferable NRB facts

John (died 2008/09)
NRB was £312,000



£156,000

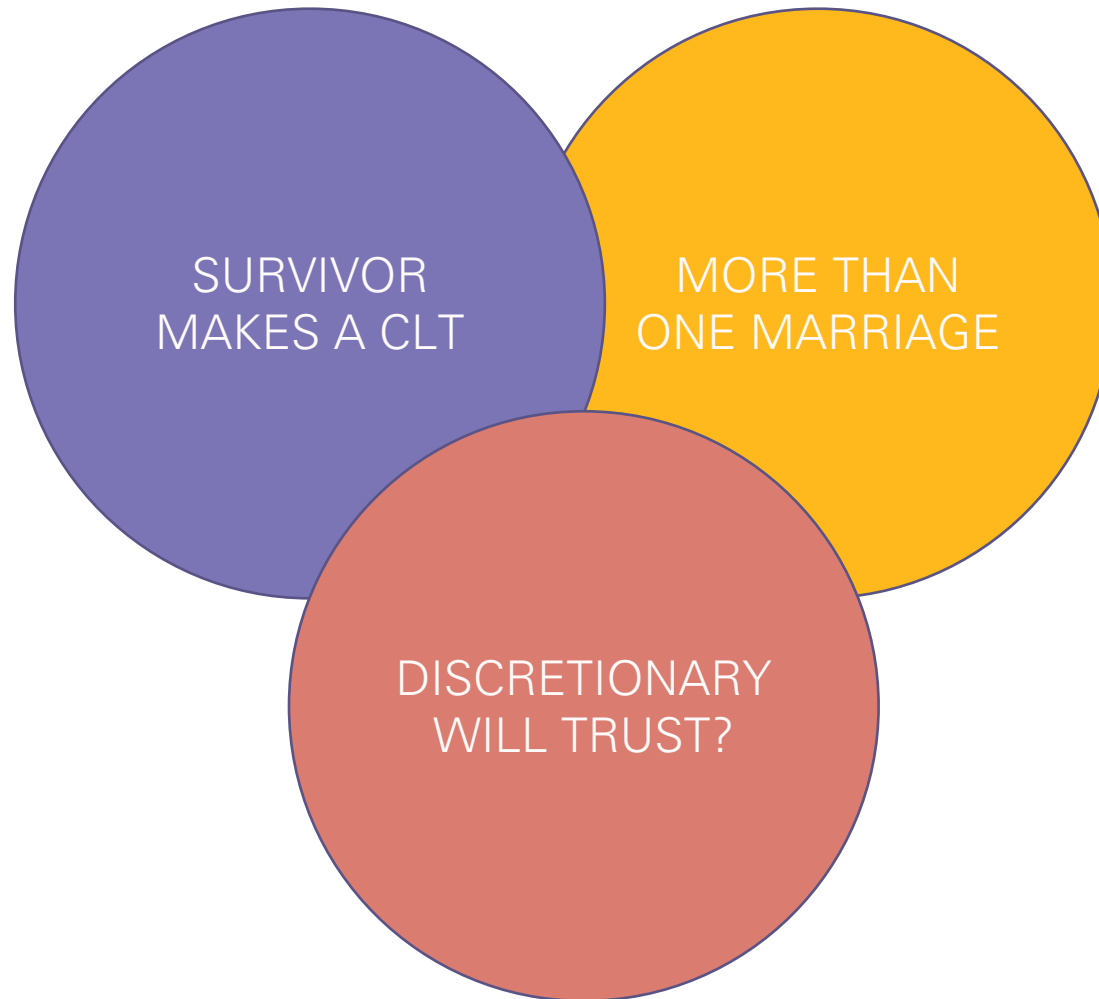


Everything else
to Joan



+ 50%

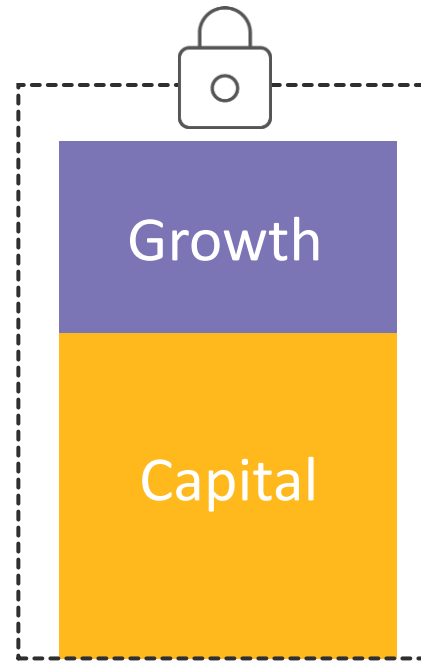
Three Transferable NRB planning points



No. 1 - survivor (Ann) makes a CLT



Settlor - Ann



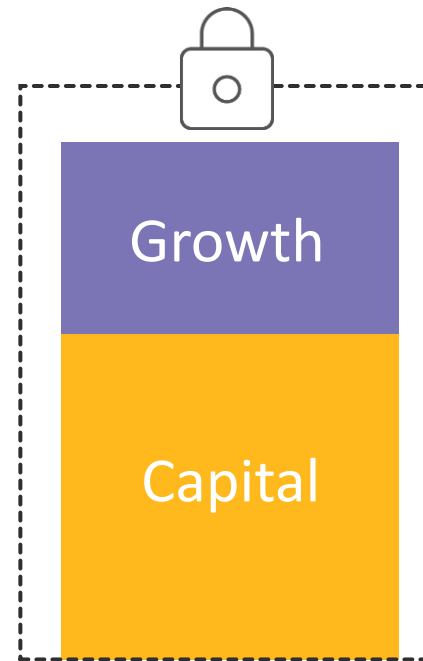
Discretionary
Gift Trust

7 Year CLT

Survivor (Ann) makes a CLT



Settlor - Ann



Discretionary
Gift Trust



7 Year CLT

No. 2 - more than one marriage



Harriet is 70 years old and happily married to Ivan.

She was already a widower when she married Ivan.

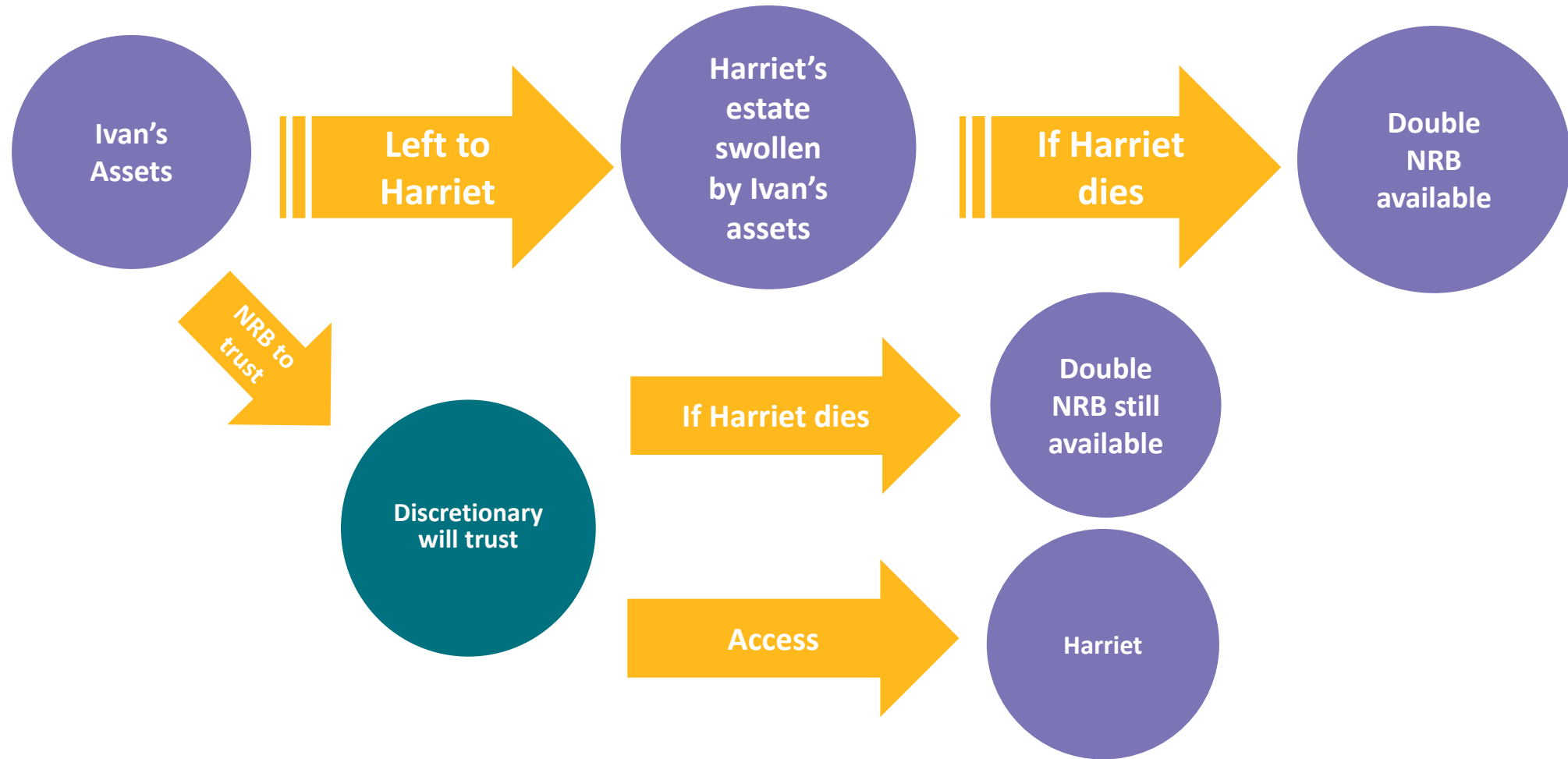
Harriet came to the second marriage with a double NRB as her first husband Gilbert left everything to her.

Q. How many NRBs can be used?

If Ivan dies first



If Ivan dies first



Hey Presto three NRBs are utilised

Gilbert's death

100% to Harriet

2 x NRB on Harriet's death

Ivan's death

1 x NRB inside discretionary will trust

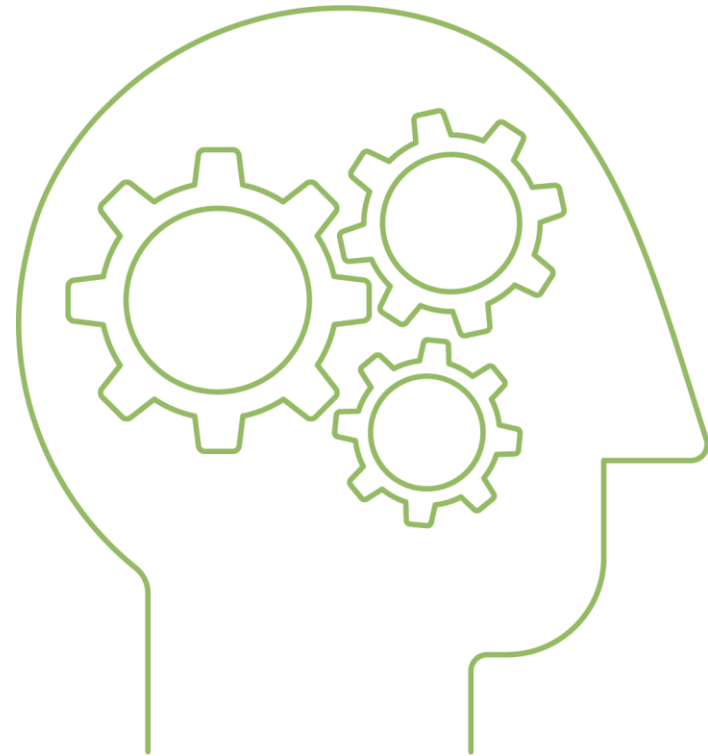
Harriet

Reduced estate thanks to discretionary will trust

2 x NRB on Harriet's death (thanks to previous marriage)

No. 3 - discretionary will trust?

- $6\% < 40\%$
- $> 200\%?$
- Control
- Avoid beneficiaries' estates
- 2-year rule





Residence NRB facts and planning

Residence NRB fast facts

5 things you need to know

1

The home needs to be in the deceased's estate

2

Children or other direct descendants must be inheriting the home

3

You need to know the value of the home

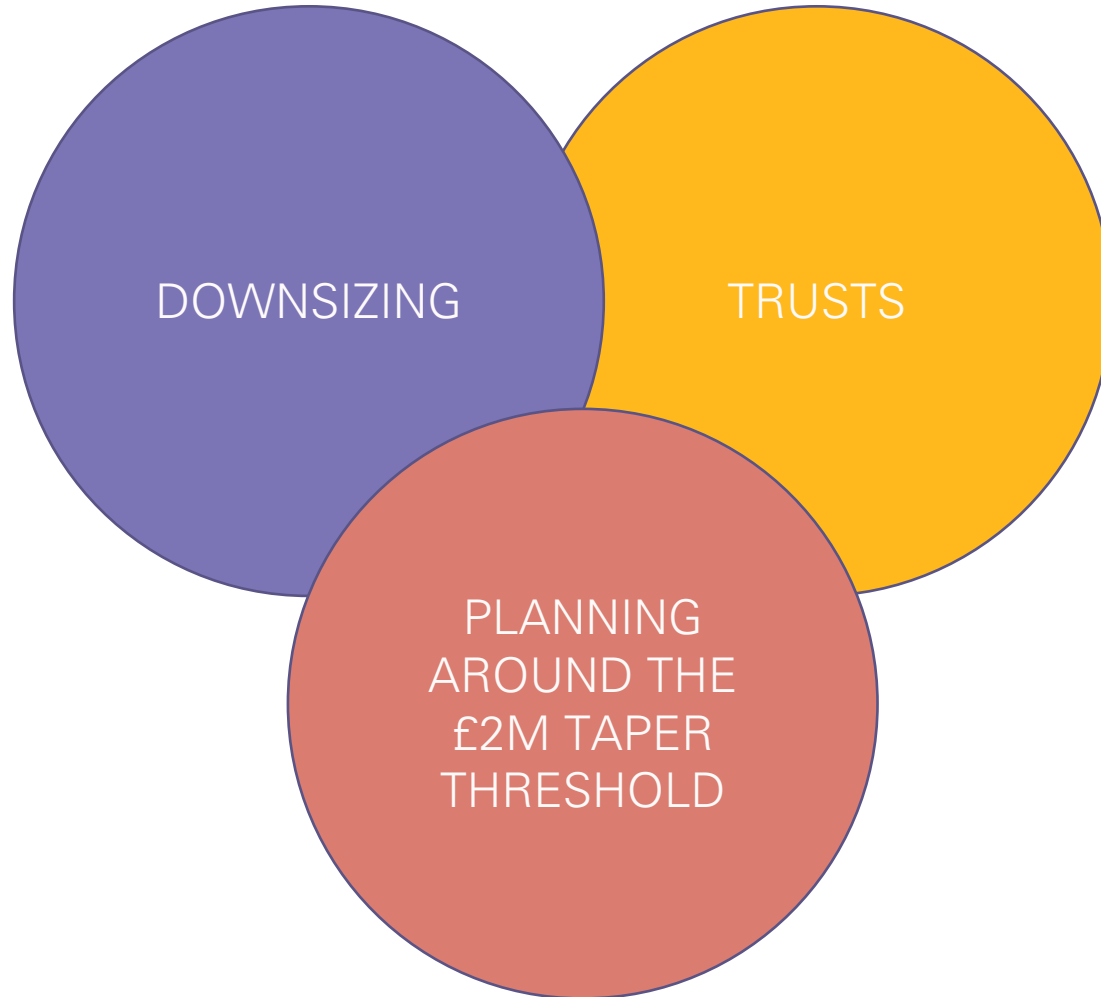
4

Interaction with the standard NRB

5

Is the £2m taper threshold relevant?

Three Residence NRB planning points

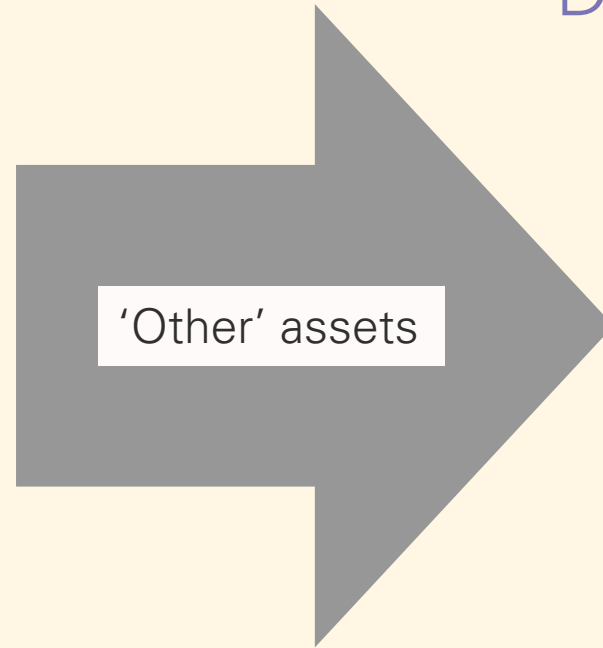


No. 1 – The downsizing addition

On death

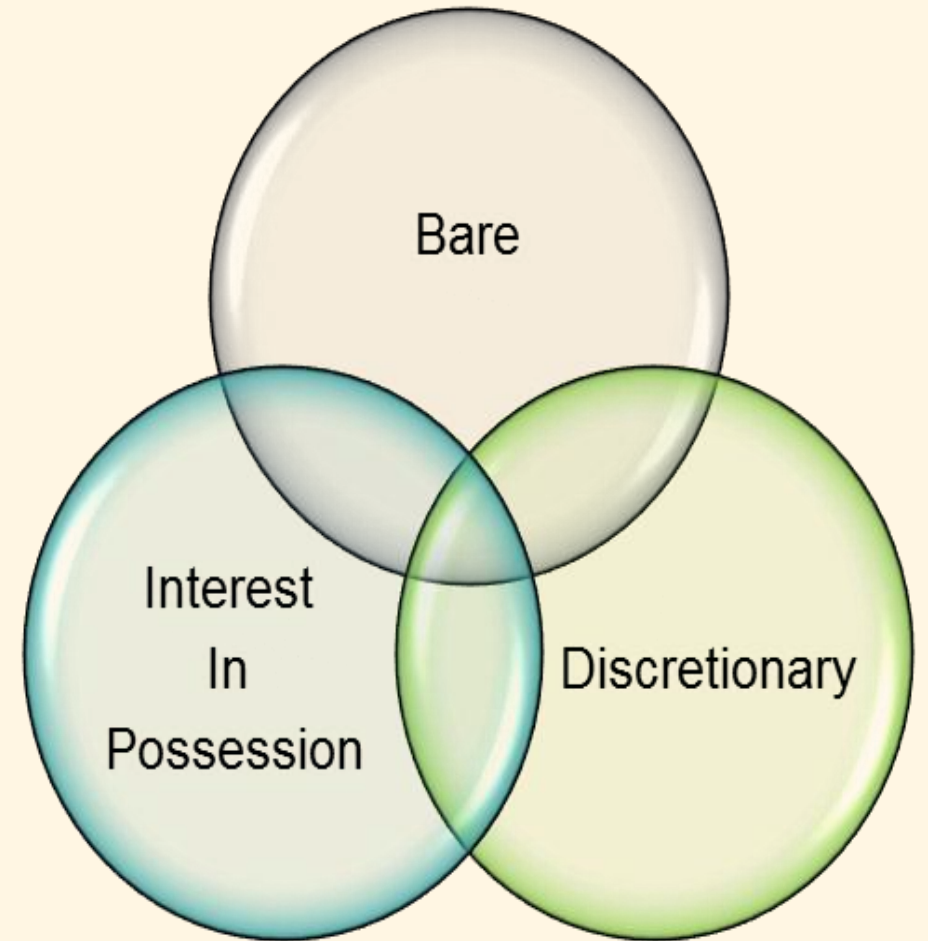


Direct descendants



No. 2 – Trusts

- Part of the deceased's estate?
- Type of trust?
- Part of the direct descendant's estate?



No. 3 – the £2m taper

- Tapered RNRB withdrawal for estates with net value >£2m
- Reduced by £1 for every £2 over threshold
- Spouses/civil partners? (test £2m threshold on 1st & 2nd death)

No. 3 – the £2m taper

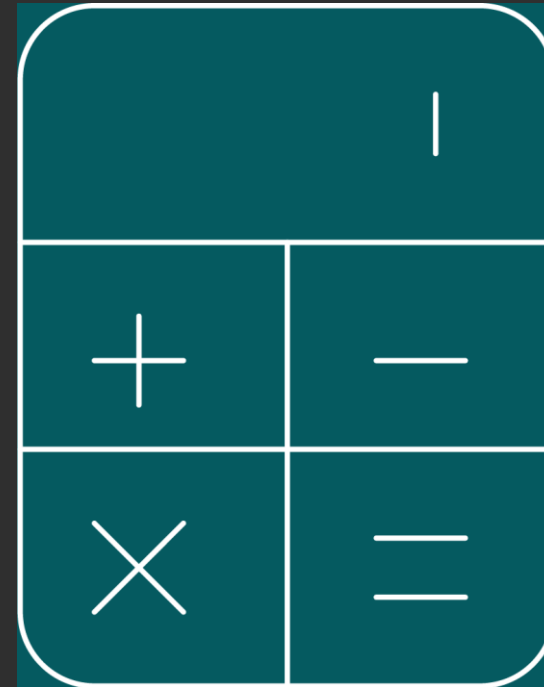
- Tapered RNRB withdrawal for estates with net value >£2m
- Reduced by £1 for every £2 over threshold
- Spouses/civil partners? (test £2m threshold on 1st & 2nd death)

- Liz, who has never been married, died in 2023/24
- Her 'default' RNRB is £175,000
- Her death estate is valued at £2,350,000
- After tapering, her 'adjusted' RNRB is £Nil

Calculating the estate for the £2m threshold

Total of all the assets less any debts or liabilities

- Do not deduct exemptions (e.g. spousal)
- Do not deduct reliefs (e.g. BPR)
- Do not add back lifetime gifts



Single client dies in 2023/24

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)



Survive 7 years, £350,000 out estate - save another £140,000 (40%)



IHT Relief(s)

Business Property Relief – five fast facts

5 things *you need* to know

1

Up to 100%
relief is
available

2

2-year
ownership
test

3

Business
must pass
the trading
test

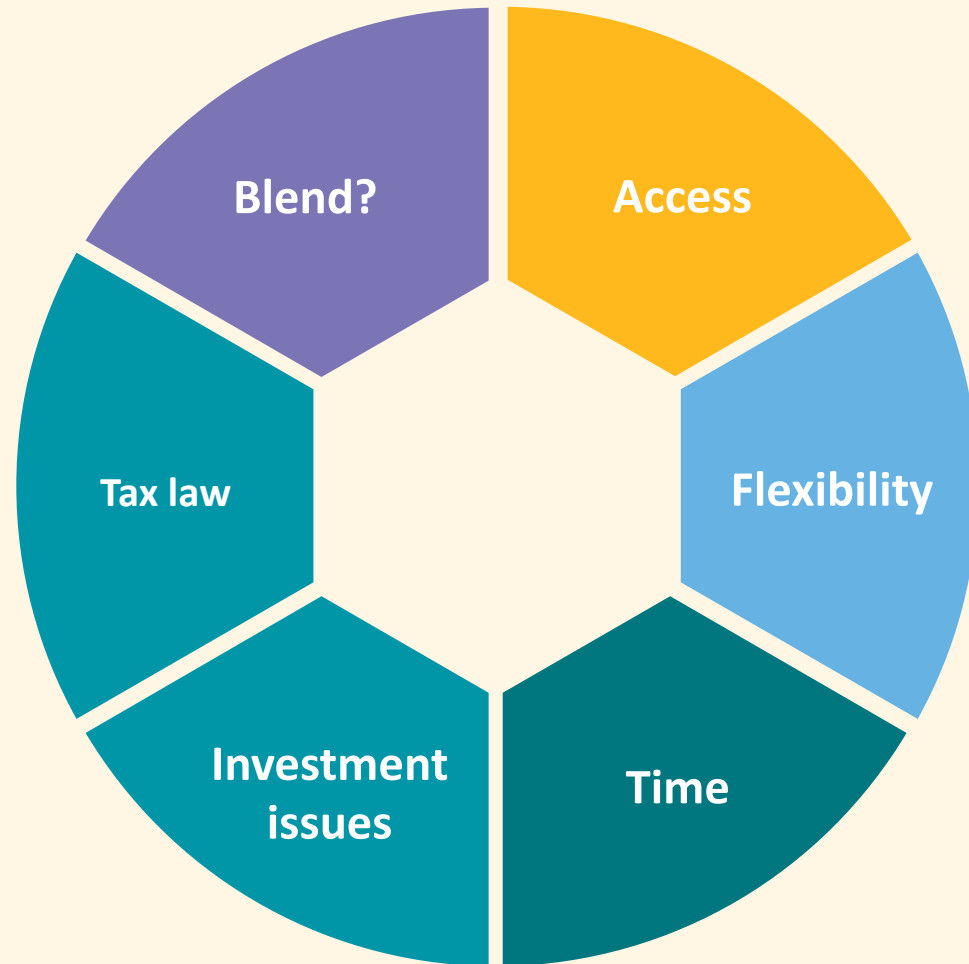
4

The 50%
test

5

Excepted
assets?

Business Relief or Trust?





Exempt gifts

IHT exempt lifetime **and** on death



Gifts to charities



Gifts to spouses
and civil partners

IHT exempt – lifetime only



Small gifts



In consideration
of marriage



Annual
exemption



Normal
expenditure
out of income

Annual Exemption planning



£3,000
This Year

£3,000
Previous Year



£3,000
This Year

£3,000
Previous Year

Up to £12,000

Gifts

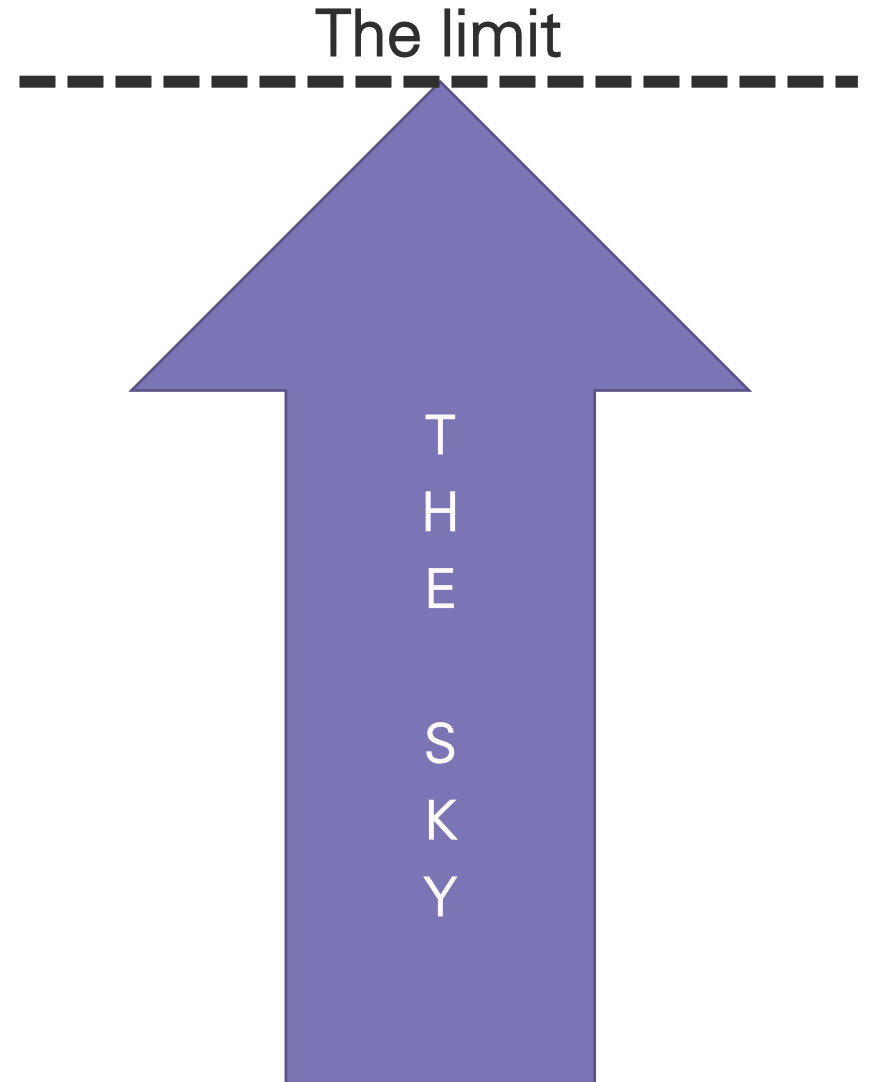
Life policy
premiums

Loan write offs

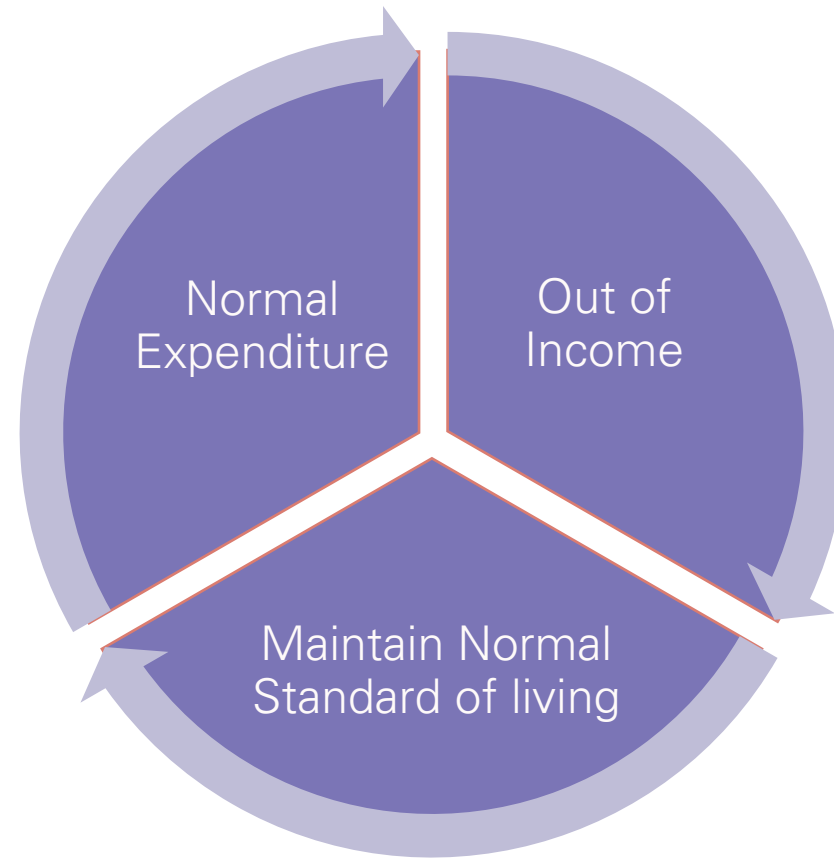
Pensions
for others

IHT exemptions – a question!

What lifetime only exemption is the most generous and why?



IHT exemption with no monetary limit



Pension contributions for family?

Bond in Discretionary Trust?



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.

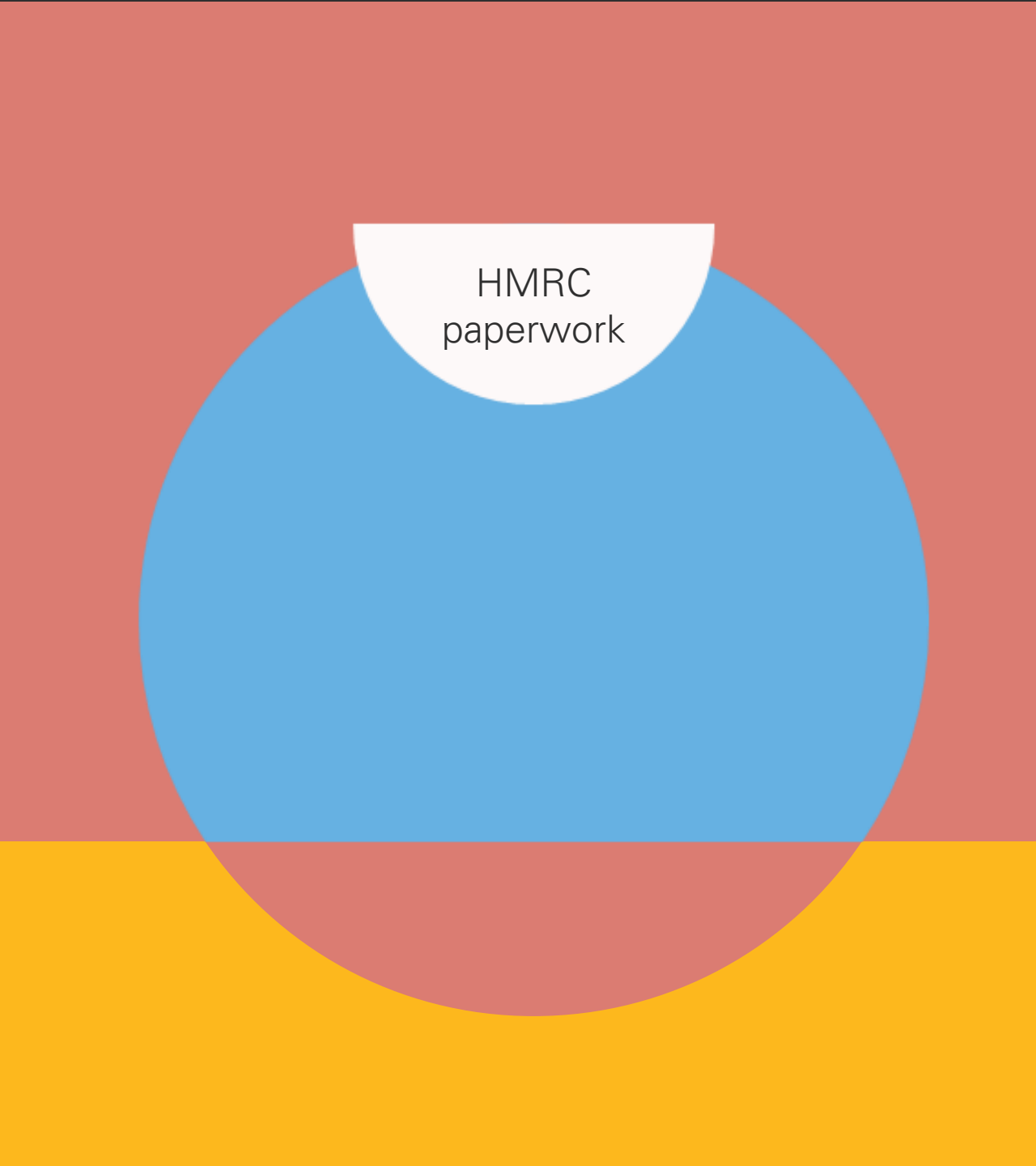
For more information or help or another copy of this form:

- 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.





Despite the cost-of-living crisis, one in four (25%) over-45s says the inheritance they leave will now be larger

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