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IHT focus: Planning ahead

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WAY Investment Services

An introduction to inheritance tax

WAY Investment Services marketing executive Claire Garland explains the rise of IHT and why it is simply a topic that cannot be ignored

For more than 300 years, in one way or another tax has been levied on death in the UK. Beginning with probate duty in 1694, the rules have been developed and expanded over time to the somewhat complicated inheritance tax framework we have today.

Inheritance Tax is frequently described as one of the most unpopular forms of taxation. For many people, the idea of being taxed on money that has been earnt and taxed during a lifetime is a source of much resentment. Furthermore, at a rate of 40%, for some people it may signify the first time they actually become a higher-rate taxpayer. The sting in the tail is that Inheritance Tax also prevents assets being passed on to children and grandchildren.

But grumbling gets us nowhere. Although there have been plenty of changes to the details of the rules over the past few years, there is no indication that the concept of inheritance tax is going to go away any time soon. In fact, the amount of revenue collected from the tax has been increasing steadily since 2009, hitting a record high of £5.4 billion in the tax year 2018/19*.

Despite its unpopularity, the certainty of death and taxes means that Inheritance Tax is something that can, and should be, planned for. Inheritance Tax planning is not just about mitigation – it is also about allowing a proportion of family wealth to be passed on to those to whom it is intended, whilst making provision to pay any tax due in a timely manner. Planning also needs to take into consideration an uncertain future, and how the needs of a family can change over time. From the time people might first consider thinking about inheritance tax to the time of their passing, so much can change. But financial plans can be made with a degree of flexibility and the ability to accommodate changing needs. For example, families may wish to divert some of their finances towards helping loved ones get on the property ladder, or school fees, or university fees, or care fees – a subject which we will go into further detail on later in this supplement.

For financial advisers, inheritance and its accompanying taxation is a topic that simply cannot be ignored. With the ageing baby boomer population and a general increase in financial wealth of households, the King's Trust estimates that £5.5 trillion will pass between generations over the next 30 years. For many advisers, helping clients understand and plan their inheritance is already a core and growing part of their business. Those who haven't yet joined this group can expect to do so soon.

Advisers are able to help clients understand their options and articulate their wishes, and then put sound financial plans in place to achieve them. Advisers today need to be well-versed in the core strategies available to mitigate Inheritance Tax. Gifting and using annual gift exemptions remain the most straightforward methods and should generally be considered the first port of call. But whilst the rules in overview may be simple, there is plenty of detail within that needs careful consideration so that clients are not caught out unexpectedly.

A further strategy advisers must be ready to consider is the use of trusts. Whereas in previous times trusts may have been considered the preserve of the wealthy, the use of trust structures today is appropriate for a much wider audience. Not least, in their most basic premise, writing insurance policies into trust can avoid probate and enable policy proceeds to be paid out promptly when they are needed most. Yet too often this simple option is overlooked, leaving clients in a sub-optimal position.

In this feature we will explore some of the key planning strategies that Advisers need to be aware of. So crucial in preparing for inheritance is allowing time to plan; time to consider objectives, time to evaluate the options available, and time to put plans into action. Tolerate it or loathe it, Inheritance Tax cannot be ignored. Financial Advisers today are in an ideal position to guide and help clients and their families prepare, giving peace of mind to those with a legacy to leave behind.

*** https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk**

Written by Claire Garland, Marketing Executive, WAY Investment Services

Inheritance, tax and care – why there is no time like today to start planning ahead

WAY Investment Services regional sales manager Mark Wintle explores the link between IHT and care fees, the need to plan ahead and the use of Flexible Reversionary Trusts

Planning for inheritance and its associated taxes can be a bit of a balancing act. Between today and the certainty of death lies an enormous amount of uncertainty. One way or another, having a degree of financial resilience and a way of dealing with this period can provide enormous peace of mind and a much better way to sleep at night.

Discussions around inheritance inevitably involve the process of ageing, and when it comes to this topic, the subject of care fees is one that simply has to be considered. Many clients may be in a position where they do want to leave a legacy to their children or grandchildren. But they may also hope to have a way of funding care, should they need it. Then again if they don't, it would be preferable to hold on to those funds and in due course pass them on to loved ones, without the funds suffering undue Inheritance Tax.

The cost of care is certainly a topic that many people worry about, even though the vast majority of people are unlikely to end up living in a care home. According to a survey carried out in 2016 by Laing and Buisson, just 4% of the over-65s and 16% of the over-85s live in care homes. But there is good reason for concern, as so frequently reported in the press, if residential care is needed the costs can be enormous. Even those people that remain living independently at home may well still need some form of care or help, and someone somewhere will need to pay for it.

No-one so far has come up with a perfect strategy for funding care nationally. In the meantime, anyone with wealth above a certain threshold, which it is reasonable to say is set at a really rather moderate level, will be expected to contribute, if not cover entirely, the costs of any care they might need. Here Inheritance Tax planning is just one part of a much wider picture, which all comes back to understanding clients' wishes and putting plans in place to help them achieve those. The starting point is not working out how to reduce a tax liability, but rather to help clients achieve their goals, and it makes sense to do so in a tax-efficient manner.

Flexible planning is key

The challenge with planning for care is that it is simply so uncertain – so flexible planning options make most sense. Trust options are worth considering and can offer more flexibility than people may realise. Advisers may wish to look at a flexible reversionary interest-in-possession trust. With this structure, clients can set aside an amount of capital which can be used to pay for care in the future if needed, enabling clients to retain choice and control over how and where any care is received. However, any capital that is not needed for care can still be kept within the family and passed down through the generations to chosen beneficiaries.

Gifts into such trusts fall outside the estate for Inheritance Tax purposes after seven years, with any investment growth immediately outside the estate. The flexibility arises because investors can retain potential access, at the discretion of the trustees, via flexible reversion payments. Investors can either receive a proportion of the trust in this way each year or the Trustees can defer them in any year in which they are not needed. There is also flexibility for the beneficiaries. Trustees can distribute capital or make loans to the beneficiaries at any time, in line with the settlor's letter of wishes to the Trustees.

Making use of income

Rather than an outright gift of capital, another way to make payments into a flexible reversionary interest-in-possession trust is using the normal expenditure out of income exemption. This may be an appropriate strategy for people who are still working, or retirees with a comfortable pension who wish to make provision for future potential care fees, albeit in a tax-efficient manner. Such payments are immediately exempt from Inheritance Tax so long as they can be demonstrated to be regular, part of normal expenditure, made from surplus income, and leave the settlor with enough income to maintain their normal standard of living. Good record keeping is clearly essential for clients choosing to use this exemption as HMRC will require evidence following the death of the settlor.

Health warnings

For clients that still need a little persuading as to why it is important to plan ahead, it may be worth considering what might happen if they don't.

• Loss of choice and control

If a person is unable to fund their own care there is some state provision available. But in such situations a person is likely to have far less choice and control over how and where they receive care, especially in comparison to those who are funding it themselves.

• Deliberate deprivation of capital

Advisers need to be aware of the risks of gifts being treated as deliberate deprivation of capital. It may feel like a natural thing to do to give away assets at an increasing rate as health deteriorates. However, if the local authority views this as a way to avoid paying care fees and instead leaving the State to pick up the bill, it may take legal action and try to reclaim those assets. Cases can be difficult to prove, resulting in complicated and lengthy court cases. Such situations are far best avoided, not least by keeping clear records. If a person wishes to gift assets, the most prudent course of action is to do so in plenty of time and certainly before the onset of ill health. Life expectancy from birth in England currently stands at 83.2 years for women and 79.5 years for men. Life expectancy for 65-year olds is greater, at 86 years for women and 84 years for men*. Clients in their 60s and even 70s should have plenty of time to plan ahead, but there is no time like the present to get started. The earlier clients start gifting, the more likely they are to survive 7 years for a gift to be successfully removed from their estate

• Paying 40% tax on tax-free savings

ISAs are well known for their tax efficiency, however clients may need reminding that they are subject to Inheritance Tax on any values that bring the estate over the available Nil-Rate Bands (NRB) at a notable 40%. For this reason, they may not be the most practical place for older clients to hold money that they have set aside for future care costs. If they end up not spending it on care, their estate could lose 40% of the remainder to Inheritance Tax – rendering the ISA tax inefficient.

Time to get started

Planning for Inheritance Tax is primarily about planning for an uncertain future. Inheritance is a part of this, as well as the myriad of events that can happen in-between. The priority is to understand the wishes and intentions of the client. Understanding the tax implications and making appropriate plans to deal with those can then follow. The most effective plans are made in good time. With a bit of thinking ahead, and some pragmatic steps, advisers are well placed to provide invaluable guidance and support.

https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/lifeexpectancyatbirthandatage65bylocalareasinenglandandwales/2015-11-04

**Written by Mark Wintle,
Regional Sales Manager,
WAY Investment Services**

Case study: Introducing the WAY Flexible Inheritor Plan - a flexible reversionary trust

Mrs and Mrs Smith are a married couple in their 60s. They have two children and five grandchildren. They have a combined estate distributed as follows:

Property value	£900,000
Combined ISA investments	£1,000,000
Pension (trust based)	£500,000
Other assets	£100,000
Total Inheritance Tax assessable estate:	£2,000,000 (pension exempt from Inheritance Tax)
Less allowances:	
2 x £325,000 Nil-Rate Band (NRB):	£650,000
2 x £150,000 Residence Nil-Rate Band (RNRB):	£300,000
Net Inheritance Tax assessable estate:	£1,050,000
Current Inheritance Tax liability:	£420,000

Understanding client objectives
Mr and Mrs Smith wish to be able to pass on as much of their estate as possible to their children and grandchildren, and ideally would also like to reduce their future potential tax liability.

Mr and Mrs Smith understand that making gifts to their family would have the potential to reduce their Inheritance Tax liability, providing that they survive for a further seven years from the date of the gifts. They are concerned, however, if they do this and subsequently have significant care bills, they may struggle to pay them.

They also feel that whilst they would like to leave a legacy to the younger generations, their children may well require significant financial assistance well before Mr and Mrs Smith pass away – whether, for example, to help get together a deposit to buy a home, or to pay school or university fees for grandchildren.

Mr and Mrs Smith's adviser introduces them to the WAY Flexible Inheritor Plan
They both gift £331,000 from their ISA investments into the plan (£325,000 NRB plus £6,000 unused annual gift exemptions). Providing they survive a further seven years, this action alone will reduce their Inheritance Tax liability by at least £264,800 (40% of £662,000), in addition to immediately saving 40% Inheritance Tax on all future growth. If Mr & Mrs Smith did not make any gifts, it would be reasonable to anticipate (with their considerable normal life expectancies, in excess of 25 years each*), that their combined estates would soon begin to lose some, quite possibly all, of the RNRB, as it begins to reduce by £1 for every £2 the net assessable estate exceeds £2m. By gifting £331,000 each from their respective estates, Mr & Mrs Smith will have immediately reduced their RNRB assessable estate by £331,000 each, therefore immediately creating more 'headroom' before their combined estates reach the current £2m taper threshold for the RNRB, helping to preserve this very valuable additional allowance**. The RNRB is currently £150,000 each and is scheduled to rise to £175,000 each in 2020/21 tax year and index with CPI thereafter.

**Source: Office of National Statistic Average Life Expectancy Tables for England & Wales 2019.*

*** Subject to their respective estates meeting the other RNRB qualification criteria*

Two years later, their daughter is making her first steps on to the property ladder. Mr and Mrs Smith had stated in their Letter of

Wishes (written when the Trust was first created), that they hoped to support their children in their first house purchase when the time was right. Their daughter was due to get married shortly and they did have doubts if the marriage would survive. The Trustees therefore decide to make a loan of £50,000 from the trust to their daughter. If the marriage did fail the money loaned would be a debt owed by their daughter to the trust and would not be part of the divorce settlement.

Further years down the line, Mrs Smith begins to need some domiciliary care, and a private carer begins visiting her twice a week for two hours, at a cost of £20 per hour. The total annual cost for this amounted to £4,160. Mrs Smith is able to fund this comfortably from her trust, taking much less than the permitted 10% annual withdrawal of £33,100 (assuming zero investment growth for the purposes of this example), thereby retaining in the trust to continue to grow and be passed on in the future.

Upon the demise of Mr or Mrs Smith, the Trustees could, at their discretion, loan or appoint money from the trust, immediately, without having to wait for Probate to be granted.

The trust has a 125 year potential lifespan, hence the judicious granting of loans and/or appointments, could help to mitigate Inheritance Tax and preserve family wealth inter-generationally.

Written by Mark Wintle, Regional Sales Manager, WAY Investment Services

Ch-ch-changes?

Adam Cadle analyses the Office of Tax Simplification's latest review into Inheritance Tax and its potential impacts

The Office of Tax Simplification's (OTS) latest review into Inheritance Tax (IHT) comes with the aim of making substantive aspects of the design of IHT simpler, more intuitive and easier to operate.

Indeed, whether the points in this review come into play, remains to be seen, certainly if the political landscape undergoes significant changes. With the change in Prime Minister and Chancellor, it may be some time before any new legislation comes to fruition. "These reviews could be a waste of time if Labour is elected into government with its punitive proposals on changing IHT," WAY Investment Services adviser support manager Tony Lyons says.

However the changes proposed in the review, for the time being, cannot be ignored.

Key area 1: Lifetime gifts

In its latest review, the OTS has made 11 recommendations, concentrated into three key areas of IHT: lifetime gifts; interaction with capital gains tax; and businesses and farms. Looking at the first section, the OTS heard that the present array of gift exemptions is "complex and creates confusion" as "several monetary thresholds are to be considered and each applies in a slightly different way".

"The exemption for regular gifts from disposable income can require extensive record keeping and the scope of the exemption is disputed," it said. Therefore as a recommendation, the OTS emphasised that the government should, as a package replace the annual gift exemption and the exemption for gifts in consideration of marriage or civil partnership with an overall personal gifts allowance. Furthermore, it said it should also consider the level of this allowance and reconsider the level of the small gifts exemption, and reform the exemption for normal expenditure out of income or replace it with a higher personal gift allowance.

One of the OTS's major proposals is around the actual gifting period and taper rules. Consultation responses indicated that the current seven year period during which a lifetime gift may become subject to IHT is too long. "The seven year period requires a large amount of record keeping but raises little tax," it added.

"The government should, as a package reduce the seven year period to five years, so that gifts to individuals made more than five years before death are exempt from IHT and abolish taper relief."

AJ Bell personal finance analyst Laura Suter says "any simplification to make it easier for families to navigate would be a positive development".

"Recent HMRC research found that just 45% of people gifting money knew how inheritance tax rules worked, highlighting the need for both simplified rules and more education," she comments. "The OTS rightly acknowledges that the seven-year taper rule is hideously complex, and can cause people to be landed with

Chrispictures / Shutterstock.com

an unexpected inheritance tax bill years after they were gifted money. However the suggestion of reducing the seven years down to five and scrapping taper relief entirely looks like a bald tax grab and revenue-raising move. Instead, the taper could be simplified into a two-step process for example, or if its scrapped entirely then the period should be shorter than five years."

The final two recommendations under the Lifetime Gifts section revolve around the government removing the need to take account of gifts made outside of the seven-year period when calculating IHT (under what is known as the '14 year rule'), and the government exploring options for simplifying and clarifying the rules on liability for the payment of tax on lifetime gifts to individuals and the allocations of the nil rate band.

Key area 2: Interaction with Capital Gains

The second major part of the review covers interaction with capital gains tax, and the distortion of decision making has also been pinpointed as a key worry here. For Capital Gains Tax purposes, the person inheriting an asset is treated as acquiring it at its market value on the date of death, rather than the amount originally paid for it. As a result of this, the OTS has said government should consider removing the capital gains uplift and instead provide that the recipient is treated as acquiring the assets at the historic base cost of the person who has died.

Key area 3: Business and Farms

In its review, the OTS also addresses business and farms. Trading businesses and farming assets may qualify for full relief for IHT under business property relief (BPR) and agricultural property relief (APR). BPR also extends to certain companies traded on the Alternative Investment Market. It is generally understood that the main policy rationale for BPR and APR is to prevent the sale or break up of business or farms to finance IHT payments following the death of the owner.

"The government should as a package consider whether it continues to be appropriate for the level of trading activity for BPR to be set at a lower level than that for gift holdover relief or entrepreneurs' relief, review the treatment of indirect non-controlling holdings in trading companies, and consider whether to align the IHT treatment of furnished holiday lets with that of income tax and capital gains tax, where they are treated as trading providing that certain conditions are met," the OTS said.

In addition to this, the UK government has been urged to review the treatment of limited liability partnerships to ensure they are treated appropriately for the purposes of the BPR trading requirement.

HMRC is also being pushed to review their current approach around the eligibility of farmhouses for APR in sensitive cases, such as where a farmer needs to leave the farmhouse for medical treatment or to go into care. HMRC should also be clear in its guidance as to when a valuation of a business or farm is required and, if it is required, whether this needs to be a formal valuation or an estimate.

Royal London product architect Ian Smart draws attention to the recommendation for term insurance policies to be taken out of the IHT.

"We would encourage the government to go further. While the OTS believes that whole of life policies are used for a combination of protection and investment, we know this isn't the case. Very few new whole of life policies written since the retail distribution review acquire any sort of value other than on death. We therefore call on government to also exclude whole of life policies that do not acquire a surrender value from IHT. Clarity is also needed on terminal illness benefits, which are commonly included in both term and whole of life policies."

The present time and going forward

Quilter tax and financial planning expert Rachael Griffin comments that "before the government jump feet first into making these changes they need to step back and reflect on the purpose and vision of inheritance tax".

"If its purpose is to tax people based on how much wealth they have then the research is pointing to the necessity of reform. However, there needs to be proportionate reform. IHT makes up less than 1% of the total raised by the Exchequer and so would cover just one week's worth of the cost of tax relief on pensions. It's undeniably an issue, but government have bigger and more expensive fish to fry.

"Chancellor Philip Hammond was the one that ordered this review over a year ago. One hopes that politicians will take take a long-term view and see the necessity of reform. Changes to IHT could be a nice giveaway for the Conservatives if and when they have to head into a general election. Really though this should be a cross-party initiative as rules regarding inheritance tax are, by their very nature, long term and require advanced planning. A constantly shifting framework makes such planning impossible."

With the possibility of these proposals not even going through, Lyons accentuates that the message should be to "carry on" and "continue with the allowances as they stand".

"IFAs should be encouraging clients to undertake estate planning now," he concludes.

Written by Adam Cadle

Inside the IHT domain

Adam Cadle talks to WAY Investment Services head of sales John Humphreys about the firm's role in the IHT market and the outlook ahead

WAY Investment Services is a leading player in the IHT market. Can you describe the new ideas it is bringing to the space and the innovatory solutions on offer?
WAY is the only provider of IHT mitigation plans which invest directly in collective investments (therefore are CGT, rather than Income Tax assessable plans), using the inter-vivos and gifts from normal expenditure rules.

WAY are launching a trust-based savings scheme for professional sportspeople, using the (hugely underused) Gifts from Normal Expenditure rules. Many professional sportspeople earn a significant sum of money from their late teens into their mid-30's but upon joining a pension scheme on or after 6th April 2006, are subject to the same pension rules as the rest of us, therefore:

- for many their contributions will be limited to £10,000 p.a. (not much use if you are earning several times that per week!)
- a lifetime allowance (currently) of £1,055,000- which for a Premier League footballer could be the equivalent of less than 6 months' salary! and;
- a minimum age of 55 before they can access their pension benefits (which could be 20+ years after retirement from professional sport)

  The Gifts from Normal Expenditure rules enable individuals to immediately remove all 'surplus' taxable income from their estate, by gifting the surplus income, provided they follow a few simple rules. The gift must be:

- From surplus taxable income (although curiously ISA income can be included although it is tax-free)
- Be regular (or the intention is that it will be a regular pattern of gifting)
- Not impact on the Donor's standard of living.

All of which can be easily identified by a simple income and expenditure analysis. Gifts of surplus income can be made to the WAY Pro-Sport Trust, which is a flexible reversionary interest trust. This enables the professional sportsperson to receive payments of capital back (at the Trustees discretion) when their professional sports career finishes, when they retire or are forced to retire due to injury, which could be 20+ years before they could access their pension benefits. In addition, the trust assets could also help protect this accumulated wealth from IHT and preserve the wealth inter-generationally too with the judicious use of the trust loan facility. The Trustees could loan money to the Beneficiaries (not the Settlor - the professional sportsperson who established the plan), which could protect the 'family wealth' in the event the recipient got divorced, was declared bankrupt or had their own IHT liabilities.

Source: https://www.thepfa.com/players/pensions/faq

How are you working with advisers to spread the message about your offerings?
The WAY sales team regularly meet with Advisers to discuss specific client scenarios and help Advisers to understand how the WAY Inheritor Plans can help mitigate Inheritance Tax and preserve 'family wealth' inter-generationally.
We also regularly:

- attend industry events and conferences to discuss our solutions with Advisers
- publish technical IHT focussed articles via industry publications and websites
- host IHT planning seminars and workshops
- issue Adviser newsletters and bulletins.

How is the property market affecting IHT planning and will there be any major ramifications on IHT as a result of Brexit?
Property values have pushed (and likely continue to push) an increasing number of estates into the IHT trap. For some people property is their biggest individual asset, to the extent that they are "asset rich and cash poor". In some regions of the UK, house prices are at such a level that the Residence Nil-Rate Band will be of little or no use as the property value alone may exceed the upper taper thresholds (currently £2.3m for a single person £2.6m for a married couple/civil partnership, rising to £2.35m and £2.7m respectively in the 2020-21 tax year, scheduled to index with CPI thereafter). An individual cannot mitigate IHT by gifting away a property (or part thereof) and continue to reside in it without paying a commercial level of rent on any proportion they no longer own. For many the only realistic alternative is to 'downsize', to release equity with which to conduct IHT mitigation planning, but that decision comes with a host of emotional issues if the house has been the family home for decades. There is provision for downsizing in the Residence Nil-Rate Band legislation, but it will have limited application in many regions, including those of relatively moderate property values.

Like most things at present, it is near impossible to predict any major ramifications on IHT as a result of Brexit. If property and investment values fall clearly estates will be worth less than before, so the IHT receipts could fall, which might only be temporary as the UK adjusts to exiting the E.U.

How important is it to not look at IHT in isolation but to take into account the impact of other UK taxes at the same time?
It is imperative other UK taxes are considered too, focussing solely on IHT without considering other UK taxes would be short-sighted.

As the WAY Inheritor Plans, uniquely, invest directly in collectives, our Plans are Capital Gains Tax (CGT), rather than Income Tax, assessable. With a trust having its own CGT allowance and more favourable tax rates for gains realised via CGT, compared with an Income

Tax environment (for basic, higher and additional rate taxpayers); in our opinion, it is far more sensible to generate 'income' (via reversions of capital) and investment returns that are assessable to CGT.

The additional benefit of the Trustees having the option to distribute WAY Inheritor Plan assets in-specie to Beneficiaries and claim CGT Holdover Relief, enables the Trustees to help mitigate CGT on exit too. Only a fraction of the UK population use their annual CGT allowance, whereas there are over 30m UK Income Taxpayers**, so it makes sense to realise gains through a tax regime that not only has an annual allowance before tax is paid, but then has a more favourable tax rate (currently 10% for basic rate taxpayers and 20% for higher or additional rate taxpayers for chargeable investments) if tax is due. By distributing WAY Inheritor Plan assets in-specie (often to multiple Beneficiaries), using CGT Holdover Relief, Trustees can distribute investments valued at significant sums, which can be realised tax efficiently by each recipient using their individual CGT allowance (currently £12,000 of gain per tax year). Encashment could, of course, be staggered over a few tax years, by each recipient, to further mitigate CGT on exit. By comparison, gains realised from offshore investment bonds could end up substituting IHT at 40% on the capital gifted, for 40% (or even 45%) Income Tax on gains realised from an investment bond instead– which clearly isn't maximising tax efficiency!

*** All post 21 March 2006 WAY Inheritor Plans**
****Source:https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/812855/Table_2.1.pdf**

Do you think that IHT will increase in the future and if so why?

The Office of Budget Responsibility are predicting that IHT receipts will continue to rise, based on the current IHT regime and I tend to agree with that prediction. IHT receipts are at record levels and are expected to continue to rise, although receipts fell marginally very recently, which like most things at the moment has been put down to the Brexit uncertainty leading to a small reduction in estate values. I anticipate that when (possibly if) Brexit is confirmed there will be a relatively short period of lower growth in investment and property values, as the U.K. adjusts to leaving the E.U., but hopefully both will recover quickly from any short-term downturn.

In July 2019, the Office of Tax Simplification (OTS) published its final report into the tax, giving 11 recommendations for reform. These included a new overall personal gifts allowance, reducing the gifting period from seven to five years and abolishing taper relief amongst others. If, how and when any of these changes are enacted however, remains unclear. A bigger threat to IHT mitigation might be a General Election and a Labour Government, given the recent comments by Shadow Chancellor John McDonnell that they were 'thinking about' replacing IHT with a 'lifetime gifts tax' which could reduce the IHT threshold to as little as £125,000 per person during their entire lifetime (from the current £475,000 per person, scheduled to increase to £500,000 per person in the 2020-21 tax, for those that qualify for the Residence Nil-Rate Band). The Conservative Party have estimated such a change could impact as many as 10m U.K. homes.

A home valued at £1m left directly to children and/or grandchildren (which qualifies for the Residence Nil-Rate Band for a married couple or civil partnership) in the 2020-21 tax year would be exempt from IHT, however (under the plans the Labour Party are 'thinking about') the same property could suddenly be subject to IHT on £750,000 of its value, resulting in an IHT liability of £300,000*!!

https://www.independent.co.uk/news/uk/politics/labour-inheritance-tax-cut-john-mcdonnell-threshold-a8981991.html

***Property value: £1m, less possible 'lifetime gifts tax' of £125,000 per person = £750,000 chargeable to IHT, assumed to be at current rate of 40% = £300,000 IHT liability**

https://www.rightmove.co.uk/house-prices/Islington-87515.html

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