Demystifying Inheritance Tax

The changes in inheritance tax laws can often be confusing, leading to contradictory, often conflicting information and advice. Here at AJ Wealth Management, we aim to give clarity to these important issues, so hopefully, the following will help to demystify and clarify the mixed messaging around who and what are liable, in terms of inheritance tax.

So essentially at the labour budget last October, Rachel Reeves announced one important change, that pensions would also now be factored into any inheritance tax liability. Therefore, this is now included in any overall calculations, where the total assets are in excess of the available nil rate bands.

Thresholds have been frozen at £325,000 since 2009, and they are likely to remain that way until at least 2030. This essentially means that more and more people will be affected by inheritance tax liabilities.

There is also an additional residence nil rate band of £175,000, which applies for those with property inherited by direct descendants. This means a married couple bequeathing their property onto their children, will need to have a benchmark amount of £1,000,000, before inheritance tax needs to be paid. It is worth remembering, that the residence nil rate band is reduced on estates worth over £2,000,000.

If these are the facts, what of the reality, in terms of how these measures may affect you! Hopefully the next few points should put your mind at rest.
The vast majority of people worry needlessly about inheritance tax. The truth is, that only 6% of estates actually have to pay out!

In other good news, estates that are left to a spouse or civil partner are exempt. Moreover, if an estate is valued at under £325,000 (£650,000 for a married couple), inheritance tax is not liable for payment. What is more, if estates are worth up to £175,000 (£325,000 for a married couple), then this passes down to their children as well.

Furthermore, any unused inheritance tax allowance is always passed onto the spouse. Tax is only implemented on any excess, that sits higher than the total allowance outlined above.

Another grey area in many people's minds when dealing with inheritance issues, surrounds 'gifts'. Gifts can be made, provided the issuer lives 7 years after the gift is bequeathed, without any risk of inheritance tax liability. Another key fact is, that the actual tax rate reduces after 3 years, and any 'gifts' can potentially sit within a surplus income stream anyway.

When it comes to annual allowances, there can be lots of mixed messaging. However, the law is very clear cut and simple in actuality. Basically, any annual allowance of £3000 per person, can be passed on unhindered. So if this money is not used in year one, it can fall into the following year, without any impact to the amount.

The upshot is, that inheritance tax laws only really affect a very small proportion of estates. However, the differing advice and information seems to frighten many people into thinking, that any inheritance they receive could be severely impacted by inheritance tax liabilities. We hope that by outlining the facts here, this will allow many minds to rest easy, in the knowledge that when they die, their loved ones will benefit from their estate.

Of course, we have a team of experts in this field here at AJ Wealth Management, so if you need further clarification, then please do not hesitate to get in touch, and make an appointment to discuss your own estate in more detail.

This will ultimately give you greater peace of mind, knowing that you will have the actual truth, pertaining to your own individual circumstances, and estate, from our wealth management professionals. Our team will outline all the relevant facts, without any grey areas, so that you will know categorically, that your loved ones will be looked after, and everything that you have worked hard for, and sought to protect, will be given to those you love.