GD
GIBBS DENLEY
FINANCIAL PLANNING

Financial Planners
Chartered

GUIDE TO INHERITANCE TAX

FOR GIBBS DENLEY FINANCIAL PLANNING

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INTRODUCTION 3

OVERVIEW OF INHERITANCE TAX ALLOWANCES 3

Inheritance Tax Nil-Rate Band 3

Residence Nil-Rate Band 3

Transferability of the Nil-Rate Band 3

INHERITANCE TAX AND FINANCIAL PLANNING 4

The Importance of Making a Will 5

Will Trusts 5

INHERITANCE TAX IN PRACTICE - A WORKED EXAMPLE 6

ESTATE PLANNING OPTIONS 7

Gifting 7

Whole of Life (WoL) Policy 8

Discounted Gift Trusts (DGTs) 9

Gift and Loan Schemes 11

FURTHER INHERITANCE TAX RELIEF AVAILABLE 12

Business Property Relief 12

Replacement Relief 12

Agricultural Relief 13

DEFINITIONS AND TERMINOLOGY 15

INTRODUCTION

Inheritance Tax (IHT) is charged by His Majesty's Revenue and Customs (HMRC) on the wealth you have accumulated during your lifetime and wish to pass on, or transfer to your family or other beneficiaries.

Inheritance Tax (IHT) is paid by the estate (the money, property and possessions) of someone who has died, subject to a range of allowances, exemptions and relief. In this guide, we will explain the key areas of Inheritance Tax Planning to you, and lay out some of the ways you could mitigate it.

It is important to emphasise, however, that no scheme arranged for the mitigation of IHT should be considered 'guaranteed'. Any arrangement could be challenged in the future by HMRC, fall foul of any changes in legislation or tax law, or be offset by any significant changes in the value of your estate (e.g. through increased savings out of income, asset growth, and/or by you receiving further inheritances, windfalls etc. in the future).

OVERVIEW OF INHERITANCE TAX ALLOWANCES

Inheritance Tax Nil-Rate Band

Each individual has what is known as a 'nil-rate band'. This is the amount of an estate on which there is no Inheritance Tax to pay.

If the value of an estate, including any assets held in Trust and gifts made within seven years of death, falls within the nil-rate band there will be no IHT payable on the estate.

Where the value of an estate exceeds the nil-rate band, only the amount above the nil-rate band is taxed at 40%.

This tax rate is reduced to 36% if you leave 10% or more of your net estate to charity. HMRC defines the net value of your estate as the sum of all the assets after deducting any debts, liabilities, reliefs, exemptions and the nil-rate band.

The nil-rate band for the 2022/23 tax year is £325,000.

Residence Nil-Rate Band

An additional Residence Nil-Rate Band of £175,000 per person (thereafter rising with CPI) will be available if you leave your family home to your children or grandchildren ('lineal' descendants) on death, provided your net estate is below £2 million. This can also apply if you have a family home, then downsize and pass on assets of equivalent value to your children or grandchildren.

Transferability of the Nil-Rate Band

If you are married, or in a civil partnership, the Nil-Rate Band and Residence Nil-Rate Band can be transferred to the surviving partner upon the first death. This means that a married couple or a couple in a civil partnership could potentially pass on £1million of assets if leaving a family home to children or grandchildren.

For married couples and those in a civil partnership not eligible for the Residence Nil-Rate Band, their combined Nil-Rate Band is £650,000.

INHERITANCE TAX AND FINANCIAL PLANNING

As you can see from the nil-rate bands available, not everyone will have to pay Inheritance Tax on their estate. However, for people with a sizeable estate, understanding the best way of passing assets on to their loved ones can be tricky, to say the least.

Our financial advisers are here to help you calculate whether or not your estate is likely to incur inheritance tax and help you to put together a plan tailored to your needs and circumstances, ensuring that your loved ones do not have the burden of a costly IHT bill.

It is important to emphasise, however, that no scheme for the mitigation of IHT should be considered guaranteed. Any arrangement could be challenged in the future by HMRC, fall foul of changes in legislation or tax law, or be offset by significant changes in the value of your estate.

Assets that sit outside your Estate

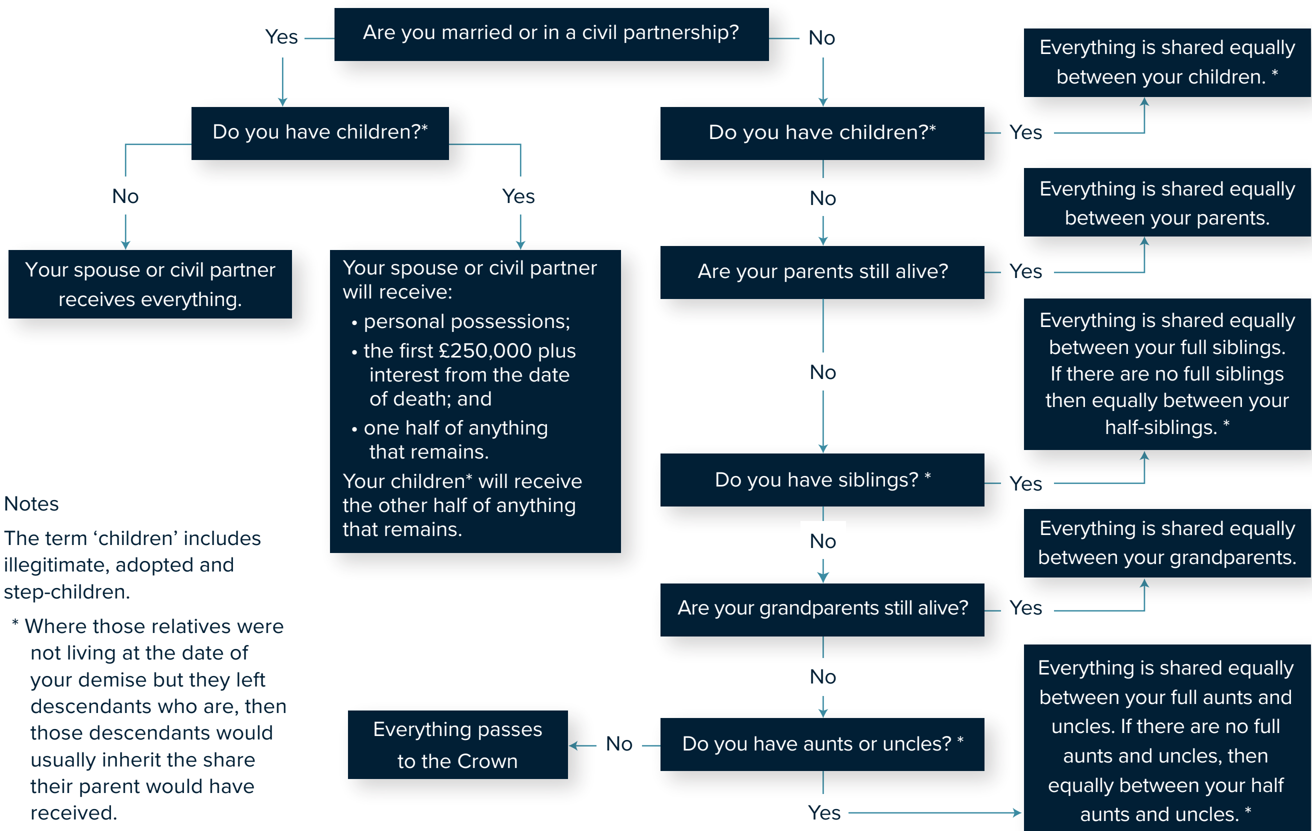
Not all assets are considered to be part of your estate for the purposes of IHT.

Pensions are one of the main examples of this, meaning that they can be a useful way of mitigating Inheritance Tax, as well as providing you with an income later in life. See our 'Your Retirement Options Explained' Guide for more information on this.

The Importance of Making a Will

It is estimated that as many as two-thirds of the UK population has not yet made a valid Will. Many people also fail to review their Will at regular intervals, for example upon marriage (in which case any prior Will is automatically revoked, unless it is written in contemplation of marriage).

Writing a Will is the best way of ensuring that your is estate passed to the beneficiary(ies) that you have chosen. If you die without making a Will, the rules of intestacy normally apply, as shown in the diagram below.



Notes

The term 'children' includes illegitimate, adopted and step-children.

* Where those relatives were not living at the date of your demise but they left descendants who are, then those descendants would usually inherit the share their parent would have received.

Will Trusts

It may be possible for you to include a discretionary trust in your Will. You could use this to hold any business or agricultural property, benefiting from up to 100% IHT relief (see section on Further Relief on pages 10–11).

INHERITANCE TAX IN PRACTICE – A WORKED EXAMPLE

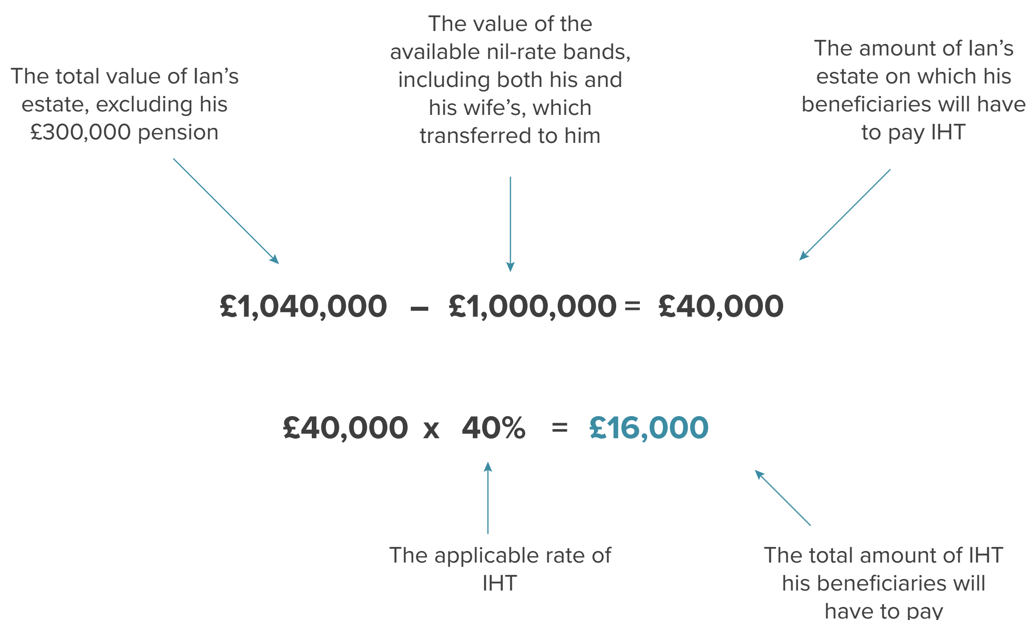
Ian Jones died on 1st May 2021 aged 70. He was a widower with two children, to whom he is leaving his estate (including his property) in equal shares. He had the following assets:

Main residence	£650,000
Cash savings	£90,000
Investments held in ISAs and Unit Trusts	£300,000
Personal pension fund	£300,000
Total	£1,340,000
Value of Ian's estate*	£1,040,000
Ian's available Nil-Rate Band	£325,000
Nil-Rate Band transferred from Ian's wife^	£325,000
Ian's Residence Nil-Rate Band+	£175,000
Residence Nil-Rate Band transferred from Ian's wife^	£175,000
Net value of estate	£40,000
Inheritance Tax liability at 40%	£16,000

* Note that the value of Ian's personal pension was excluded from his estate as this will normally be held within a pension trust.

\+ The Residence Nil-Rate Band only applies when a property is passed on to children or grandchildren or other 'lineal descendants'.

^ Under the transferability rules laid out on page 1, Ian's wife's unused Nil-Rate Band passed to him. Although she died several years earlier, the Residence Nil-Rate Band is calculated using the rate available at the time of the second partner's death (in this case, £175,000).



ESTATE PLANNING OPTIONS

There are a range of estate planning options available, and our financial advisers have the necessary knowledge and skills to identify which of these are suitable for you. This may involve using a combination of these options, and reviewing it regularly to ensure that it continues to remain suitable as your circumstances change.

Gifting

The simplest form of estate planning is to make gifts, which reduce the overall value of your estate, therefore limiting the amount of IHT payable.

HMRC provides a list of currently allowable 'exemptions' for each tax year, on which IHT is not payable:

- gifts to spouses or civil partners
- gifts not exceeding £3,000 in any one tax year (the 'annual exemption')*
- gifts on consideration of marriage or civil partnership (£5,000 made by the person's parent, £2,500 made by the person's grandparent, £1,000 made by anyone else)
- gifts to UK charities and political parties
- small gifts up to £250 in each tax year to any number of different recipients. NB - this exemption cannot be combined with any other exemption such as the annual exemption
- gifts which are normal expenditure out of income, provided your normal standard of living is unaffected
- payments made to help with another person's living costs, such as an elderly relative or a child under 18

*You can carry any unused annual exemption forward to the next year, but only for one year.

Gifts outside of annual allowances

If you make gifts of money or assets and then live for more than seven years after it, those gifts become exempt from Inheritance Tax. If death occurs less than seven years after the gift, then the assets (where above the nil-rate bands) are subject to Inheritance Tax at the rates in the following table.

Years between Gift and Death	Tax paid
Less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

Gifting in this way is likely to be considered a Potentially Exempt Transfer (PET). However, outright gifts such as this may not be practical or desirable – few of us can ever predict how long we will live, and may require an income and the security of having control over your assets during that time.

Additionally, the recipient may not yet be old enough to take possession of the gifted assets, or you may wish to retain the flexibility to change your beneficiaries, add new ones, or protect against the recipients' change of status, for example divorce or financial hardship.

Gifts with Reservation

Although it is likely that signing over the ownership of your home to other individuals (i.e. your children) seven years prior to your death will be considered by HMRC as a Potentially Exempt Transfer (PET), you should be aware that they could deem this to be a 'gift with reservation', which would not be exempt from Inheritance Tax. A gift with reservation is one which is not fully given away, so that the person receiving the gift does so with conditions attached, or the person making the gift keeps back some benefit for themselves (such as giving away your main residence but continuing to live in it yourself).

In such cases, rather than giving away ownership of the asset you could consider setting up a Whole of Life policy, written under Trust (with, for example, the Trustees being yourselves and the executors of your Wills).

Whole of Life (WoL) Policy

Setting up a life cover policy can be a simple solution in cases where your assets are not easily transferred or investable (such as a high-value main residence).

In this case, you purchase a life assurance policy to cover the amount of the expected IHT bill upon your demise, meaning that the burden of paying the IHT tax does not fall on your beneficiaries.

These policies are usually written under Trust, which provides two benefits:

1. It ensures the proceeds (i.e. the death benefit sum assured) from the policy can be released without having to wait for Grant of Probate to be obtained.
2. It ensures the sum payable from the policy falls outside your estate upon death, so as not to exacerbate the IHT problem.

Policies are usually offered as 'reviewable' or 'guaranteed':

- A reviewable premium policy usually starts lower and will remain at the quoted level for the first 10 years, then be reviewed (and, most likely, the premium level increased).
- A guaranteed premium starts at a higher level initially, but will not increase for the entire duration of the policy i.e. it will remain at the stated level until the death of the last life assured.

Advantages of a Whole of Life (WoL) Policy

✓ Simple and straightforward.

✓ Does not require capital to be set aside for IHT planning.

✓ Guarantees that a known, tax-free payment will be made to your beneficiaries.

✓ In the case of a Guaranteed Premium Whole of Life Plan, the cost is fixed for your lifetime(s) and can therefore be budgeted for on a regular basis.

Other points to consider

- Monthly premiums must be maintained for the cover to remain in force.
- If the plan is not maintained, the cover will lapse. Therefore, any intended mitigation of IHT will be lost.
- Growth or increases in your assets in the future may mean that the sum assured does not fully cover the IHT bill. An indexing policy may therefore be used, or additional cover may be arranged, albeit at increased cost and subject to medical underwriting (which may be loaded / declined depending upon your state of health at that time).
- In the case of a reviewable policy, at the review date (typically after 10 years) an increase in premium may be required in order to maintain the desired level of cover.

The Whole of Life (WoL) policy pays out a sum covering the expected IHT bill, meaning that your beneficiaries inherit the money or assets that would have otherwise been paid out to HMRC

Discounted Gift Trusts (DGTs)

One solution for reducing IHT bills is the Discounted Gift Trust (DGT), which enables you to invest a large sum of money while retaining the right to fixed regular withdrawals from the Trust fund for the rest of your life. A Discounted Gift Trust (DGT) can potentially:

- reduce the value of your estate for IHT purposes if you die within seven years,
- further decrease your beneficiaries' potential liability to IHT if you survive beyond seven years,
- set up a fund from which you receive fixed regular payments whilst you are alive, with any remainder passing to your beneficiaries after your death.

The part of the investment that is earmarked to pay the withdrawals (called the 'discount') is not treated as a gift for IHT purposes, hence it reduces the size of your estate. The size of the 'discount' increases the more you withdraw and / or the longer your life expectancy. Typical discounts may range from 20%–60% of the Trust.

You decide how much you wish to invest, and the amount and frequency of the regular payments you require. Usually, these regular payments will be no more than 5% of the sum invested to avoid incurring a 'chargeable event' (your financial planner can explain this complex area in more detail.)

You then complete a health questionnaire which will be submitted to the insurance company for consideration. They will contact your doctor to obtain a medical report (you will not have to pay for this). After consideration of these details, the insurance company will calculate your 'discount'.

The plan usually consists of an Investment Bond written in Trust. The Trust creates two separate rights:

- your right to regular payments of a specified amount out of the capital of the Trust fund for life (or until the Trust fund is exhausted). This is not considered a gift and, although it remains within your estate for IHT purposes, should have no value for IHT when you die;
- the Trustees' right to whatever is left in the Trust fund at the time of your death, which they hold on behalf of the beneficiaries of the Trust.

It is because these two separate rights are created that the whole amount put into the Trust is not considered a 'gift with reservation' (see page 5).

This part of the DGT (the 'gift') exits your estate for IHT purposes after 7 years.

The part you have earmarked to receive income from (the 'discount') is not considered a gift and, although it remains part of your estate, is not usually considered to have any value for IHT, immediately reducing your potential IHT bill

The plan usually consists of an Investment Bond written in Trust, creating two separate rights:

1. Your right to regular payments of a specified amount
2. The Trustees' right to whatever is left in the Trust Fund at the time of your death

Note that while there is potential for investment growth, returns from investments are not guaranteed as capital can fall as well as rise, and you may get back less than the amount originally invested.

Advantages

- ✓ Any investment growth is outside of your estate.
- ✓ Your rights under the plan (those providing your regular withdrawals) have no value for IHT purposes.
- ✓ The gifted part of the plan is fully exempt if you survive for seven years.
- ✓ You retain an absolute right to a series of regular payments out of the capital of the Trust fund for your lifetime, or until the Trust fund is exhausted.
- ✓ Upon the death of the Settlor(s) i.e. you, the Trustees can retain or distribute all or any part of any remaining Trust fund to the beneficiaries.
- ✓ A wide choice of investment funds, providing the flexibility to change (switch) your investment strategy by moving into, or out of, different asset classes and market sectors. This is something we will appraise and advise you on at each review meeting.

Other points to consider

- Once selected, the rate of withdrawals (e.g. 5% per annum) cannot be amended in future.
- Whilst the right to the regular withdrawals is retained by you, you will have no further access to the capital.
- The performance of the investment funds should be regularly reviewed. The value of the funds may fall as well as rise and the Trustees may get back less than the value of your initial investment.
- If the investment value is exhausted, withdrawals will cease.
- There are ongoing management charges on the funds within the investment. These will be fully disclosed to you in a personalised illustration.
- If an Absolute Trust is used, your chosen beneficiaries cannot be amended later.
- Sizeable investments into a Discretionary DGT may attract an immediate 20% or 25% IHT charge.
- For substantial investments in a Discretionary Trust, periodic and exit taxes may be due. Full details of the periodic charge, together with worked examples, are provided in our separate leaflet available upon request.

What are the Trust options?

A DGT can be set up using either a ‘Discretionary’ or ‘Absolute’ (Bare) Trust.

A Discretionary Trust gives the Trustees a discretionary power of appointment, meaning that you have more options for changing the beneficiary if your circumstances change.

The gifted element into a Discretionary Trust is treated as a ‘chargeable lifetime transfer’ for IHT purposes. This means that if the value of the gift, when added to any other chargeable lifetime transfers you have made in any seven year period, exceeds the available nil-rate band (£325,000) then IHT is immediately payable by the Trustees on the excess at half the death rate (i.e. currently 20%), or effectively 25% if you pay the tax.

An Absolute (or Bare) Trust allows you to name the beneficiaries who will definitely benefit from the Trust, following your death. An Absolute Trust does not allow the beneficiaries, or their percentage shares, to be amended in the future (say, in order to make provision following the birth of a grandchild).

A gift into an Absolute Trust is treated as a Potentially Exempt Transfer for IHT purposes, meaning that if you live for seven years after the date of the gift then IHT will not be payable, eliminating the 20% / 25% initial tax charge that can apply to Discretionary Trusts.

If an Absolute Trust is used, the Trustees are obliged to inform the beneficiaries of their entitlement (if a minor it must be done when they reach age 18).

Gift and Loan Schemes

Gift and Loan Schemes are designed to couple Inheritance Tax savings with full access to capital.

With these schemes:

1. You would establish a Trust for a nominal amount (e.g. £10) for your prospective beneficiaries.
2. You would make a significant loan to the Trustees, expressed to be interest-free and repayable on demand.
3. The Trustees invest the sum loaned to them into a single premium bond, then take part withdrawals and pay these to you in repayment of the loan capital. These would typically be set at 5% a year.

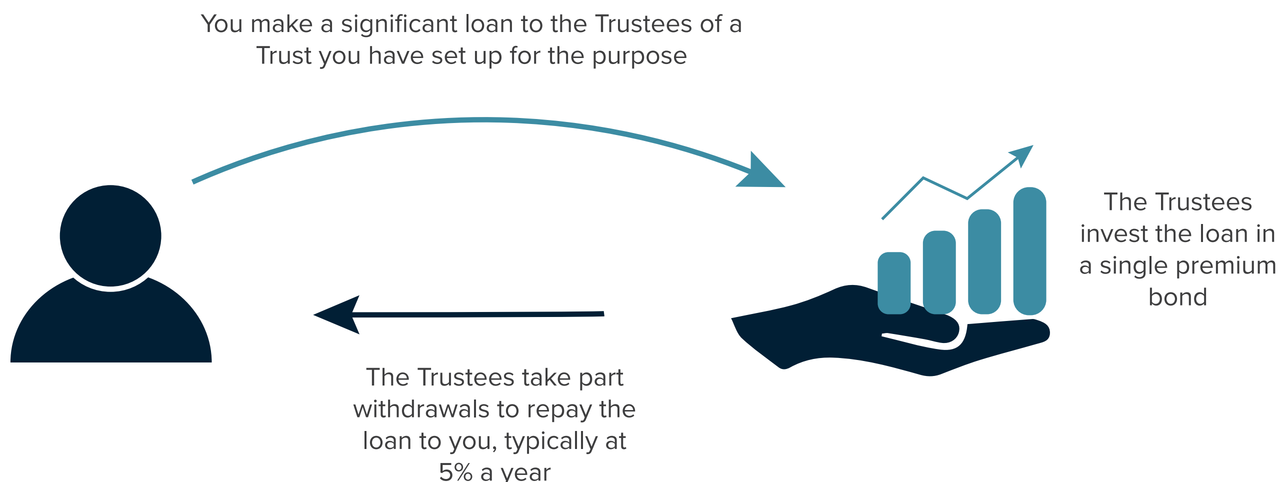
The advantages of this type of scheme include:

- ✓ A small initial gift which will usually be covered by your annual IHT exemption.
- ✓ Any growth in the larger sum (the loan) builds up outside of your estate for IHT purposes (this also means the growth cannot be repaid to you).
- ✓ You benefit from a reduction in the value of your estate over, for example, a period of 20 years, assuming that the 5% loan repayments are spent as income.
- ✓ You may choose to have the capital sum that was originally loaned to the Trustees returned to you. This provides the Gift and Loan plan with flexibility, if you feel that you may need access to your capital later on.

Other Considerations

- The original sum loaned remains within your estate for IHT purposes.
- Inheritance Tax savings typically take place over a long period (e.g. 20 years).

Please remember that returns from investments are not guaranteed as capital may fall as well as rise, and you may not get back the full amount invested.



FURTHER INHERITANCE TAX RELIEF AVAILABLE

Business Property Relief

If you own a business you can receive 100% Inheritance Tax relief if it meets various conditions.

Furthermore, if you own assets that you use in your business, you may receive 50% IHT relief.

The eligible assets and rate of tax relief are as follows:

Type of business holding / asset	Relief Available
A business or interest in a business	100%
An interest in a business partnership	100%
Shares in an unquoted company (including some qualifying AIM shares)	100%
A controlling interest in a quoted company (more than 50% of the voting rights)	50%
Land, buildings or plant and machinery used in a business*	50%

*Business property does not qualify for the tax relief unless you have owned it for at least two years and it must be used exclusively for the purposes of the business.

The relief will not be available if the business is engaged wholly or mainly in dealing in securities, stocks and shares, land and buildings (property), or is an investment company.

Replacement Relief

If there is a binding contract for sale, such as a 'buy and sell' agreement, the above relief is generally not available.

However, 'replacement relief' may be used to maintain the Business Relief for the future. It is important to bear in mind that there is a three year window of opportunity from the date of disposal (e.g. selling the business).

Replacement relief can enable the asset owner to continue to benefit from 100% relief from Inheritance Tax. Where a business has already been sold, reinvestment of the proceeds into a suitable qualifying plan, within the three year time frame, can protect the Business Property Relief.

Please contact us for more information on investments that may qualify for Business Relief, including replacement relief schemes.

Agricultural Relief

If you own a farm you may benefit from 100% Inheritance Tax relief if it meets various conditions, as follows:

- You have the right to vacant possession of the property or the right to obtain it within the next 12 months; or
- The land is let on a grazing licence, or
- The property is let on a tenancy beginning on or after 1st September 1995.

In addition, you must have occupied the property for at least two years or, alternatively, owned the property for seven years and throughout that period it has been used for agricultural purposes.

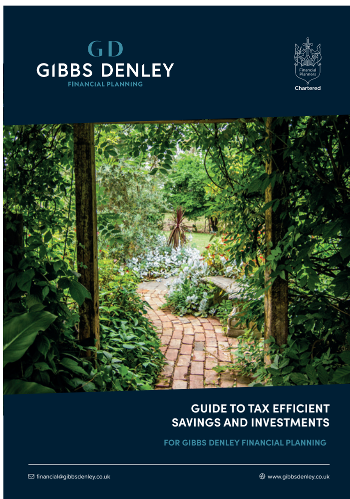
The agricultural property must be located in the UK, Channel Islands, Isle of Man or European Economic Area (EEA) and includes:

- Farmhouses, cottages or buildings, which are of character appropriate to the property
- Woodlands and buildings used for livestock
- Growing crops included with the land
- Stud farms engaged in the breeding and rearing of horses
- Land and buildings used in the cultivation of short rotation coppice
- Any land within a habitat scheme

If the farm buildings have a lifestyle value, for example a farm cottage that could be sold as a second home, that additional value will not attract agricultural relief.

Disclaimer

This document contains our understanding of current tax rules (2022/23). It should not be taken as formal tax advice. Tax benefits referred to within depend on individual circumstances and may be subject to future changes. The value of investments may go up or down, so you may get back less than your original investment. Not all options laid out in this document will be suitable for you, and you should always consult a qualified financial adviser.

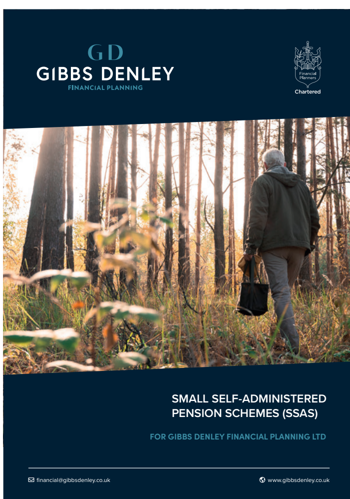


GUIDE TO TAX EFFICIENT SAVINGS AND INVESTMENTS

Retirement planning often goes hand-in-hand with wider tax-efficient saving and investments. Our guide gives an overview of these, helping you to understand and make informed decisions about your financial plan.

YOUR RETIREMENT OPTIONS EXPLAINED

Find out what retirement options are available to you, and which are the most likely to suit your needs. Our financial planners are here to discuss these with you.



GUIDE TO SMALL SELF ADMINISTERED PENSION SCHEMES

This guide explains the options available for people considering Small Self Admininstered Schemes (SSASs) for their pensions.

DEFINITIONS AND TERMINOLOGY

Estate planning can be quite complex, so here are a few definitions to help you understand the jargon:

Term	Definition
Gift	Property, money or other assets transferred from one person to another, without any form of recompense, i.e. not for money or 'money's worth'. Gifts greater than the standard exemptions (see page 3) may be brought back into a person's estate if they die within seven years from the date of the gift.
Will	A document in which a person specifies the method to be applied in the management and distribution of their estate after their death.
Intestate	A person who dies without making a valid will. See page 2.
Estate	The degree, quantity, nature and extent of interest that a person has in real and personal property. This will include assets such as your home, any other property, savings, investments and so on. Our handy calculator will help you add up the current value of your estate so that you can easily work out whether any Inheritance Tax will be due.
Net Estate	The sum of all of your assets after deducting any debts, liabilities, relief, exemptions and the available nil-rate band.
Probate	The legal authority to administer a deceased's estate.
Nil-rate Band	The amount of an estate on which there is no Inheritance Tax to pay.
Residence Nil Rate Band	An additional allowance which may apply where property is left to children, grandchildren or other 'lineal descendants'. It can also apply after downsizing to a less valuable home, or selling / giving away your home after 7th July 2015.
Settlor, Trusts, Trustee(s)	A trust is a relationship created at the direction of an individual (the Settlor), in which one or more persons (Trustees) hold an individual's property subject to certain legal duties, to use and protect it for the benefit of others (the Beneficiary(ies) – see below).
Beneficiary(ies)	The person(s) who are entitled to the benefit of any trust arrangement.
Discretionary Trust	A trust in which the number of shares of each beneficiary are not fixed by the Settlor in the trust deed, but can be varied at the discretion of the Trustees.
Absolute/Bare Trust	A trust in which the beneficiaries and their respective shares are defined by the Settlor at outset and cannot subsequently be amended. The beneficiaries become absolutely entitled to their share of the trust property at age 18.
HMRC	His Majesty's Revenue and Customs
WOL	Whole of Life assurance policy. Usually a regular premium is paid to secure a known 'sum assured' i.e. a lump sum that is payable upon death.
Investment Bond	A single-premium life assurance policy linked to a unit trust for long-term investment. They often include a very small element of life assurance payable upon your demise. However, it is an investment rather than insurance policy in the general sense.

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IS MY ESTATE LIABLE FOR INHERITANCE TAX?

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USE THE CALCULATOR BELOW TO WORK OUT IF YOUR ESTATE WILL BE LIABLE TO IHT.

If you are married, enter the total value of all joint assets. Do not include any assets under trust, unless your spouse or civil partner is the beneficiary of that trust.
Note: this calculation is applicable to the 2022/23 tax year

Property

Main residence	£
Other residential property in the UK or abroad	£
Buildings leased to your business (50% of value)	£

Personal Assets

House contents & other valuables	£
Cars, personalised number plates, caravans, boats etc.	£
Gifts made within the last seven years *	£
Total A	£

Investments

(note, pension funds payable at the discretion of the scheme administrator can be excluded)

Bank / building society accounts	£
National Savings & Investments, Premium Bonds etc.	£
ISAs (Cash and Stocks & Shares)	£
Quoted shares and gilts	£
Venture Capital Trusts (VCTs)	£
Investment trusts & unit trusts	£
Investment Bonds & Guaranteed Income Bonds	£
Life assurance policies (enter sum assured not in trust)	£
Other investments	£
Total B	£

Your current liabilities and charitable gifts

Mortgages	£
Loans & financing	£
Credit cards	£
Other liabilities	£
Charitable gifts on death	£
Total C	£

Value of estate (insert A + B minus C)	Figure D	£
Identify your available nil rate band #	Figure E	£
Identify your available residence nil rate band #	Figure F	£
Net value of estate (insert D minus E minus F)	Figure G	£

Potential Inheritance Tax liability (figure G multiplied by 40%)	£

* You need only enter the total gifts made in excess of £3,000 a year (if married, £3,000 a year each).

If you are single use £325,000. If you are married or in a civil partnership and are entitled to transfer an unused nil-rate band, enter £650,000 (if 100% is available). An additional residence nil rate band of £175,000 per person may be available for net estates below £2m where the family home is passed to children or grandchildren. Please consult your adviser if you are unsure.

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DISCRETIONARY TRUSTS:

PERIODIC CHARGES & EXIT CHARGES

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PERIODIC CHARGES

If a Discretionary Trust is used, reviews must be conducted at each 10-year anniversary of the plan to establish whether a periodic tax charge is due.

Periodic charges will be based on the value of ‘relevant property’ in the settlement immediately before the 10-year anniversary. Where the value of the ‘relevant property’ exceeds the available nil rate band (i.e. taking into account your cumulative total prior to creating the trust, etc.) the excess will be taxed at an effective rate of 6%.

Further details of the periodic charge, together with worked examples, can be provided upon request.

For the majority of Discretionary DGT cases, regardless of the lack of continued insurability of the Settlor (you), the 10-year periodic tax charge is unlikely to be an issue. A periodic charge is only likely to arise for substantial investments where the continued insurability and value of your retained interest is required to ensure the value of the Trust remains below the value of the then available Nil Rate Band. Therefore, based on an investment of, for example, £200,000 this may not be an issue.

EXIT CHARGES

If a Discretionary Trust is used, exit charges might apply to capital distributed to beneficiaries. These will apply where there has been a charge to Inheritance Tax (IHT) at the last 10-year anniversary or at the start of the Trust if within the first 10 years. The charge will be based on the rate calculated at the last 10 year anniversary or at the start of the Trust. The charge will be multiplied by the factor X/40 where X is the number of full 3-month periods since the last 10 year anniversary.

EXAMPLE

A Trust is set up in 2009. In 2025, six years after the first ten-year anniversary, the Trustees pay £50,000 to a Beneficiary.

Assuming the rate of IHT paid at the last ten-year anniversary was 0.66%, the IHT charge will be

$$£50,000 \times 0.66\% \times \frac{24}{40} = £198.$$

No IHT charge will arise on property paid out of the Trust if there was no IHT charge at the last ten-year anniversary. An exit charge will not arise on loans made by the Trustees to the Beneficiaries. The occasion of a periodic charge and transactions that can give rise to an exit charge, such as capital payments to the Beneficiaries, may also need to be reported to HMRC on forms 100c and 100d (and form D34 where a life insurance bond is involved) if they exceed a certain amount.

Payments made to you as Settlor (under your retained rights) will not be subject
to exit charges.

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