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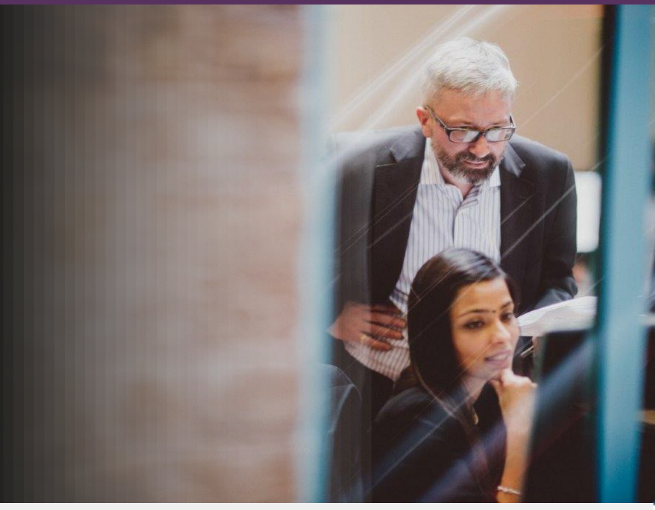
Chancellor's autumn statement ended with a flourish



November 2023

Jeremy Hunt closed his speech by pulling a two per cent cut to the national insurance rate for employees from his exchequer hat; however, the Chancellor remained silent on IHT.

While the plans for national insurance and full expensing for business were widely known in advance, one topic that didn't rate a mention, despite inspiring many column inches before the day, was inheritance tax (IHT).

Partner and Head of Private Client James McMullan said:

"It's the elephant in the room as far as chancellors are concerned. It is brought up as a potential target for tax reform before each budget but never gets a mention when it comes to the day.

People fear the bills they will leave for their families, but the reality is that many who worry fall well below the threshold at which IHT is payable.

But with IHT charged at 40%, it's worth regular checking where you stand, as those who could be liable can minimise their liability by taking advice and planning ahead."

Last year, the Chancellor continued the IHT nil rate band freeze at £325,000 until April 2028, the residence nil-rate band at £175,000, and the residence nil-rate band taper continued to start at £2 million.

Each person can pass on a maximum of £325,000 in assets tax-free when they die, including shares and property. There is an extra £175,000 allowance when the main home passes to a direct descendant. If someone is in a marriage or civil partnership, they can leave everything free of IHT to their partner. When the second partner dies, the two allowances are added together when calculating whether tax is due on the combined value of the estate.

Ways to reduce the size of an estate for inheritance tax purposes while someone is alive include making gifts, either into a trust or to individuals. A gift to an individual paid out of capital is not taxed at the time of the gift and will become wholly exempt if you live for seven years after the date of the gift. A gift into a trust is taxable at the time of the gift if its value is over the nil rate band - though the lifetime rate, at 20%, is much lower - and again, the value of the gift will drop out of the account after seven years. Gifts can also be paid out of surplus income, where someone can maintain their normal lifestyle without the cash, or by making use of the automatic allowances, which include an annual exemption to allow gifting of up to £3000, together with a separate small gifts allowance of up to £250 per person.

James added: "Trusts certainly need specialist advice and even gifts can be complicated, with good record keeping essential, but often the hardest part is simply doing the sums and finding out what options might be available. For many of us, like the Chancellor, dealing with inheritance tax liabilities is something we keep putting off."

More detail from the Government about the autumn statement is available here.

If you have any queries over inheritance tax, contact James McMullan today.

James McMullan
020 7299 6902
james.mcmullan@riaabg.com
www.riaabarkergillette.com