MURDOCH
ASSET MANAGEMENT

Inheritance tax and what you can do about it

Who will inherit your hard-earned money – your children or the taxman?

Inheritance tax is a tax that heirs to your estate will have to pay on the value of your net worldwide assets once your personal, family home exemption and any other reliefs that apply have been deducted.

The personal exemption, or nil rate band, is currently £325,000, and the family home, or residence nil rate band, is £100,000 (rising to £175,000 by 6/4/2020). The rate of tax charged on assets valued above that is a hefty 40%. Even ISAs, which are free of income and capital gains taxes, are not exempt from inheritance tax, so your children could lose up to 40% of the total. To add to the burden, the tax – which Winston Churchill called the "grim harvest of death" – has to be paid within six months of the date of death, regardless of whether probate is complete. If it isn't, high interest rates are charged on the amount owed.

£325,000

threshold for zero inheritance tax

40%

the taxman's gain on everything else

£190,000

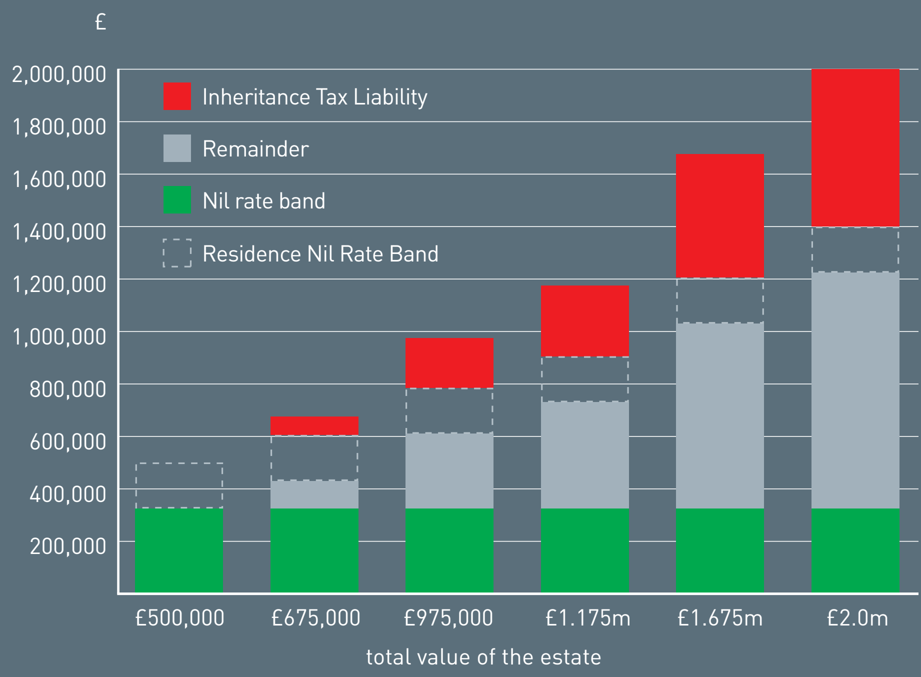
what your children could lose on assets worth £800,000

£0

what your children lose with good planning

£40,000 – £70,000

extra inheritance tax savings with residence nil rate band



Nobody wants their hard-earned money to go the taxman but with the right plans in place, more and sometimes all of it, will stay in the hands of your children. The earlier you start planning, the more your children will be likely to keep, however, choosing the right route for mitigating inheritance tax can be extremely complex.

Gifts into trust are a good option but without the right structure and flexibility, you could be left with less money than you need today or if times are hard in the future. Certain assets are exempt from inheritance tax after just two years but this route entails purchasing high-risk investments and keeping them until you die, or getting involved in complicated business ventures. It therefore makes very good sense to take advantage of professional advice so that you get things absolutely right for you as well as your family.

Protection from inheritance tax and control of your money

Through careful planning, astute combinations of trust types and sound investment, we can help you protect your assets from inheritance tax whilst retaining control and a degree of access to your money. In other words the best of both worlds – more for those you leave behind with no significant impact on your life now and in the future.

All of the trust types that we use sit comfortably within HMRC rules, even when they are complex. We prepare for setting up trusts by finding out what your current and future income and capital needs are as well as the investment goals you have for your beneficiaries. We'll also talk to you about other inheritance tax mitigation strategies that we can implement such as life cover, enterprise investment schemes, business property relief and outright gifting.

Ultimately, we want to be sure that a trust has the right priorities: one that firstly caters for your personal needs; secondly makes investment sense; and lastly saves tax. With all trusts, you will need to survive seven years from their set-up date for them to fully protect your assets, however, they can yield benefits early on, with immediate inheritance tax exemption on any profit made by what's in the trust and avoiding probate.

HMRC's inheritance tax receipts were estimated at £3.5bn in 2013/14 and are likely to be £5.8bn in 2018/19

The next stage is to use our vigorous selection process to choose an investment vehicle for each of your trusts – one that allows you the widest possible investment choices and lets you make changes to the holdings without triggering tax charges or breaking the trust, and at a very low cost.

As trusts can last 125 years and form the bedrock of your legacy, we put tightly controlled measures in place so that changes are made when necessary to keep them in the best performing funds. We are now, in fact, managing trust funds for the fourth generation of some families. People's estates tend to grow in value and tax rules change too, so we also carry out regular reviews of your assets and closely monitor legislation to make sure that all of your money continues to be protected.

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