Inheritance tax: simple strategies

Practical steps to reduce inheritance tax and pass on more of your wealth.

Inheritance tax is one of the most commonly misunderstood areas of financial planning. Many people assume it will not affect them, and are surprised to learn how much the value of a home, savings and investments can add up to over a lifetime. Understanding how the rules work is the first step towards doing something sensible about them.

Inheritance tax is charged on the value of an estate when someone dies. The rules include thresholds, allowances and reliefs, and they can change. Because the outcome depends on the size and make-up of an estate, on who is inheriting and on what has happened in the years before death, two families with similar assets can end up with very different results.

One of the simplest and most effective tools is gifting, within the rules. Regular gifts out of income, small gifts in any one tax year and gifts made a number of years before death can all be treated differently. There are conditions attached to each, and the order in which gifts are made and recorded matters. Keeping clear records is not glamorous, but it prevents avoidable confusion later.

Pensions are often overlooked. Where the rules allow, pension arrangements may not form part of an estate in the same way as other assets, and the way benefits are nominated can affect who receives them. This is one reason why pensions and estate planning belong in the same conversation rather than in separate ones.

Ownership is another area worth reviewing. How an asset is held, whether jointly or otherwise, and whether a trust is involved, affects what happens to it. Trusts can be useful where there is a genuine reason for control or protection, but they also create legal, tax and administrative responsibilities, so they are not something to enter into casually. For many families the answer lies in straightforward organisation rather than complicated structures.

Business property and agricultural property relief can be significant for those who own a business or farmland, and reliefs can also apply to some shares. These reliefs have conditions and are regularly reviewed by government, so any planning that relies on them should be revisited when circumstances or rules change.

It is also worth remembering what inheritance tax planning is for. It is not only about reducing a bill. It is about making sure the right people receive the right things, at the right time, with as little administrative difficulty as possible. A plan that saves tax but leaves a family unable to find the paperwork has not done its job.

Tax rules can change, and individual circumstances vary considerably. This guide is general

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