

Changes to inheritance tax

– will there be winners and losers with the new rules?

Announcements in George Osborne's second budget of the year, seemed very positive on inheritance tax on first glance, but is it all quite as generous as it seems?

The main thrust is that there will be an extra "property nil rate band" which applies to the value of your home when it passes to your children or grandchildren on your death. Although it will be better than the current rules, it is going to take some time before the whole benefit is felt and, as always, there will be winners and losers.

In 2017/18, the first extra band of £100,000 will come into play, increasing by £25,000 each year, but it won't be until 2020/21 that it will reach the full £175,000 for each person.

The devil, however, is in the detail as not everyone will benefit from this additional IHT free allowance. Anyone with a net estate over £2 million will begin to see their property nil rate band reduced until it is completely lost once the estate is over £2.2m. It will also only apply to transfers to children and grandchildren meaning those without children will miss out.

People who downsized before 8th July 2015 may now be wishing they hadn't but legislation in 2016 will cover people who want to downsize leaving a smaller home or assets of equivalent value to their children or grandchildren.

The current nil rate band, set in 2009, will stay at £325,000 until 2020/21, meaning that this will have had no adjustment for inflation for over 11 years.



*By Anita Gatehouse
YLM Financial Expert*

On the positive side, the new property nil rate band can be transferred between spouses or civil partners. This means a married couple could pass £1m in 2020/21 to their children or grandchildren tax free on death provided the family home is worth at least £350,000, saving £140,000 in tax.

There is a lot to take on board, particularly when added to all of the other changes, most notably around pensions and the need for a joined-up, holistic approach to personal financial planning has never been greater in our view.

Just simply assuming the headline of £1 million tax-free for inheritance tax planning will apply to you might be dangerous so it may pay to have a professional opinion to ensure that the taxman does not benefit more than you expect!

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