

Talking Money



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£1 million free of inheritance tax? It's a game of snakes and ladders



The headlines announced by George Osborne in a previous budget, certainly are eye-catching, but the new rules that gradually come in from April 2017 are complex. I'm already analysing how my clients are affected as not everyone will benefit from these changes.

So why is inheritance tax such a big problem? Part of the reason is that the Nil Rate Band (NRB), the amount each person can leave tax-free, has not changed since 2009. It will also continue to remain frozen at £325,000 until 2020. In the meantime, property prices and investments generally have and are likely to continue going up, meaning that more people will be caught in the IHT trap. But won't the new extra allowance, the Main Residence Nil Rate Band (MRNB) solve that problem? Maybe.

First, the new allowance begins to be phased in after April 2017 but doesn't become this well published figure of £1 million total tax-free estate for a married couple or civil partnership, until 2020.

There are also some caveats to being able to use the extra property allowance. I have several single lady clients who are financially very comfortable but their beneficiaries, nieces and nephews, won't enjoy the extra residence nil rate band. They will be stuck with just £325,000 tax-free. Only children,

stepchildren, adopted children or grandchildren qualify.

Other clients whose total wealth is more than £2.2 million will lose the extra allowance. A bit like snakes and ladders, they will tumble back down to just £325,000 each.

There are other areas where questions are arising, such as what happens if the value of your home is less than the new allowance? What happens if you downsize? What if you own your home just in one name? What if you don't own a house? What if you are already widowed? What if you own more than one property?

Knowing whether you are likely to land on a snake or are fortunate and the new regulations will create a ladder, is vital to be able to make decisions. As always, good financial planning will be the bedrock of maximising the ladders and minimising the snakes.



If you would like a free 30 minute meeting to discuss your own inheritance tax position, telephone Jo on 01562 745730 to book an appointment.

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