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INHERITANCE TAX PLANNING IN 2013
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In the Budget and confirmed by the Finance Bill 2013 was a huge and shocking change for UK Inheritance Tax!

New measures aimed at limiting the deductibility of DEBT from a Person's Estate were introduced without notice or a consultation.

Along with these new measures was a multi-year freeze on the Nil Band of £325,000 (so, with inflation Inheritance Tax is actually hitting more Estates and in effect increasing!).

This new measure has 2 Arms:-

The first is that Debts left outstanding in a Person's Estate on Death will now not be deductible unless there is a commercial reason for the Debt not being repaid. (Broadly alone to a third party, or one on the same terms).

This will have an impact on Tax Planning that revolves around large loans being used to reduce a Person's Estate.

This may be as a result of planning around a valuable family home or loans from Trusts (including Employee Benefit Trusts!).

The impact of this measure may have the effect of reversing Tax Planning carried out several years ago and therefore could apply Retrospectively. So, any such arrangements will need reviewing.

The Second Arm are measures targeted at the use of loans to acquire assets that qualify for Business Property Relief ("BPR") or Agricultural Property Relief ("APR") that offer a 100% Exemption from Inheritance Tax after two years Ownership.

The typical planning might be as follows:

Joy, a Widow, has inherited a £1 million house and has investment property worth £2 million on which she lives off the £100k rental income.

She is 72 and has had Cancer.

After her Cancer treatment two years ago she borrowed £2 million secured on her house and investment property equally and invested in AIM shares that qualify for BPR after two years of ownership. This reduced her Inheritance Tax on her estate by £800k.

If she dies after Royal Assent in July, this tax planning will no longer be effective and her Estate will face an £800k tax increase.

Similarly, a more innocent transaction such as a Manager taking a loan of £250k secured against his home to buy shares in a Management Buyout. He will not be able to deduct that loan against his Estate, if he dies having held the shares for more than 2 years.

So, we have radical changes in IHT Planning that have wide ranging implications coming into force in a month or so.

Many may be forced to sell their valuable homes, if they want to give money to their family. If they want to invest in APR or BPR property, they may have to sell other assets (such as shares or property) possibly triggering Capital Gains Tax at 28% in order to save IHT.

This makes Inheritance Planning harder and needing much careful consideration and advice.

We can assist with IHT Planning reviews and advise on effective planning going forward, taking into account these new rules and other ways of planning that do not rely on DEBT.