MPL WEALTH MANAGEMENT

Ways of mitigating IHT

1. **Annual gift allowance**
2. **Small gifts**
3. **Gifts out of income**
4. **PETs (Potentially Exempt Transfers)**
5. **Gifts into trust and investment bonds**
6. **Life assurance policies written under trust**
7. **AIM ISAs**
8. **Business Property Relief Schemes**
9. **Enterprise Initiative Schemes**

1. Utilising the £3,000 annual gift exception. You can carry forward any unused part of the £3,000 exemption to the following year, but if you do not use it in that year, the carried-over exemption expires.

2. You can make small gifts up to the value of £250 to as many individuals as you like in any one tax year. However, you cannot give more than £250 and claim that the first £250 is a small gift. If you give an amount greater than £250 the exemption is lost altogether.

3. Any regular gifts you make out of your after-tax income, not including your capital, are exempt from IHT. These gifts will only qualify if you have enough income left after making them to maintain your normal lifestyle.

4. Any gifts you make to individuals will be exempt from IHT as long as you live for 7 years after making the gift. These sorts of gifts are known as 'Potentially Exempt Transfers' (PETs). However, if you give an asset away at any time, but keep an interest in it - for example you give your house away but continue to live in it rent-free - this gift will not be a PET.

   If you die within 7 years of making the gifts and the total value of gifts plus the value of your estate is less than the Inheritance Tax threshold, then the value of the gifts is added to your estate. However, if you die within 7 years of making a gift and the gift is valued at more than the Inheritance Tax threshold, Inheritance Tax will need to be paid on the value exceeding the nil rate band (£325,000), either by the person receiving the gift or by the representatives of the estate. If you die between 3 and 7 years after making a gift, and the total value of gifts that you made is over the nil rate band, any Inheritance Tax due on the gift is reduced on a sliding scale. This is known as 'Taper Relief'.

Taper	Years 1-3	Year 4	Year 5	Year 6	Year 7
IHT charge	100%	80%	60%	40%	20%

5. Gifts into trust are complicated. If you make a gift into any type of trust but continue to benefit from the gift - for example, you give away your house but continue to live in it - you will pay 20% on the transfer and the gift will still count as part of your estate. These are known as gifts 'with reservation of benefit' and it is important to preclude this type of gift so typically a discretionary trust or an absolute trust may be used utilising the PET noted above. Gifts into discretionary trusts need to be below the IHT threshold of £325,000 to avoid the 20% tax. Gifts into absolute trusts do not have limits, and both are treated as PETs.

   Utilising life assurance investment bonds, carving out a fixed reversionary interest, is a useful method for avoiding the reservation rules whilst retaining an income stream as the income payment represents the return of capital. This is usually set at 5% maximum of the original investment to avoid "chargeable event" rules. However, you lose the right to access any capital.

   A discounted gift trust may be used to reduce the value of the gift as the discount represents the return of capital adjusted for mortality expectation. The younger the settlor the larger the discount. This can mean a substantial amount can be placed outside the estate immediately (subject to underwriting) and not be subject to either 7 or 2 year time periods noted elsewhere in this guide.

6. Set up a Whole of Life assurance policy (WOL) in trust for the beneficiaries of your estate. The sum assured would be paid directly, on death, to the Trustees avoiding your estate and would be available to pay the IHT directly to HMRC. In this way the beneficiaries would receive the full value of your estate providing the sum assured is sufficient to pay the tax liability. Unlike other points raised this does not reduce IHT but provides a means of meeting the liability for beneficiaries of the estate.

7. ISAs are now able to purchase shares in the Alternative Investment Market (AIM) which qualifies for Business Property Relief (BPR). This means that once an underlying share is held for longer than 2 years, it would no longer be counted within your IHT calculation.

   You would need to be aware that the stocks available to qualify for the AIM ISA are in companies that are not listed on the main London Stock Exchange as they are often smaller companies and therefore potentially more risky, but can include some household names such as Majestic Wines, Shepherd Neame or Mulberry Group.

   In this case, you do however retain full access to the capital if needed at any time and during your lifetime they maintain the full tax efficient characteristics of normal ISAs.

8. Estate Planning utilising Business Property Relief (BPR). These plans also benefit from BPR in the same way as the AIM ISA, in that after 2 years the investment is outside of the estate value for IHT purposes. There are a wide range of different investment options. The plans can be invested in land and property such as forestry, farming and hotels, as well as some other types such as renewable energy sources such as wind, solar and tidal, along with investment options with media including the making of television programmes. Essentially, these are qualifying trades, but the sponsor will try to reduce as far as possible the risk by avoiding gearing and secure sound business propositions. Again with these types of investments you are not giving away the assets and retain full control of the funds, albeit liquidity is subject to potentially long time delays.

   The availability of BPR is considered by HMRC on a case-by-case basis under the law that applies when you die. Once HMRC has carried out its assessment, investments that qualify for BPR (and meet the holding criteria) can be passed to your beneficiaries free of Inheritance Tax. To obtain BPR the executors of your estate will need to complete a copy of the probate return form IHT 412 and return this to HMRC.

9. Enterprise Investment Schemes (EIS). These are another long-standing Government incentive to raise money for small business. Again they use BPR to reduce IHT after 2 years, however they also offer, as well as growth potential on the investment, other tax efficiencies. For example, if £10,000 were invested into EIS you could also claim back Income Tax relief (30%) of up to £3,000 against the amount of tax you pay on your income. Monies must be invested for a minimum of 3 years. These are considered high risk investments and liquidity is generally very poor.

A balanced mix of these strategies tailored to the clients' individual circumstances is often the best solution.

If you would like to discuss any of the information provided in more detail, please contact your MPL adviser or enquiries@mplltd.co.uk.

MPL Wealth Management Ltd
45 Doughty Street London WC1N 2LR
Tel: 020 7831 4711
Fax: 020 7831 3737
enquiries@mplltd.co.uk
www.mplwealthmanagement.co.uk