

Inheritance Tax Changes and the Importance of Pro-active Estate Planning

Inheritance Tax (IHT) is a tax on the money, property, and possessions left behind when someone dies. There have been recent changes to the IHT rules which is leading more families liable to IHT.

Recent figures from HM Revenue & Customs (HMRC) for the 2023/24 tax year show that IHT receipts have risen to £7.5 billion, a 5.6% increase from the previous year. In addition to this, starting from April 2027, inherited pension pots will be subject to IHT, potentially leading to combined tax rates exceeding 64% for beneficiaries.

Recent changes to inheritance tax (IHT) rules in the UK, particularly the freeze on IHT thresholds (the point at which IHT becomes payable) has increased the need for proactive estate planning. IHT is levied on the estate of a deceased person if it exceeds a certain value. As of the 2021 Budget, the nil-rate band remains at £325,000, and the residence nil-rate band (RNRB) (if applicable to you – this exemption is not always available) is £175,000, offering a combined potential exemption of up to £500,000 for individuals (or £1 million for married couples). However, these thresholds have been frozen until 2028, meaning more estates may become subject to IHT as property values and inflation rise.

With the value of assets continuing to increase, more families could face significant IHT bills. This makes it essential for individuals to plan their estates proactively, to reduce tax liabilities and ensure assets are passed on efficiently. Below are key reasons why estate planning is vital:

1. **Mitigating IHT Liability:** Proactive estate planning allows individuals to minimize IHT by utilising gifting exemptions and setting up trusts.
2. **Avoiding Family Disputes:** A clear and updated estate plan can prevent potential conflicts between family members. Ambiguities in a will can lead to disputes, so having a well-structured plan helps avoid legal challenges and ensures that one's wishes are followed. This is becoming increasingly important with the 'complex family structures' becoming more common.
3. **Efficient Transfer of Assets:** An estate plan can provide for a smoother asset transfer, avoiding delays from the probate process. It provides clarity on asset distribution, speeding up the process and potentially reducing administrative burdens.
4. **Adapting to Life Changes:** Regularly reviewing an estate plan ensures it reflects changes in family or financial circumstances. This ongoing flexibility ensures that individuals remain in control of how their assets are managed and passed on.

First Practical Estate Planning Steps

- **Assess Your Estate's Value:** Understand the total value of your estate to see if it exceeds the IHT threshold.
- **Review Your Will:** Make sure your will is up-to-date and reflects your current wishes and circumstances.
- **Plan for Succession:** Designate who will manage your estate and ensure power of attorney documents are in place.

In conclusion, the recent IHT changes underscore the importance of taking proactive steps in estate planning. By doing so, individuals can reduce tax burdens, avoid family disputes, and ensure their assets are passed on according to their wishes. Making estate planning a priority today is essential for securing financial stability for your family.

If you have any queries in relation to IHT, your estate, wills, or planning ahead for your future, visit our website www.berrys-solicitors.co.uk where you can contact our experienced team for bespoke and professional advice in respect of your enquiries.