

# Let's Talk



## Inheritance Tax



**Inheritance Tax is a tax on the estate (the property, money and possessions) of someone who's died.**

There's normally no Inheritance Tax to pay if either:

- **the value of your estate is below the £325,000 threshold**
- **you leave everything above the £325,000 threshold to your spouse, civil partner, a charity or a community amateur sports club**

If the estate's value is below the threshold you may still need to report it to HMRC.

If you give away your home to your children (including adopted, foster or stepchildren or grandchildren your threshold can increase to £500,000.

If you're married or in a civil partnership and your estate is worth less than your threshold, any unused threshold can be added to your partner's threshold when you die. This means their threshold can be as much as £1 million.

The standard Inheritance Tax rate is 40%. It's only charged on the part of your estate that's above the threshold.

The estate can pay Inheritance Tax at a reduced rate of 36% on some assets if you leave 10% or more of the 'net value' to charity in your will.


**Reliefs and exemptions** – some gifts you give while you're alive may be taxed after your death.

Depending on when you gave the gift, 'taper relief' might mean the Inheritance Tax charged on the gift is less than 40%.

Other reliefs, such as Business Relief, allow some assets to be passed on free of Inheritance Tax or with a reduced bill.

**Who pays the tax to HMRC** – funds from your estate are used to pay Inheritance Tax to HM Revenue and Customs (HMRC). This is done by the person dealing with the estate (called the 'executor', if there's a will).

Your beneficiaries (the people who inherit your estate) do not normally pay tax on things they inherit. They may have related taxes to pay, for example if they get rental income from a house left to them in a will.



If your estate will be worth more than the threshold, you may be considering how you can reduce any inheritance tax payable. Here are some options you may want to consider:

**Gift it** – you could consider giving some of your money away while you're still alive. There is however a 7-year rule that states that taxes are not due on any gifts that you give to someone, provided that you live for seven years after giving the gift. The exception is if the gift is part of a trust.

**Annual gifts** – you can give away up to £3,000 per year, which can be carried over from the previous year. Also, gifts for weddings or civil ceremonies come with exemptions, as do small gifts.

**Charity** – any amount of money you leave to charities, registered within the UK, will be tax-exempt. Also, if you leave at least 10% of your taxable estate to a charity,

your inheritance tax rate will reduce to 36%.

**Leave everything to your spouse or partner** – when you leave all of your estate to your spouse or partner, you can avoid inheritance tax liability entirely. This is true for both married couples and civil union partners. This is the case as long as your spouse or civil partner lives in the UK.

Also, an inheritance tax allowance that is unused by one person can be transferred to the other person in a marriage or civil partnership.

**Leave property to your children** – If you leave your home to your children or grandchildren the inheritance tax threshold is increased to £500,000.

**Establish a Trust** – a trust is an arrangement where you give someone else power over some of your assets so that they can take care of them for a third party. A common example of this is setting up a trust fund for children. It's important to speak to a qualified financial advisor to ensure your trust meets the required criteria and that it is being run properly.

**Spend it** – if you're over the £325,000 threshold, then enjoy the money.

**Life assurance** – if you can't reduce your inheritance tax bill then you may want to consider taking out an insurance policy written in trust, this could then pay the inheritance tax bill on your death.

When considering your inheritance planning its important to seek legal advice.

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