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FINANCIAL SERVICES

Passing on wealth without further tax charges

Over-55s risk falling prey to the inheritance 'sibling tax trap'

On 6 April 2017, a new additional main residence nil-rate band (RNRB) was introduced, which allows for less Inheritance Tax to be paid in situations when a family home is left to children, grandchildren or certain other 'qualifying beneficiaries' – including stepchildren and foster children.

But more than 1.7 million over-55s^[1] could miss out because they've assigned their sibling to inherit their family home and not a direct descendant.

PASSING A FAMILY HOME TO SIBLINGS RATHER THAN TO CHILDREN OR OTHER DESCENDANTS

Research from the LV= independent legal service shows that one in ten over-55s (10%) have written their Will to pass their family home to their siblings rather than to their children or other descendants, which would lead them to be ineligible to utilise the additional RNRB. Previously, if an estate of a married couple was left to any descendant, anything above the £650,000 combined threshold (£325,000 allowance per individual) would have been taxed at 40% Inheritance Tax.

INHERITANCE TAX-FREE ALLOWANCE FOR THE FAMILY HOME

However, from 6 April 2017, the RNRB has been introduced with an RNRB of £100,000 per person, taking the total maximum individual personal allowance for Inheritance Tax from the current level of £325,000 to up to £425,000, or a total of up to £850,000 for married couples and registered civil partnerships.

LEAVING THE FAMILY ESTATE WITH AN INHERITANCE TAX LIABILITY

The allowance for the family home is set to increase by £25,000 per tax year, so by 6 April 2020 onwards a couple with a family home may potentially be able to leave their children or other direct descendants a combined estate of

up to £1 million without any Inheritance Tax to pay. However, if the same couple were to leave their family estate to a sibling, the Inheritance Tax of 40% would apply on the difference between £650,000 and £1 million, leaving an Inheritance Tax bill of up to £140,000.

YOU MAY NEED TO AMEND YOUR WILL

The majority of the people surveyed (72%) don't know of or understand the changes that have come into force in this new tax year. If appropriate, you may need to amend your Will to ensure your estate can benefit from the increased allowance. Even among those who do know about the changes, half (53%) didn't realise that the increased tax-free amount can apply to cash proceeds from the sale of the home if you downsize or have to go into care.

WELL-THOUGHT-OUT ESTATE PLAN

Worse still, many people living 'as married' with partners – who would want their wealth passed to each other – don't have Wills (44%). Therefore, unless assets are jointly owned as 'joint tenants', their estate will pass to their children who would have no obligation to provide anything to their father or mother's partner. It has never been more important to have a well-thought-out estate plan, complete with an appropriate Will and supporting documentation, to ensure your assets can pass to your loved ones in a tax-efficient manner. ■

LEVELS, BASES OF AND RELIEFS FROM TAXATION MAY BE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

Source data:

[1] There are 17.6 million over-55s in the UK (ONS population maps). Of the over-55s surveyed, 10% said they'd left their home to siblings rather than their children or grandchildren – equivalent to 1.7 million over-55s.

LV= commissioned Opinion Research to conduct bespoke research among a sample of 1,000 UK residents who are over 55 years of age. Surveys were conducted online between 8 and 14 December 2016 and are nationally representative.

COULD YOU FALL PREY TO THE SIBLING TRAP?

This increased Inheritance Tax allowance is a boost to those who've seen their homes rise in value and want to be able to pass on this wealth without further tax charges, but it's crucial that they don't fall prey to the sibling trap. The RNRB rules can be complex. Getting the right professional advice and amending your Will could take a few hours, but with potential to save a lot of money it's time well spent.