

Inheritance Tax Planning

Fact Sheet



Many clients think inheritance tax only affects extremely wealthy people. However, due to the increase in property values over the last 20 years, more estates than ever are now subject to this tax. Equity release can be an effective part of a wider inheritance tax mitigation plan, but usually only where the client also needs additional cash or income throughout their retirement.

What is Inheritance Tax?

Inheritance tax is charged on the value of the assets you leave behind when you pass away. It can also apply to any gifts you have made prior to passing away. Currently if your estate is valued at more than £325,000 (known as the nil-rate band) then HMRC will expect your beneficiaries to pay inheritance tax at a rate of 40% on the total value of the estate above £325,000. If you are married, or have a civil partner, then you can leave your entire estate to your spouse or partner free of inheritance tax. But if you want to leave some or all of your estate to family and friends, then it may be liable for inheritance tax.

What does your Estate include?

Your home and any other properties you own.
Savings or investments that you have.
Life insurance policies in your name.
Any other assets.

Example: Mr Richards owns a property worth £450,000, he has £25,000 in a savings account and in his will, he leaves his entire estate to his niece.

If Mr Richards were to pass away today the Inheritance tax liability would be £60,000:

£450,000 + £25,000 = £475,000

£475,000 - £325,000 (nil rate band) = £150,000

£150,000 @ 40% = £60,000

Home Reversion Plan

With a Home reversion plan, the part of the property that has been sold previously is removed from the estate. If Mr Richards had sold 50% of his home to the reversion provider, based on the example, His estate would be worth £275,000 and therefore there would be no Inheritance tax liability.

Lifetime Mortgage

With a Lifetime mortgage, the amount borrowed plus the accrued interest will be a debt against the estate and will have to be repaid upon passing away. If Mr Richards had an equity release plan that totalled £150,000, based on the example, there would be no inheritance tax liability.

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