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Viewpoint

The £1m Inheritance Tax allowance
An allowance that will add £175,000 to each parent's main residence nil-rate band.

Achieving your financial goals
The value of high-quality financial advice in an increasingly complex world.

Eggs aren't just for Easter
We look at the features and benefits of the different Individual Savings Accounts available.

The new £1m Inheritance Tax allowance

If you would like to discuss the impact of Inheritance Tax on your financial planning please get in touch.

In the wake of the 2015 General Election, the Conservative Party confirmed it would deliver on its Manifesto promise that parents could pass their property up to the value of £1m to their children free of Inheritance Tax, thanks to a new ‘family home allowance’.

The allowance is called the Resident’s Nil Rate Band (RNRB) and takes effect in April 2017. By 2020/21 it effectively adds £175,000 to each parent’s nil-rate band (currently £325,000) in respect of their main residence, bringing the total that may be transferred IHT-free on the second death to £1m.

Basic rules

An estate will be entitled to the RNRB if:

- the individual dies on or after 6 April 2017
- they own a home, or a share of one, so that it is included in their estate for Inheritance Tax
- their direct descendants, such as children or grandchildren, inherit the home or a share of it
- the value of the estate is not more than £2m *(estates valued at more than £2m the RNRB (and any transferred RNRB) will reduce by £1 for every £2 over the £2m taper threshold. This means that in the tax year 2020 to 2021, an individual would not be entitled to the RNRB if their estate is worth more than £2,350,000.)*

An estate will also be entitled to the RNRB when an individual has downsized to a less valuable home or sold or given away their home after 7 July 2015, provided the deceased left the smaller residence or assets of equivalent value to direct descendants.

The RNRB allowance

The maximum amount of RNRB will increase every tax year as follows:

Tax year at death	RNRB
2017/18	£100,000
2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

For later years, the amount of the RNRB will increase in line with the Consumer Prices Index.

Any unused RNRB can be transferred to the deceased’s spouse / civil partner’s estate. This can also take place if the first of the couple died before 6 April 2017 (even though the RNRB wasn’t available at that time).

The definition of direct descendant

For RNRB purposes, a direct descendant of a person is:

- a child, grandchild or other lineal descendant of that person
- a spouse or civil partner of a lineal descendant (including their widow, widower or surviving civil partner)
- a child who is, or was at any time, that person’s step-child
- an adopted child of that person
- a child who was fostered at any time by that person
- a child where that person is appointed as a guardian or special guardian for that child when they’re under 18

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Example case studies

Mr A dies in the tax year 2020 to 2021 and leaves a home worth £300,000 and other assets worth £190,000 to his children.

- The maximum available RNRB in tax year 2020 to 2021 is £175,000.
- The RNRB that applies is £175,000 (the lower of the home value or £175,000)
- The Inheritance Tax Nil Rate Band (NRB) is £325,000

Estate value	£490,000
Less RNRB	£175,000
Remaining estate value	£315,000
Less NRB	£315,000*
Value that IHT is due on	£0

*£10,000 of NRB is unused and can be transferred to spouse.

Mrs B dies in the tax year 2020 to 2021 leaving a flat worth £100,000, and other assets of £400,000 to her son. She leaves the rest of her assets of £500,000 to her husband; these are exempt for IHT purposes.

- The maximum available RNRB in tax year 2020 to 2021 is £175,000.
- The RNRB that applies is £100,000 (as it is the lower of the home value or £175,000)
- The Inheritance Tax Nil Rate Band (NRB) is £325,000

Estate value	£500,000
Less RNRB	£100,000*
Remaining estate value	£400,000
Less NRB	£325,000
Value that IHT is due on	£75,000

*£75,000 of RNRB is unused and can be transferred to spouse.

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Achieving your financial goals

We lead complex lives in an increasingly complex world. As financial planning experts we can help you better understand your financial challenges, goals and needs, and help you find appropriate ways to meet them.

Your needs in any and all of these areas will change over time, and regulatory changes can impact the effectiveness of any structures already in place. That's why we recommend regular reviews to ensure your plans remain on track.

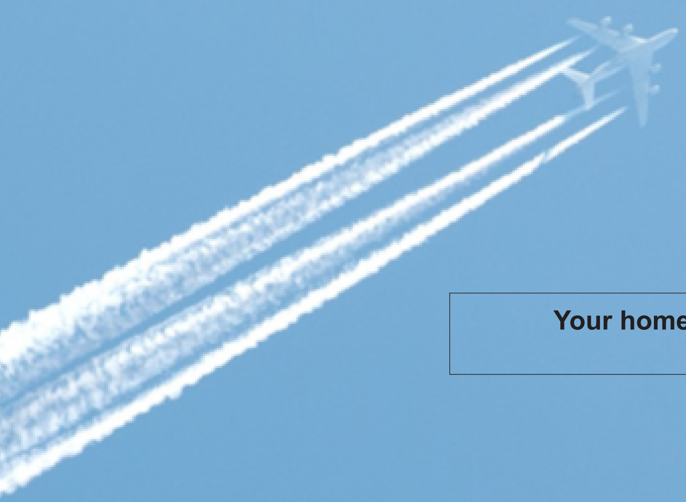
Even a seemingly straightforward financial goal can involve numerous decisions and a lot of time and effort getting it right. Whether it's buying a home, investing for the future or protecting the people and things you cherish, we're here to help you make the right choices for your needs. Here are some of the services we provide, which our clients have told us they value the most.

Mortgages

With so many mortgage lenders offering products on the high street and online, it can be tempting to cut out the middle man. But when you're making such a huge financial commitment, professional guidance can be invaluable, particularly if your needs are out of the ordinary. As well as arranging your mortgage we can also recommend specialist professional services that can help with other elements of your home-buying process, including solicitors and surveyors.

Protection

When using comparison sites and direct insurers, how can you be sure their "off-the-peg" solutions meet your specific needs? Using our expert product knowledge we can help you find the most appropriate solution for you. Whatever your particular need – be it income, family, mortgage or business protection – we can access high quality products from a range of handpicked providers; providers we have selected because they are proud to stand behind claims when it matters the most.



Investment planning

As well as your pension, you may have opportunities to invest lump sums – such as an inheritance or bonus – but are unsure about how to do this. As with all areas of financial planning, it pays to have a clear objective or vision. We can talk you through the important things to consider and help you create a balanced and diversified portfolio, taking into account your financial goals, attitude to risk, and any appropriate tax planning.

Retirement planning

The responsibility to create a comfortable retirement is falling increasingly on the individual, and the new pension regulations, whilst bringing welcome freedoms, introduce additional complexity to your at-retirement choices.

The right financial plan could help secure a more comfortable retirement – not just for you, but also for your loved ones and heirs. We can help you navigate the complexities of the new rules. Knowing what can be achieved and establishing the right strategy as early as possible can help you prepare for the future.

Inheritance Tax Planning

Passing our hard-earned wealth to loved ones often forms a big part of our ambitions. The right forward planning can help you maximise your heirs' inheritance by minimising tax liabilities. We can help you put the right structures in place.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

Your home may be repossessed if you do not keep up repayments on your mortgage.

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Eggs aren't just for Easter

The original use of the term 'nest-egg' comes from an artificial egg being put into a nest to induce a hen to lay.

These days we often refer to our hard-earned savings as our nest-egg, and the recent rise in the ISA allowance gives additional incentive to encourage savings to grow tax-efficiently.

Egg-cellent ISAs

On 6 April 2017, the ISA allowance rose from £15,240 to £20,000, giving a boost to savers struggling with continued low interest rates.

Depending on how much risk you're prepared to take with your nest-egg, you have two options: The Cash ISA, which offers a low risk way to save and the interest is completely tax-free. Or the Stocks and Shares ISA, which gives the potential for a better return, but you will be taking more risk with your money.

Cash ISAs

Cash ISAs have similar features to savings accounts but the interest you earn is tax-free. You can open a cash ISA if you're aged 16 or over and resident in the UK. There are a range of cash ISAs designed to meet different needs, so make sure you look at the features and benefits – not just the headline interest rate:

- instant access ISAs – ideal if you need to access your money quickly, but it will probably come with a lower rate.
- regular saver ISAs – you could get a higher interest rate if you're able to pay a regular monthly premium.
- fixed rate ISAs are ideal if you have a lump sum that you can put away for a set term and may attract a higher interest rate.

Remember to check if your provider will charge a penalty for accessing your money if you need it at short notice.

Stocks and Shares ISA

If these benefits still don't outweigh the chance of a better return on your money, it's worth looking at a stocks and shares ISA where you can invest in a range of different investments including individual company shares, unit trusts, investment funds, government bonds and corporate bonds (providing you are 18 or over and resident in the UK). Any gains you make on your original investment are protected from Capital Gains Tax and you don't need to declare it on your tax return, although you could still have tax to pay within the fund you're invested in.

Lifetime ISA

Adults under 40 can now also qualify for the Lifetime ISA. The maximum annual contribution is £4,000 to which the government will add a 25% bonus to contributions made before the holder's 50th birthday (so a £100 contribution will become £125 in the plan). You can use the funds, including the bonus, to buy a first home at any time from 12 months of opening the account, or you can withdraw the funds tax free from age 60 for use in retirement.

If between April 2017 and April 2018 you need to withdraw money for any other reason, you must fully close your Lifetime ISA and you won't receive the government bonus. What's more, from 6 April 2018, the government will introduce a 25% charge for these withdrawals. The only exception is if you're diagnosed with terminal ill health and have less than 12 months to live, you can withdraw all of the funds (including the bonus) tax-free and penalty-free, regardless of age.

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on the individual circumstances.

The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.

Although there is no fixed term you should consider a stocks and shares ISAs to be a medium to long term investment of ideally 5 years or more.

To find out more about ISAs and for help picking the right one for you, please get in touch.

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