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The IHT implications of a sale

Running your own company can be a fantastic way to mitigate inheritance tax (IHT), because qualifying businesses can claim relief. However, once you sell up, you could significantly increase your potential IHT liability. Spike Godwin of Arbuthnot Latham explains what you can do to ensure your hard-earned wealth is passed efficiently to the next generation.

Just like the tax due on the sale of a business, IHT is a known future liability and, at 40%, a significant one. The good thing about known liabilities is you can plan for them. The downside is that IHT is a political hot topic and the rules may well change. So it is important that any IHT planning ensures future flexibility, rather than simply reducing tax under today's rules.

What is the inheritance tax rate?

The IHT rate is 40% for the tax year 2022/2023. It is applied when the value of an estate is above the Nil Rate Band (NRB) threshold, which is currently £325,000. The taxable part of any estate above the applicable threshold, after exemptions and allowances, will be subject to IHT.

If your estate is below the NRB or if you leave everything to your spouse or civil partner or a charity, there may be no inheritance tax to pay. You can also transfer any unused percentage of the inheritance tax NRB to your surviving spouse or civil partner. The survivor's NRB can never be increased by more than 100%.

In addition to the NRB, you may also qualify for the Residence Nil Rate Band (RNRB) if certain conditions are met. For married couples and civil partners, unused RNRB can be transferred if the survivor dies after 5 April 2017, irrespective of when the first of the couple died. The RNRB is currently £175,000. The RNRB reduces where the value of the estate immediately before death exceeds the £2 million taper threshold. The residence nil rate band will reduce by £1 for every £2 that the estate is worth above £2 million.

A reduced IHT rate of 36% is payable on certain assets if you give away 10% or more of the net value of your estate to charity. Additionally, gifts made in the years before death may be subject to taper relief.

When do you pay inheritance tax?

IHT must be paid by the end of the sixth month after the person's death, or HMRC will start charging interest. The executors can choose to pay the tax on certain assets, such as property, by instalment over ten years, but interest will be charged on the outstanding tax amount.

How can I maximise inheritance for beneficiaries?

Clients often ask wealth planners how to avoid inheritance tax, but this should never be the focus of your strategy. Rather, you should ensure you have a financial structure designed to help you live your life and allows you to financially support those you love, both throughout your life and post death.

Strategies to maximise inheritance:

- Decreasing the value of your taxable estate
- Making use of annual allowances
- Gifting during your lifetime
- Passing assets into a trust for your children
- Leaving your estate to your spouse or civil partner
- Holding assets that are exempt from IHT on your death
- Leaving a legacy to charity

An experienced and qualified wealth planner can help you structure a plan that meets your goals, preferences and lifetime access to capital or income as well as maximising IHT efficiency and the financial legacy you wish to leave.

Contact us

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