

What is Generational Inheritance Tax (IHT)?

Generational IHT is often referred to as the Double Tax Whammy! It is the continued application of Inheritance Tax on assets which are bequeathed “absolutely” to a beneficiary and thus increasing their own personal wealth (estate). This may mean that IHT has to be paid again on the inherited assets on death and this will continue through future generations.

Who is affected?

Everyone whose Will does not include trusts & whose assets are passed to beneficiaries absolutely.

Some examples of the effects of Generational IHT

(assuming the available Nil Rate Band (NRB) to be £325,000 Year 2009/10 at time of death).

Single Person / Divorced

Mr Smith dies leaving an estate of **£1 million**. No gifts have been made in lifetime. He leaves behind 1 daughter.

£1,000,000 – Nil Rate Band (£325,000) = £675,000

IHT is now due on the £675,000 at 40% = **£270,000**

Net estate now due to the daughter = £730,000 The Will leaves this estate to the daughter absolutely.

The daughter already has assets valued at the Nil Rate Band (£325k) and has one son. So now her estate is valued at £325,000 + £730,000 inheritance from Dad = £ 1,055,000.

On her death, after the application of the NRB there is a £730,000 excess subject to IHT @ 40% = **£292,000**.

So, in just two generations **£270,000 + £292,000** has been paid in Inheritance Tax. A whopping **£562,000!**

Of the original **£1 million** estate, a mere **£438,000** remains for the grandson!!

The Solution

Dad writes Will incorporating Trusts for his £1 million estate.

Dad's Will

No gifts made so net estate available for daughter will be £730,000

3 Pilot Trusts (Trusts established in lifetime outside of the Will) established to receive 1/3rd of net estate.



Daughter and grandson are Potential Beneficiaries of all 3 Trusts. None of whose assets held will become part of their estates for IHT, Care Costs or be at risk to future Divorce Settlements, or Creditors .

So on the death of the daughter, of the original £1,000,000 estate £730,000 remains protected for future generations with a massive £292,000 saved to IHT alone!

A further example of the effects of Generational IHT

(assuming the available Nil Rate Band (NRB) to be £325,000 Year 2009/10 at time of death).
Unmarried Couples - For IHT purposes unmarried couples are deemed to be single!

Mr Brown owns the home in his sole name valued at £400,000.

Ms Green has cash assets of £300,000 from the sale of her previous home.

Mr Brown also has further £100,000 in cash.

Mr Brown dies (09/10 Tax year).

Mr Brown's estate is worth £500,000 - £325,000 (NRB) = £175,000 subject to IHT @ 40%.
£70,000 falls due in IHT.

Mr Brown's Will left everything to Ms Green and then to his children.

Ms Green inherits a net estate of **£430,000**.

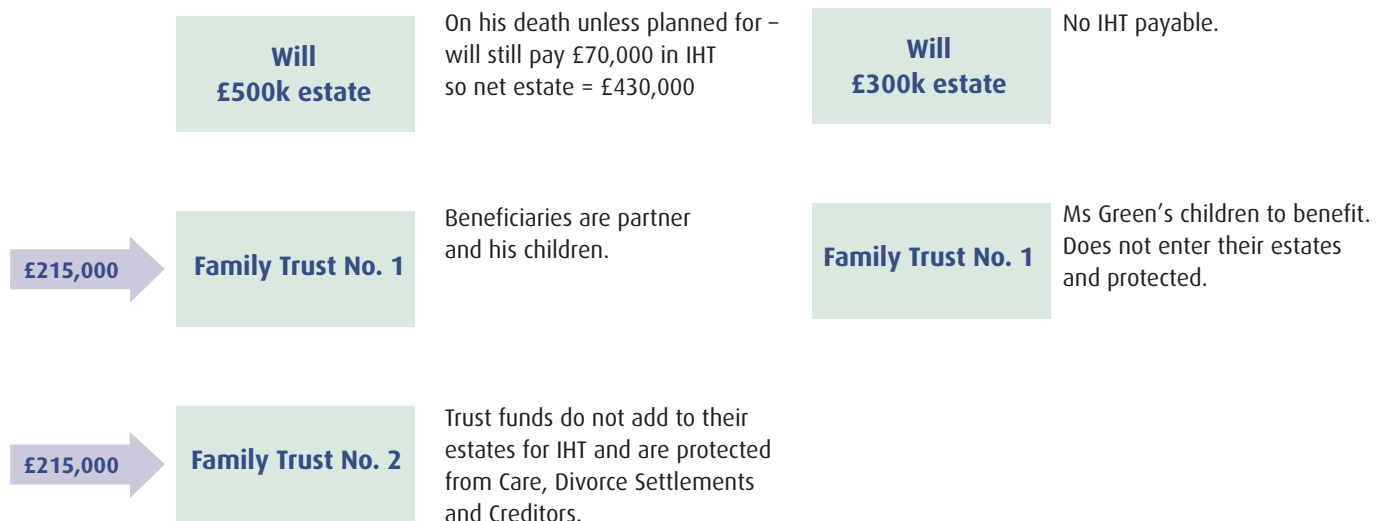
Ms Green dies..... her estate is now worth **£730,000** and so is also subject to IHT.

£730,000 - £325,000 (NRB) = £405,000 @ 40%.
£162,000 is now due in IHT.

So, on their original combined estate of £800,000
£232,000 has been lost to IHT!!

The children inherit £568,000 which adds to their estate.

The Solution



✓ So only £70,000 paid in IHT rather than £232,000! A saving of £162,000 in IHT.

Where a couple is married and have assets above two Nil Rate Bands there will be IHT payable for the beneficiaries on 2nd death without the correct planning. Assets should not be left to the beneficiaries absolutely. Trusts should be established for both husband and wife and the estate equalised. Prior to second death further planning can take place to reduce any IHT liability and the assets will not impact on the beneficiaries own estates and give rise to further IHT. The Trusts will also protect the assets for the beneficiaries from Care, Divorce and Creditors.

Even where assets held are below the available Nil Rate Band and no Inheritance Tax is due, assets should never be distributed to a beneficiary "absolutely" as this then adds to their own estates which may mean an IHT bill for their chosen beneficiaries and leaves those assets assessable to their own Care Costs, attackable by Divorce Settlements and Creditors.

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