

A Gift in your Will to a Charity could reduce Tax on your Estate

Inheritance Tax

Currently the inheritance tax **Nil Rate Band** for individuals (where no tax is payable) is £325,000 and so if your estate is valued above that your beneficiaries will pay tax at 40% on the amount over £325,000. For example, if your estate is valued at £350,000, this is £25,000 above the Nil Rate Band (of £325,000) and so it will be taxed at 40% giving a tax liability of £10,000 which will be due to HMRC.

By leaving a legacy to a charity you could reduce or completely remove your inheritance tax liability, as follows:

1. Any gift left to a charity will be exempt from tax and so won't use up any part of the Nil Rate Band leaving it available to be used by non-charity beneficiaries

E.g. if your estate is worth £375,000 and you left £325,000 to family and friends and the residuary to charities there would be no inheritance tax liability. The gift of £325,000 is tax free because it's the amount of the Nil Rate Band and the remainder as it's left to charity is not taxable because the charities are exempt from tax.

2. In April 2012, new legislation came into force which can potentially reduce the inheritance tax rate from 40% to 36% if 10% or more of someone's taxable estate is left to charity (ies).

The Transferable Nil Rate Band

For married couples or civil partners, Executors can also increase the nil rate band available for the estate of the person who dies last by applying to transfer any unused nil rate band from their late spouse or civil partner. This could potentially mean a combined nil rate band of £650,000 if the partner who died first did not use up any of their nil rate band. Otherwise, the remaining amount of any unused nil rate band can be added. The second partner or spouse must have died after 9 October 2007 when these rules came into force. The Executors must also apply directly to HMRC to make the transfer.

Residence Nil Rate Band

The **Residence Nil Rate Band** applies to deaths after 6 April 2017 and is an additional inheritance tax allowance which relates to property.

In order to qualify, you must own a property or a share in a property which you have lived in at some point in your life and which you leave to your direct descendants (children, grandchildren or step-children). The RNRB levels have been set as follows:

- £100,000 in 2017 to 2018
- £125,000 in 2018 to 2019

- £150,000 in 2019 to 2020
- £175,000 in 2020 to 2021

Information about inheritance tax can be found on <https://www.gov.uk/inheritance-tax> and it is important to speak to your solicitor about tax and estate planning to ensure your will reflects your particular circumstances and your wishes.

Capital Gains Tax

Capital Gains Tax is a tax on an asset if you make a profit (gain) when you dispose of (sell) it. It is the gain which is taxed. In relation to your estate, assets will be valued at the date of death and if between then and their disposal (sale) the value has increased, the gain may be liable to tax. Current rates can be found on: www.gov.uk/capital-gains-tax/allowances

Your Executor will have the benefit of a tax free allowance which can off set some gains.

In the UK, charities are exempt from Capital Gains Tax and so when they are a beneficiary in a will, particularly a residuary beneficiary, it may be possible to use this exemption to reduce a CGT liability.