



Will Inheritance Tax bite a chunk out of your family's inheritance?

Please ask
for more details

Could the taxman munch 40% off some of your family's inheritance?

"I'm not rich, so I won't be liable for Inheritance Tax... will I?"

The truth is, if you own a property, you may well be liable. With house prices having risen so dramatically over the last decade, more of us than ever now fall into the Inheritance Tax bracket – so it's important that you know what you can do.

How does it work?

Quite simply, if all of your assets put together are worth £325,000 or less (2009/2010 tax year), these will be free from any Inheritance Tax liability. Anything over the £325,000 threshold could potentially be subject to 40% Inheritance Tax when you die. This means that the tax man could benefit from your hard earned money and not your loved ones. Tax rules may change in the future.

What can you do?

It's not all doom and gloom. Because with good advice and careful planning, your Inheritance Tax liability can be reduced or avoided altogether. In this booklet, we've set out some of the things you can do – and by talking to an Aviva Financial Consultant at your local Chelsea branch, you can find out what best suits you. Alternatively, call **0845 744 6622** and speak to a consultant today.





Will you be caught by Inheritance Tax?

First, work out how much you're worth

It's easy to underestimate how much your assets amount to. So before you do anything, you need to roughly work out whether your taxable estate is currently worth over £325,000. Remember, your 'estate' includes everything you own – property, cars, personal belongings, any investments, savings and insurance policies minus any loans and mortgages – so even though £325,000 may seem like a lot at first, it can soon add up.

And of course, don't forget that this amount will change over time – so even if you find yourself below the threshold now, you could find yourself liable in the future.

Inheritance Tax calculator

Value of your property		£
Household contents and personal effects	+	£
Bank and building society accounts	+	£
Savings and investments (including offshore, ISAs, endowments etc.)	+	
Stocks and shares	+	£
Other assets (car, boat, second home etc)	+	£
Subtotal	=	£
Subtract any loans and mortgages	-	£
Subtract	-	£325,000
Taxable balance	=	£
Now multiply this figure by 40% to find out what you might have to pay:	=	£

Note: this calculator is merely a guide. For married couples or registered civil partners, any liability may not occur until the second death. Additional tax may be paid on gifts made in the last seven years.

What happens if you hide away from it?

If you do have a potential liability, the tax man could not only bite into a large chunk of your family's inheritance – but your family will usually have to pay this before your estate is released (ie before they receive the inheritance). This means they might have to borrow money, simply to pay the tax. They may then have to sell your home to repay that loan.

How big a chunk could Inheritance Tax take?

Taxable estate value	Taxable	Inheritance Tax payable at 40%
£325,000 or less	£0	£0
£400,000	£75,000	£30,000
£500,000	£175,000	£70,000
£600,000	£275,000	£110,000
£700,000	£375,000	£150,000
£800,000	£475,000	£190,000
£900,000	£575,000	£230,000
£1,000,000	£675,000	£270,000



There are lots of things you can do

There are a number of ways to minimise, and even eliminate Inheritance Tax liability – as long as you start planning early. Some of them are fairly simple and only require you to make minor amendments to your will, or make gifts to friends or family – while others are more complex.

As Inheritance Tax is decided by the law at the time you die, it's vital that you have a flexible approach to the problem. Here's an idea of some of the things you can do – but in all cases it's important that you get professional financial advice.

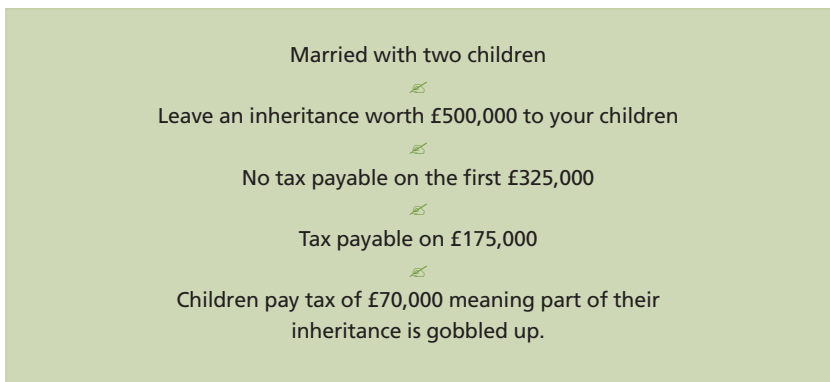
Make a Will

It's a common mistake to think that your estate will automatically pass to your spouse when you die. In fact, this may only apply if you've drawn up a valid Will. Making a Will can mean more than ensuring your estate goes to the people you want to benefit; it can also be used to reduce your tax bill.

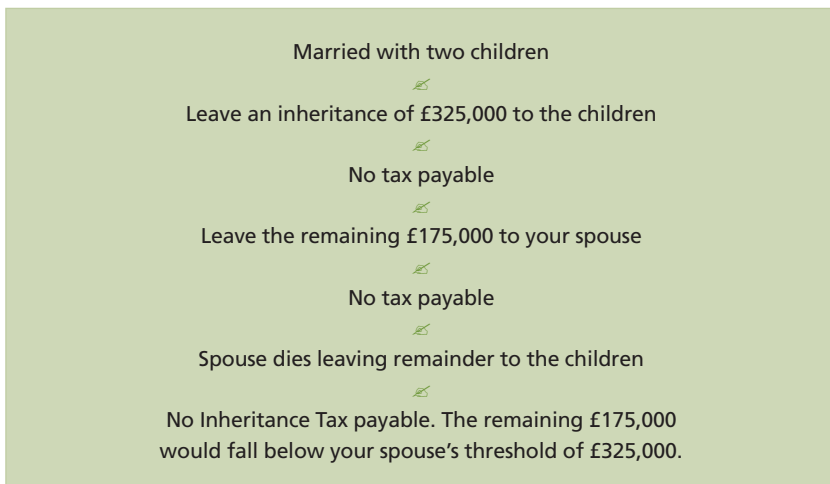
If you leave everything to your spouse in your Will, they can also claim your non taxable allowance to reduce the amount of Inheritance Tax payable on their death. This means that, if you have children, your spouse could currently leave them a total inheritance of £650,000 before they will have to start paying Inheritance Tax.



Example 1: your family's inheritance is gobbled up by not planning



Example 2: you hide it away by planning carefully



Could it be suitable for you?

Making a Will is a good idea for everyone, however much you're worth – as it avoids uncertainty and confusion later on, and can help reduce your tax bill.

Put parts of your estate in a trust

Another way to reduce your Inheritance Tax bill is to create a trust, so you can give assets away, but still retain flexibility over who will benefit, and when. A trust is a written, legal arrangement that allows you to give away assets such as shares, money and property, in a tax efficient and controlled way. This way, you can protect your assets and ensure as much as possible goes to those you choose.

- **Protect your spouse's standard of living**

Rather than give much of your estate to your children when you die, you may want to use a trust to protect the standard of living of your surviving spouse, whilst also reducing the Inheritance Tax liability when they die.

- **Protect property**

Establishing a trust is a good way of protecting property that will eventually pass to someone else. A trust binds named individuals (the trustees) to deal with the assets which have been placed under the trust for the benefit of certain individuals (the beneficiaries).

Could it be suitable for you?

Anyone who is expecting their estate to exceed the nil-rate band should look seriously at trusts to help them reduce Inheritance Tax liability or avoid it altogether.

Start transferring

Married couples or registered civil partners living in the UK can make what's known as an 'exempt transfer' between each other – as there's no Inheritance Tax to pay on this. The exemption doesn't apply to unmarried couples who live together, even if they are in a long term relationship with children. You can also transfer money to political parties or registered charities – including museums or universities – free of Inheritance Tax.

- **Transfer a limited amount, each tax year**

Everyone is entitled to give away £3,000 exempt from Inheritance Tax, in any tax year. If you haven't used this before, it can be backdated one tax year, so in effect £6,000 could be given to begin with, and £3,000 each year from then on. And you can make any number of small gifts to different people – up to £250 per person – in any tax year.

- **Potentially exempt transfers**

Gifts to individuals that are above these levels are known as potentially exempt transfers. These will be free of Inheritance Tax, providing you live for seven years after you make the gift. You must remember that if you continue to benefit from the gift, perhaps by living in a house you have given to your children, the tax man may still treat the asset as part of your taxable estate.

Where large gifts over the nil-rate band are made, the amount of potential tax payable reduces the longer you live after making the gift. This is known as tapering relief. The table below shows you how much of the tax will have to be paid when you die:

Years between date of gift and death	% of full rate payable
0-3 years	100%
3-4 years	80%
4-5 years	60%
5-6 years	40%
6-7 years	20%
More than 7 years	No tax to pay



Make gifts

Current rules allow for tax exemption on some gifts of money or property that you make before you die. So it may make sense for some people to reduce the value of their estate by giving part of it away. These gifts can be made during your lifetime, and they have the effect of reducing the estate on which Inheritance Tax is charged.

- **Start planning early**

It is important to start planning sooner than you might think. Should something happen to you within seven years of making a non exempt gift, the value of the gift is still liable to Inheritance Tax charges. Gifts that fall outside of the seven year limit are non chargeable, which is why it is important to start planning sooner rather than later.

- **Give a marriage gift**

Parents can give wedding gifts of up to £5,000 to each of their children.

Grandparents can give up to £2,500 to each grandchild. Also, you can give up to £1,000 as a wedding gift to anyone else. These gifts must be given before the wedding day. You can make gifts using more than one of the above, except for small gifts. For example, as a parent, you could give your child in the year they are married £5,000 plus £3,000 as another gift.

- **Make a gift to pay school fees, or similar**

You can make what's called 'normal expenditure gifts', which are regular gifts made out of your income. This may be particularly suitable for grandparents. If these gifts are regular – such as to pay school fees – and do not have an impact on your standard of living, they will be free of Inheritance Tax.

Could it be suitable for you?

This may not be suitable for you if your main asset is your home.

Take out life insurance

Taking out a Whole of Life insurance plan will mean a lump sum will be paid out on your death, which can be used to pay off any Inheritance Tax. The plan should be written in trust for your beneficiaries, so that the money is paid to them and isn't included in your estate.

Could it be suitable for you?

If the other planning tools in this section aren't suitable for you – maybe your estate is mainly property and making exempt gifts is not possible – this option could be worth looking at.

Start planning now, to stop Inheritance Tax biting a chunk from your family's inheritance

It's essential that you start thinking about ways you can keep the tax man at bay, and contain the amount of Inheritance Tax your loved ones will have to pay. A bit of sensible planning now could make a big difference in the future.

So make sure you speak to an Aviva Financial Consultant at your local Chelsea branch to find out more about the many options available and what would best suit you. Any advice given will relate only to the products of Chelsea and the UK Life companies of Aviva.



Contact us

Your local branch is:

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

Chelsea Building Society introduces to Aviva Life Services UK Limited for investments, pensions and wealth management. Chelsea and Aviva are authorised and regulated by the Financial Services Authority. Chelsea's FSA register number is 206039. You can check on the FSA's register by visiting their website www.fsa.gov.uk/register/ or by contacting the FSA on 0845 606 1234.

Any advice given will relate only to the products of Chelsea and the UK Life companies of Aviva.

Calls may be recorded and/or monitored for security, training and customer service purposes.



This leaflet is also available in large print, Braille or as an audio tape. Please ask at any of our branches or telephone us on **0845 744 6622**.

Chelsea Building Society

Thirlestaine Hall
Thirlestaine Road
Cheltenham
Gloucestershire GL53 7AL
Tel: 0845 744 6622
www.thechelsea.co.uk