

CAPITAL TAX PLANNING

Inheritance Tax

Inheritance tax is most often payable on death. When you die, if the value of your estate is more than the “nil-rate band”, which is currently £325,000, tax may be charged on the excess at the rate of 40%.

Inheritance tax can also apply to lifetime gifts. Outright gifts to individuals may be subject to tax if you die within 7 years of making the gift, and gifts into trust may be subject to tax when made, at the rate of 20%.

There are a number of reliefs and exemptions available to reduce the impact of the tax, but it is easy to lose out if you don't follow the rules.

Capital Gains Tax

Capital gains tax is mainly charged on profits realised from the disposal of assets. If you buy a house for £100,000 and sell it 5 years later for £150,000, you may have to pay capital gains tax on the “profit” of £50,000.

You don't have to sell the asset to have a capital gain – tax will still be payable if you simply give it away. For example, if the house was bought by Mr & Mrs Smith for their son to live in while at university, and they decide to give it to him as a graduation present, they may find that they have a tax bill, even though there are no sale proceeds to pay it from.

With careful planning, you can avoid unexpected bills, or at least make them smaller. The key is to think ahead, and to take advice when you first acquire the asset, not only when you dispose of it. Main residence relief, which applies to the house you live in as your main residence, can also apply to your holiday home. Trusts can be used to avoid or to defer tax charges and even simple planning techniques, such as a transfer of assets between spouses or civil partners can significantly reduce the tax bill.

At Taylor & Emmet we are able to provide expert advice on capital tax planning. Our first piece of advice is to contact us before you acquire the asset, but we may be able to help even if you have already sold it.