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## PLANNING & PROTECTING YOUR FUTURE

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*For you, your home, your family and your business*

### Tax Planning in a Recession

I am a firm believer that every cloud has a silver lining. At a time when our purse strings are being pulled ever tighter the last thing you may be thinking about is tax planning. However, there may be no better time than in a recession to consider reducing your inheritance tax (IHT) liability.

Gifting assets outright to family has always been a popular and relatively simple way of reducing your estate and the IHT burden on death. So long as you then survive seven years from the date of making the gift, the value of the gift is outside of your estate on death when it comes to calculating the IHT due. However, as capital gains tax (CGT) is payable on any gain from the date you acquired the asset to the date of the gift, this can trigger a hefty CGT charge. This has, in the past, put off many of my clients from taking this step. With share prices and property prices falling, gifting these assets can reduce your IHT and CGT will be significantly less and possibly even zero.

#### Consider the following example:-

John bought an investment property in 2003 for £120,000. At its peak in August 2007, the property was worth £200,000 but now is worth just £140,000. John had

considered gifting the property to his son at the height of the market but at that time the rate of CGT was linked to earnings and as John is in the 40% bracket his CGT liability would have been £28,160. However, if John now gifts the property to his son, not only is CGT now payable at just 18% but by the time John has deducted his personal allowance of £10,100, the CGT payable is just £1,782.

But what if John still needs the income from his investment property? He could decide instead to sell the property to his son for a nominal value with completion set in, say, five years time. CGT and stamp duty would be set at today's value and John could continue to receive the rental income until completion. John would then need to survive for seven years following completion for the value of the property to be fully outside of his estate for IHT purposes.

Now is also a good time to consider gifting assets which have the potential, in the future, to increase significantly in value. Even if you do not survive the full seven years from the date of making the gift, it is still the value at the date of the gift that is used to calculate what IHT may be due on your estate and not the value of the asset at the date of your death.

Finally, if you have a family trust, you may have been put off transferring assets to that trust because, if they exceed the inheritance tax allowance (otherwise known as the nil

rate band) then inheritance tax becomes payable. The nil rate band is currently £325,000 and tax is payable at the rate of 20% on anything over this amount. Assets which you may have previously considered putting into the trust may have now fallen in value below the nil rate band meaning that there is now no IHT payable on the transfer. Even where assets still have sufficient value to trigger an IHT charge, their value is likely to have dropped meaning that it is still cheaper to transfer those assets into trust than it would have been 18 months ago and, let's not forget, that a 20% charge is still preferable to a 40% IHT which would otherwise be payable on death and possibly on the whole value of the asset depending on the size of your remaining estate.

If any of these tax planning ideas have got you thinking and you wish to discuss them further, I would be more than happy to meet with you.

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