the knowledge

for financial advisers only

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lessening the burden

Colin Jelley assesses the recent proposals from HM Revenue & Customs (HMRC) to simplify inheritance tax (IHT) reporting.

HMRC's recent proposals to raise the threshold for reporting chargeable lifetime transfers (CLTs) is good news for anyone advising on trust planning and should serve to significantly reduce the IHT burden for many clients.

what are the proposals?

CLTs currently need to be reported within 12 months of being made where they exceed £10,000 in any one year and £40,000 over a ten-year period. The new proposals introduce three tests, with the thresholds rising to £210,000 and £255,000. The new thresholds should maintain their value as they will be 70% and 85% respectively of the IHT nil rate band in the year of the CLT.

The third test is based on the value of the assets to be transferred and not the actual value of the CLT, as explained in the example below. Under these changes, the £210,000 threshold will also generally be applied to most trusts to determine whether a report is required at the ten-year anniversary.

the cumulation period

A subtle change also proposed is reduction of the cumulation period for reporting purposes from ten years to seven years. This will bring it into line with the seven year period for calculating IHT on previous gifts, thereby introducing consistency and simplifying administration for advisers.

when should I report?

HMRC have confirmed that the proposals are intended to be effective for CLTs on or after 6 April 2007, subject to Parliamentary approval later this year.

If the CLT is above the current limits, but would not require a report if the proposals are implemented unchanged (meaning no tax would be due), then you may consider waiting up to 12 months to see whether a report is actually required.

However, where tax is due it generally needs to be paid within six months of the end of the month in which the CLT is made. A report will also usually be made at that time.

These latest proposals follow HMRC's guidance earlier this year on how discounts should be calculated on discounted gift trusts. We have seen the interest rate assumption used within this guidance move in recent months with the impact of increasing new clients' CLTs.

Advisers should now be able to combine this earlier guidance with the proposed reporting threshold changes to confidently reduce clients' IHT liabilities. With the Government's IHT yield now double what it was ten years ago, the opportunity for advice in this area is only going to increase. ■

example: reporting based on asset values

Mr Jones invests £300,000 in a discounted gift scheme. Given his age, sex, state of health and withdrawals selected, his retained rights (or discount) are valued at £120,000. The 'before' value is £300,000; the loss to the estate is £180,000. Although £180,000 is below the £210,000 reporting threshold the transfer would still need to be reported.

Under the new test, the value of the assets to be transferred of £300,000 has exceeded the threshold of £210,000. This 'gross' reporting will enable HMRC to have a clearer picture of the assets being placed under trusts.

This article is based on Skandia's interpretation of the law and HM Revenue & Customs practice as at 31 August 2007. We believe this interpretation to be correct but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

trust and estate planning 2007

At the upcoming Trailblazer roadshows Skandia's acknowledged experts will explore the issues that need to be considered when writing effective business for IHT mitigation, including:

- The Government's approach to taxation.
- Existing trusts – key advice points for existing clients.
- IHT planning – writing business effectively in the new regime.
- Managing exposure to income tax and capital gains tax.

Visit **www.skandia.co.uk/fa/trailblazer** to register for one of the events.

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