

▀ Nil-Rate Band Threshold

The nil-rate band threshold remains at £325,000 up to 5 April 2015. After that it will be indexed in line with the consumer prices index.

▀ Reduced Rate

The government proposes that where a decedent leaves 10% or more of his net estate (after deducting IHT exemptions, reliefs and the nil-rate band) to charity, the IHT rate on the remainder of the estate will be reduced by 10% to 36% – but only for deaths after 5 April 2012.



Blackstone Franks' Reaction:

This sounds too good to be true. If a person leaves nothing to charity, IHT is 40% on the value of his estate, leaving 60% for his heirs. If he leaves 10% to charity there is no IHT on the 10% and that on the remaining 90% is at 36% (equivalent to 32.4% on the net estate). This leaves the heirs with 57.6% of the estate, i.e. it has cost only 2.4% to donate the 10% to charity. If the deceased intended to make charitable gifts in any event but these were under 10% of the estate, increasing the gifts to 10% might well increase what is left for the heirs.

e.g. Tom has a net estate (after the nil-rate band etc) of £1m. He has left £80,000 to charity. The tax is 40% of £1m less £80,000 = £920,000, which is £368,000. Tom redoes his Will to increase the charitable gifts to 10% of his estate. The tax is now 36% of £1m, less £100,000 = £900,000, which is £324,000. Accordingly by gifting a further £20,000 to charity, Tom has reduced the IHT by £44,000 thus increasing the amount that goes to his heirs by £24,000.

There will be a consultation document "before the summer".

*This article has been written by our Tax Partner **Robert Maas of Blackstone Franks Chartered Accountants.** For an in depth summary you can download his detailed budget booklet at www.blackstonemoregate.com/publications/*