

The CHARITABLE taxman



Jonathan Fry looks at an initiative that could cut how much Inheritance Tax we pay

One of the most frequent questions I am asked by clients relates to how much their children will have to pay in Inheritance Tax when they die. It's a contentious issue and one that doesn't only affect the wealthy these days.

The simple answer is that if the total value of your estate is worth less than the Inheritance Tax (IHT) threshold of £325,000 for a single person and £650,000 for a married couple, after any liabilities due, your beneficiaries won't pay any tax at all. But for every pound above the threshold, they will currently have to pay 40 per cent in IHT.

This is a cause of real concern, given that the value of your house will be included in your estate if you own the property, as will savings in the bank or building society, or in ISAs, bonds, shares and other investments.

It is understandably galling for many people that the wealth they have amassed through a lifetime of earnings, on which they have already paid income tax, can be plundered by HMRC after their death.

However, the government recently announced the introduction of an initiative called Legacy 10 from April 2012, which aims to reduce the burden of IHT while giving a boost to charities.

Legacy 10 offers a reduced IHT rate of 36 per cent to people who pledge to give 10 per cent of the value estate, above the IHT threshold, to charity.

Accountants estimate that people who had already planned to give four per cent of their estate to charity can increase that to 10 per cent without it costing any more in tax. In effect, the saving in tax from the reduced rate wipes out the cost of the increased charitable donation, meaning the taxman is paying for a more generous charity bequest.

The scheme has already attracted pledges from the likes of Sir Richard Branson and Charles Dunstone, co-founder of Carphone Warehouse, despite some cynics claiming that those who have already made provision for charity donations in their wills will have to go to the trouble of changing them and those who haven't are unlikely to be tempted to do so.

In my view Legacy 10 has some merit but I advise anyone who is concerned about how their estate will be taxed or shared out to consult an independent financial adviser to ensure as little as possible of their wealth can be taken by the taxman on their death. ■

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