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MARCH 2025 NEWSLETTER

KEY 2025 FINANCIAL DATES

MARCH

20th – Bank of England MPC meeting

26th – Spring Budget

31st – Stamp duty thresholds rise

APRIL

5th – End of the 24/25 tax year

6th – Changes to employer National Insurance and the Employment Allowance

6th – Statutory pay increases

MAY

8th – Bank of England MPC meeting

31st – P60 deadline

Changes to inheritance tax (IHT) on pensions from April 2027

In the Autumn Budget, the Chancellor announced that inheritance tax thresholds will now remain unchanged until 2030.

However, it was also announced that from April 2027 any unused pension benefits held in a UK-based defined contribution pension scheme will no longer be exempt from IHT on death.

This will see thousands more estates become subject to IHT in the future and increase liabilites for many others.

Please remember, the value of your estate will change over time too. Even if it's below the current threshold now, rising property values and investment growth could well push it over the £325,000 nil-rate band by April 2027, making it crucial to regularly review the value of your estate.

This is confirmed by the HMRC's own figures, which show they collected £7.1 billion in IHT receipts in the 2022/23 tax year, a remarkable 52% increase over the past seven years.

Let's now take a closer look at what this could mean for you, along with the allowances available and other steps you should consider when planning your estate.

CONTENTS

What is inheritance tax? (IHT)

It's a tax on your estate when you die, including everything you own like your main residence, vehicles, jewellery, and mantelpiece items.

It also includes any cash or investments you hold, though some may be exempt. For instance, money held in a UK-registered pension scheme is currently exempt from IHT.

On your death, your legal personal representatives – the individuals appointed to manage your affairs – will report the total value of your estate to HMRC.

Although IHT is charged at 40%, it doesn't apply to your entire estate. Everyone is entitled to a nil-rate band, a threshold below which no IHT is payable. Some may also qualify for the 'residence nil-rate band'.

The Nil-Rate Band (NRB)

This band of upto £325,000, is available to all individuals to reduce their taxable estate, although may be reduced if you have made gifts within seven years before your death.

You may also receive an extra nil-rate band if your spouse or civil partner dies before you.

Your adviser will be happy to help you assess your current inheritance tax liability and determine whicih nil-rate bands may apply to you.

The Residence Nil-Rate Band (RNRB)

The first £175,000 of your main residence is exempt from IHT if you leave it to your direct descendants, which includes your children and grandchildren.

This may be lost or reduced if your estate exceeds £2 million, your main residence is worth less than £175,000, or you don't have direct decendants (or do not wish to leave your property to them).

You may also receive additional RNRB if your spouse or civil partner dies before you.

Transferring Nil-Rate Bands to your spouse or civil partner

Anything you leave to your UK-domiciled spouse or civil partner is exempt from IHT on your death and does not use up the nil-rate band or residence nil-rate band.

However, remember that these then become part of their estate and may be subject to IHT on their death.

To help with this, any unused nil-rate band and residence nil-rate band can be transferred to your surviving spouse or civil partner, potentially providing a combined total NRB of £1 million.

Why is IHT planning important?

IHT planning is the process of deciding how your assets will be distributed while ensuring it's done in the most efficient way possible. This helps minimise tax liabilities and ensures your wishes are carried out effectively.

Reducing inheritance tax

While both NRBs are currently frozen until 2030: the NRB at £325,000 since 2009 and the RNRB at £175,000 since 2020, the value of your estate has likely increased, especially due to rising house prices.

By acting now, you can help combat the effects of the frozen NRBs, reduce the potential IHT liability on your estate, and also help to ensure more of your wealth goes to your loved ones.

Peace of mind

While IHT efficiency is crucial, estate planning is about more than just taxes. It allows you to ensure your chosen beneficiaries receive what you intend. Making use of trusts can also help you set aside specific assets for named individuals, and state the exact percentage each should receive.

Your financial adviser will be pleased to help you explore various types of trust, offering flexibility in defining your beneficiaries and determining how and when they'll benefit. This can also allow you to see them enjoy the benefits during your lifetime.

Having a Will in place is also essential, as it dictates how your estate's assets will be distributed upon your death. Not having a Will can mean your estate bypasses your intended beneficiaries.

What would my IHT liability be??

Below we've shown how much inheritance tax your non-exempt beneficiaries or executors would have to pay.

This assumes both your nil-rate band of £325,000 and residence nil-rate band of £175,000 are available in full, but that you have taken no other action to reduce the IHT liability on you estate.

Estate value	Amount taxable	IHT payable at 40%
£400,000	£0	£0
£500,000	£0	£0
£600,000	£100,000	£40,000
£700,000	£200,000	£80,000
£800,000	£300,000	£120,000
£900,000	£400,000	£160,000
£1,000,000	£500,000	£200,000

This calculation is for the purpose of illustration only.

Your financial adviser will be able to provide you with a complete picture of your IHT liability.

There are steps you can take to help reduce your IHT bill, and we have explained some of these on the next page.

How can I reduce my IHT bill?

The main aim of IHT mitigation is to reduce the value of your estate over a number of years. The smaller your estate when you die, the less your IHT bill is likely to be.

There are many strategies to reducing your IHT liability, as outlined below. Some are more complex than others, and not all may be suitable for you. Therefore, it is always important to seek professional financial advice.

Ways to reduce your IHT bill

- Write **a Will**
- Write your **life assurance plan(s)** into trust
- Put **gifts in trust** for beneficiaries
- **Leave at least 10% of your net estate to charity**, this will reduce the IHT rate to 36%
- Utilise **unused NRB and RNRB** from deceased spouse or civil partner
- **Ensure assets** are individually owned at least up to nil-rate band
- **Utilise** potentially exempt transfers
- Give **cash gifts** to family members and use exemptions
- **Own assets** which are not liable to IHT

Financial decisions like these are among the most significant you'll ever make and our newsletter aims to offer only a basic understanding of inheritance tax and the potential challenges you might face.

For example, leaving at least 10% of your estate to charity can reduce inheritance tax, but it might cause family conflicts if your intentions are not clear. It will also reduce the total amount your family receives. This could lead to disputes, delaying probate and causing legal issues, while charities wait for their payment.

Additionally, a charity that was active and reputable when you wrote your will might no longer exist or may have shifted its focus by the time of your passing.

Please consult your adviser to learn more about any of the above and explore other options that may be suitable for you. Effective IHT planning should be an ongoing process, not a one-time task, and it is crucial to regularly review your IHT arrangements with your financial adviser.

News round up

Pension savers who took tax-free cash without advice regret decision

Research by Legal & General shows impulsive spending may cause some retirees to deplete their pension funds up to ten years earlier than expected, especially those who took tax-free cash and now worry about their funds lasting through retirement.

15% of retirees saw their pension lump sum as an unexpected bonus, 10% felt it was like a payday and wanted to spend it, and nearly half accessed the cash simply because they could.

Some accessed their pensions early due to the 2024 Autumn Budget announcement. However, one in seven now regret this decision or spent more than planned, and the same number worry about outliving their remaining savings.

58% of retirees accessed their pension without seeking formal advice. Over 10% of those with spending regrets admitted they didn't fully understand the impact of their decisions. (Source: FTAdviser)

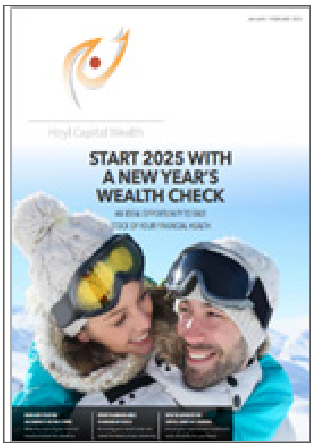
Life Insurance sales rose by 25% over 2024

Life insurance applications rose by over 25% in the year to June 2024 as people sought to use insurance to mitigate inheritance tax following the 2024 Autumn Budget.

Life insurance payouts are free from income and capital gains tax, and if held in specific trusts, they can also be exempt from inheritance tax. This has led to a rise in protection plans as people aim to pass more wealth to the next generation. The recent Budget increased IHT on business assets, agricultural property, and AIM shares, and from 2027, previously excluded assets will be liable to IHT. (Source: FTAdviser)

Need more help or information?

Why not visit our website, **www.hoyl.co.uk**, where you'll find a range of helpful free resources, including the lastest Esmartmoney magazine.



This month covers a wide range of financial planning topics, including estate planning and why early 2025 is an ideal time to review your financial health, setting the tone for a prosperous and secure year ahead.

You're always welcome to get in touch with us here, or with your own dedicated financial adviser. If you've already taken steps to address your IHT liability, then please feel free to share this newsletter with a friend, family member or colleague you feel could benefit.

Our next Quarterly Update will be with you towards the end of April. Until then, we wish you well.