

Factsheet: Inheritance Tax & Care Fees Planning

CARE FEES PLANNING

Solving the problems of paying for care

Brownlow Wealth Management Ltd

Key facts and benefits

IHT nil-rate band

£325,000 for tax year 2011-12

A voluntary tax

It can be avoided with careful planning

Allowances, exemptions, reliefs

Effective ways to minimise the tax that is paid

Immediate tax savings

Setting up a Care Fees Plan is a tax efficient way to pay for care

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Inheritance Tax planning for those in care

Inheritance Tax (IHT) affects individuals whose assets on death exceed the IHT nil-rate band. This is currently set at £325,000 for the tax year 2011-12. However, no liability arises where the Estate is left to exempt beneficiaries such as a surviving spouse or charities. When he was Chancellor of the Exchequer, the late Roy Jenkins observed: "It is a voluntary levy, paid by those who distrust their heirs more than they dislike the Inland Revenue."

Anyone who is domiciled in the UK is liable to pay Inheritance Tax, which is levied on worldwide assets. These assets comprise an individual's savings, investments, the value of his or her share of ownership in any property and all other assets that are owned (or any share of jointly owned assets). Many people's main asset is their home, and it is the value of this property that can often take their Estate into an IHT liability.

Those who fall into this category are, in most cases, liable to pay for their own care. When individuals receive care, either at home or in a care home, funds from their own savings and investments can be utilised to pay for that care, in a tax efficient manner. This often reduces their eventual liability to IHT.

Immediate tax saving with a care fees plan

Setting up a care fees plan for an individual moving into a residential or nursing care home, or receiving care in his or her own home, could offer an immediate saving – providing there is an IHT liability in the first place. The single premium leaves the Estate immediately. This means that except where return of capital guarantees apply, the total net cost of the care fees plan is effectively only 60% of the capital spent, provided no other IHT measures have been taken to reduce the estate below the nil rate band. This is because, in the event of death, the estate above the nil-rate band would suffer IHT at 40%.

Minimise or avoid IHT

There are a number of gift allowances, reliefs and exemptions, as well as estate planning and IHT mitigation measures, which can reduce the IHT liability. But often these involve some loss of control of the assets – and that may conflict with the individual's desire to enjoy and pay for the best quality care available.

Gift allowances

Potentially Exempt Transfers (PETs) are totally excluded from IHT if the donor lives for seven years after this lifetime gift is made. Taper relief applies for PETs made more than three years before the date of death, so long as the gift is all or partly subject to IHT. For the gift to be effective, the donor must not reserve a benefit.

Tax free gifts, which include gifts between spouses or civil partners and donations to UK charities, certain national institutions and political parties, are totally exempt.

