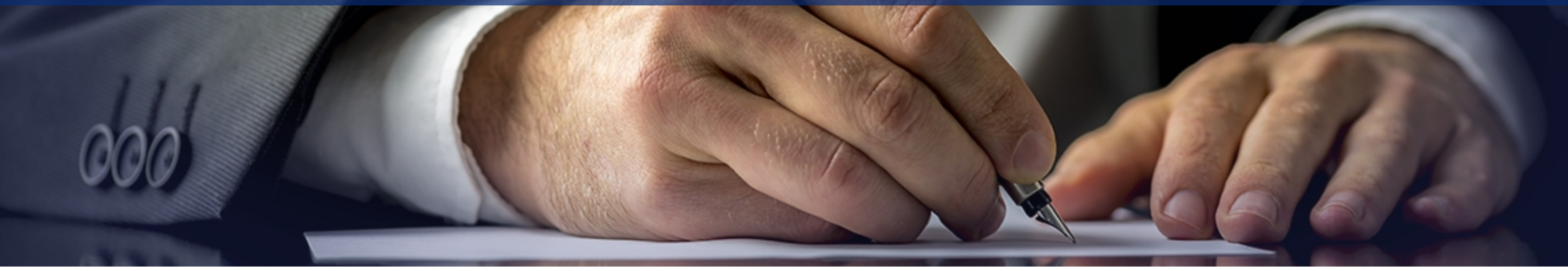
Tax efficient lifetime giving



You may wish to share your good fortune with others. However, before signing a cheque or transferring assets, it is important to understand the Inheritance Tax effects of making gifts and how you might achieve your aim in a tax efficient way.

Nil Rate Band

Each individual has a "Nil Rate Band" which is the value of their assets that can be gifted away before there may be a liability for Inheritance Tax. The current value of the Nil Rate Band is £325,000.

If, when you die, you have not used up your Nil Rate Band in the 7 years before your death, then it may be deducted from your estate for the purpose of calculating any Inheritance Tax payable on death.

Spouses and civil partners can utilise any unused portion of their deceased partner's Nil Rate Band on the second death (which is known as the "transferrable Nil Rate Band"). The amount available will depend on:

1. The date of the first death; and
2. How much of the first spouse's Nil Rate Band was used when they died.

Exemptions and Reliefs

The following are the some of the more usual exemptions and reliefs that can be used in relation to lifetime gifting of possibly significant assets:

- Spouse exemption – If you are both domiciled in the same country, all assets that you pass to your spouse or civil partner are given free of Inheritance Tax regardless of whether or not they exceed your Nil Rate Band.
- Charity exemption – gifts to qualifying charities are exempt from Inheritance tax.
- Business property relief - If you own shares in a qualifying company or run your own business, then, subject to certain conditions, you can leave these interests free from Inheritance Tax. Again, subject to conditions, Inheritance tax will be charged at 50% of the value of any qualifying assets such as land or buildings which are used by your own business.
- Agricultural property relief – Subject to conditions, it is possible to get either 100% or 50% relief from Inheritance Tax on any agricultural land or assets which fall within your estate.

Annual exemption

You can make cash gifts of up to £3,000 per year tax-free. In addition, if you have any portion of this tax-free allowance outstanding from the previous year, you can use that too so that you may be able to give up to a maximum of £6,000 in one year. Your spouse or civil partner has their own annual allowance that they can give away independently of you.

Small gifts allowance

You may make small gifts to any number of individuals during the year of up to £250 per person, provided that any one individual does not receive in excess of £250 in any one tax year.

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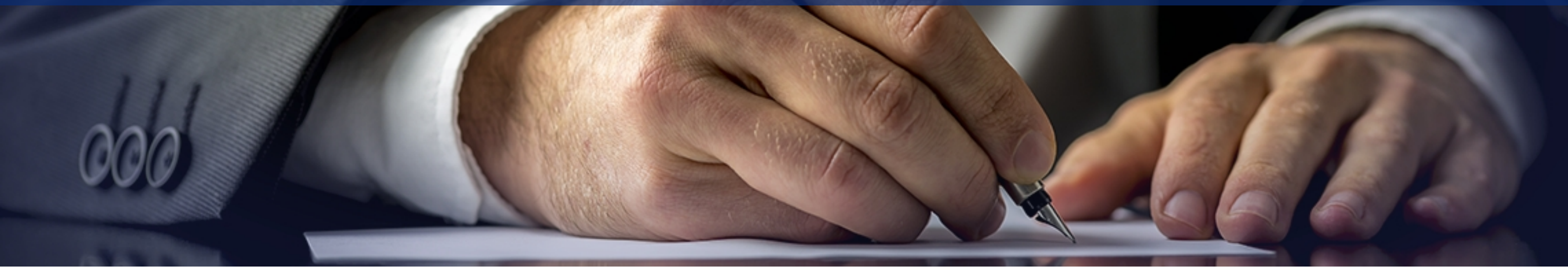

Gifts on Marriage

It is possible to make exempt gifts where the recipients are getting married. The amounts that you can give away depend on your family relationship to the couple. The amounts and relationships are as follows:

» Parents can give up to £5,000 per parent to the couple

» Grandparents and great-grandparents can give up to £2,500

» Any one else can give up to £1,000 to the couple

Normal expenditure gifts >

It is possible to give away significant sums of cash without using your available Nil Rate Band, provided that the gifts you make meet certain conditions. Gifts during your lifetime will be exempt from Inheritance Tax if they:

1. 1. form part of your normal expenditure;
2. 2. are paid out of your taxed income; and
3. 3. leave you with sufficient income to maintain your usual standard of living without having to supplement it with your capital.

Gifts you make can be part of your normal expenditure if they are made on a regular basis. You do not have to give the same amounts every year or even make gifts to the same people, but a structured pattern of income giving can make a real difference as part of your tax planning strategy for passing your wealth on.

Money you give away must be generated as income (for example investment income, i.e. rents from properties, pensions, interest and dividends) not capital (investments, houses, flats etc), and the gifts you make must not leave you short of income so that you have to supplement it with capital to fund your standard of living. The income which you give away must be from what is left after you have paid income tax on it.

Providing that you meet these requirements, you can effectively make gifts which are exempt from Inheritance Tax immediately, and therefore do not use up any portion of your Nil Rate Band even if you die within seven years of making the gifts.

Normal expenditure gifts can be very useful if you find that you are generating more income than you need, and which is adding to your wealth which you would otherwise pass down the generations when you die and which would therefore increase your estate's liability for Inheritance Tax.

This type of structured giving is particularly suited to providing funds for children and grandchildren. If you do not want to give individuals large sums, it is possible to make tax efficient gifts into a Settlement for their benefit, thus protecting assets from a variety of financial threats.

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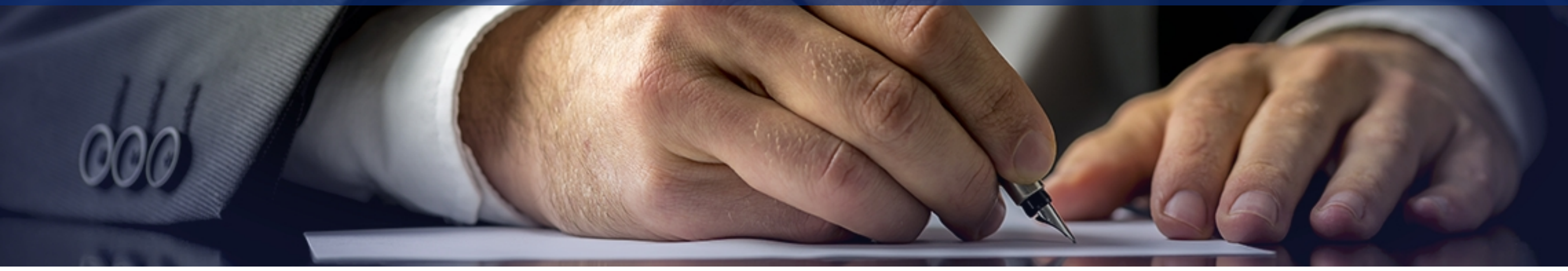

Capital Gains Tax and a note of caution

Capital Gains Tax ("CGT") is a tax on chargeable disposals that you make if the value of the asset when you dispose of it has risen from the value you acquired the asset at.

Gifts of cash are not subject to CGT. However, the gift of other assets may be a chargeable disposal for CGT purposes in the same way as it would have been if you had sold the asset rather than giving it away. CGT is charged at 18% of the gain for basic rate taxpayers and 28% for higher rate taxpayers.

If you decide to gift assets other than cash, you will need to take advice on the CGT consequences before you make the gift to find out if you will incur a tax liability.

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