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Tax-planning checklist

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1. Annual exemption – £3,000 (you can also use £5,000 for 2009/10 if not already used)
2. Small gifts exemption – £250 per donee (person receiving the gift) per tax year
3. Gifts out of normal expenditure – for example, premium payments to a life insurance policy under trust will often be a simple economic and acceptable way of providing cash on death that is free of Inheritance Tax (IHT) and using the annual and normal expenditure out if income exemptions
4. Annual allowance for gifts (and the nil rate band is therefore not used) your surviving spouse (or civil partner) can receive £250 per donee (person receiving the gift) per tax year
5. Exempt gifts – gifts made in a private capacity
6. Annual exemption for Chargeable Gifts
7. Gift Aid donations
8. Gifts on death to charity
9. Donations to charities
10. Gifts to charity before death
11. Other gifts made outside the estate
12. Gifts to individuals
13. Gifts to charities

Transferring assets may also be beneficial for avoiding Inheritance Tax. Lifetime gifts to bare trusts are Potentially Exempt Transfers. No inheritance tax is due on these ‘PETs’ if the donor survives for seven years. If the asset is sold within seven years there may be an IHT charge if the donor dies within that time so don’t spend all the money.

One of the simplest methods of inheritance tax planning is to make full use of each year’s annual exemptions, such as:

- Annual exemption – £3,000
- Small gifts exemption – £250 per donee (person receiving the gift) per tax year
- Gifts out of normal expenditure – for example, premium payments to a life insurance policy under trust will often be a simple economic and acceptable way of providing cash on death that is free of Inheritance Tax (IHT) and using the annual and normal expenditure out if income exemptions

If you’re living with your partner, but not legally married, your estate could be left with a large inheritance tax bill as a result. This is because if you leave your estate to your partner and the value exceeds £325,000 then tax will be due at 40 per cent. However, if you have married the entire transfer is exempt.

The other benefit of being married is that if your estate passes to your spouse on death (and the nil rate band is therefore not used) your surviving spouse will then have the benefit of both nil rate bands, increasing the tax exempt element to £650,000.

For every £1 donated, your charity can receive 28 pence, so the total value of the donation is £1.28. A higher rate taxpayer can then claim back the difference between the higher rate of tax at 40 per cent and the basic rate of tax at 20 per cent on the total value of their gross donation.

This article simply provides some general planning ideas & touches on a number of areas that may be of interest. However, consideration should always be given to your overall financial position before making any decisions. For more in depth information on any of the above areas, please contact us on 0121 685 3560 or to download a free financial guide for dentists please visit www.essential-money.co.uk

Thomas Dickson was brought up in Hong Kong and studied Aston University, Birmingham, and in Tokyo. Thomas started working as a financial adviser in 1995, became an Independent Financial Adviser in 1996, and is now a Director of Essential Money Limited. Essential Money provides independent financial advice to dentists throughout the UK. Thomas has been awarded the Advanced Financial Planning Certificate by the Chartered Insurance Institute and is a Certified Financial Planner.

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