

REDUCING YOUR INHERITANCE TAX BILL BY LEAVING A LEGACY TO NEW COLLEGE

Gifts to the New College Development Fund are exempt from Inheritance Tax (IHT) in the UK, and there is now a further incentive when you leave 10% or more of your net estate to charity. If you leave charitable gifts in your will that amount to 10% or more of your chargeable net estate, the IHT rate on the whole of your estate will be reduced from 40% to 36%. Below are examples of how this would work in practice.

EXAMPLE 1 (for a gross estate of £500,000)

Without a charitable bequest		With a 10% charitable bequest	
Gross estate	£500,000	Gross estate	£500,000
Less nil band	-£325,000	Less nil band	-£325,000
Net Estate	£175,000	Net Estate	£175,000
No charitable donation	£0	Less bequest of 10%	-£17,500
Taxable estate	£175,000	Taxable estate	£157,500
Less IHT at 40%	-£70,000	Less IHT at 36%	-£56,700
Remaining Estate (incl. nil rate band)	£430,000	Remaining Estate (incl. nil rate band)	£425,800

Therefore the estate's beneficiaries would forego the sum of: £4,200

But the charity (or charities) would benefit from a total of: £17,500

EXAMPLE 2 (for a gross estate of £1,000,000)

Without a charitable bequest		With a 10% charitable bequest	
Gross estate	£1,000,000	Gross estate	£1,000,000
Less nil band	-£325,000	Less nil band	-£325,000
Net Estate	£675,000	Net Estate	£675,000
No charitable donation	£0	Less bequest of 10%	-£67,500
Taxable estate	£675,000	Taxable estate	£607,500
Less IHT at 40%	-£270,000	Less IHT at 36%	-£218,700
Remaining Estate (incl. nil rate band)	£730,000	Remaining Estate (incl. nil rate band)	£713,800

Therefore the estate's beneficiaries would forego the sum of: £16,200

But the charity (or charities) would benefit from a total of: £67,500

Please note that the above is for illustrative purposes only and we do encourage you to seek professional advice in regard to your own personal circumstances.

Reduced rate for gifts to charity: charitable giving condition: charitable legacy worded to meet the 10% test

HMRC gives the following advice in relation to specific wording for your will, (which can be found at www.hmrc.gov.uk/manuals/ihtmanual/ihtm45008.htm):

“To avoid the need to continually revise charitable legacies in Wills, a clause may be worded so that a specific legacy to charity will always meet the 10% test. An example is given below and, where such wording is used, you can accept that a specific legacy to charity will always meet the 10% test.

EXAMPLE

“I give to the New College Development Fund (Registered Charity No. 900202) such a sum as shall constitute a donated amount equal to 10 [*or larger figure*] per cent (%) of the baseline amount in relation to the general component of my estate. The legacy given by this clause shall in no event be less than [*£xxx*] whether or not the lower rate of tax shall be applicable”

The clause may be followed by other administrative provisions, but the essential wording to qualify for the reduced rate is that shown above. It follows from the wording of this clause that the amount of the legacy may not be known until the value of the estate is settled and the amount of charity exemption will change as the value of the estate changes.

The first part of the clause ensures that the charitable legacy will meet the requirements for the reduced rate. The final sentence allows for cases where, even if the estate is not liable to Inheritance Tax, a legacy will still be payable to the charity.”

The HMRC website also provides an online calculator to help you establish whether a charitable legacy will meet the qualifying criteria. It can be found at:

www.hmrc.gov.uk/tools/iht-reduced-rate/calculator.htm