

Charitable legacies - new inheritance tax relief

The Chancellor introduced a new inheritance tax relief in the budget. The effect of the relief is that a testator leaving 10% or more of their estate to a charity will benefit from a 10% reduction in the rate at which they pay inheritance tax from 40% to 36%.

The new relief is probably best illustrated by an example. William draws up his Will and leaves a legacy of 10% of his estate to a religious charity. The remainder of his estate goes to non-exempt beneficiaries for inheritance tax purposes, his children. William's estate is valued at £500,000 as at the date of his death. £50,000 goes to the religious charity. This leaves £450,000. £325,000 of this passes tax free, which is the "nil rate band", as everyone's estate is exempt from inheritance tax up to this threshold.

The amount of tax payable on William's estate will be £45,000 (i.e. 36% of £125,000). The children will receive a combined legacy of £405,000. If William had left no charitable legacy his executors would have had to pay tax of £70,000 and there would have been a legacy of £430,000 for his children.

What is the intended effect of this change? The Government hopes that this inheritance tax relief will bring a windfall of £300 million to charities within 3 years of its introduction. Many charities, particularly those with significant legacy incomes, will welcome the change.

What will be the practical effect? It is difficult, at this stage, to say whether the new inheritance tax relief available will lead to a significant increase in charitable giving. It is certainly a marketing angle which charities can exploit. However, many commentators believe that those who intend to benefit charities through their Wills will continue to do so. Whether it has any impact on those who, at present, do not benefit charities remains to be seen.

As one commentator has noted perhaps the main change will be the way legacies are left to charities in Wills. Rather than leaving a set amount, testators may now choose to leave a percentage of their estate in order that their estate qualifies for the new tax relief.

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