

## Completing Inheritance Tax Forms

## Guide to completing Inheritance Tax Forms

### What is Inheritance Tax?

Inheritance tax (“IHT”) is a tax that arises out of the value of the estate of someone who has died. It is usually the estate itself (and the Executors of it) who are charged with the responsibility of completing an account/return to HMRC and who are responsible for ensuring the correct payment of IHT.

### Executor Duties?

If you have been named as an executor on the deceased’s Will, you will first need to assess whether the estate is subject to a requirement to pay IHT. If the deceased had no Will or the Will was invalid, then the executor role is termed ‘Administrator’ and you will usually have been appointed Administrator if you are one of the primary beneficiaries of the estate.

### Are Inheritance Tax (IHT) forms required to be completed?

Depending on the estimate of estate value, it may be a requirement to complete a set of Inheritance Tax forms (IHT400 and supplementary forms) and to submit the same to HMRC Capital Taxes. Submitting IHT forms is a process undertaken at the same time as submitting an application for the Grant of Probate (or Letters of Administration where there is no Will).

### Form IHT205

A recent change is that Form IHT205 is now not required for an ‘excepted estates’ and this will save some time and cost for the estate in not requiring this. Please check with us what is classified as ‘excepted estates’ under the current rules.

## Form IHT400

If the deceased's estate does not qualify as an 'excepted estate' confirming that Inheritance Tax will be payable, form IHT400 will usually be required to be submitted. Please take advice and ask for assistance in completing this process.

In addition to the IHT400 itself, there are a number of ancillary forms and requirements to be covered.

### 'Excepted Estates'

Please take advice from us as to what is considered an 'excepted estate' and whether IHT accounts are required in your particular case. Whether an estate is excepted relates to overall asset size and the impact of IHT reliefs that are in place. For instance, estates up to £3m in overall value may be deemed the equivalent of an excepted estate where there is a spouse inheriting the full value of the estate. So that may mean for most estates where the spouse inherits the estate in full that a full IHT400 is unlikely to be required.

### Inheritance Tax reference number

If there is Inheritance Tax payable, you will need an Inheritance Tax reference number along with a payslip from HMRC. To apply for an Inheritance Tax reference and payslip you will need to fill in **form IHT422** and attach this with form IHT400.

The deadline for payment of Inheritance Tax is within six months of the end of the month of the deceased's death. If you are late with payment HMRC will charge interest (which is usually around 3.25% per annum, as at May 2022).

### Paying Inheritance Tax

Usually, the financial assets of the Deceased are used to pay IHT. Most financial institutions permit release of funds for IHT payments in advance of applying for Probate. So it is a rarity for estates to require finance for IHT payments. If a beneficiary is paying Inheritance Tax from own personal funds,

he/she can claim repayment from the deceased's estate once Grant of Probate is obtained and funds released from (say) a property sale.

## **Paying Inheritance Tax by Instalments**

Where IHT is payable, you can usually elect to pay the IHT that relates to the property assets over a period of 10 yearly instalments.

Example: If (say) at the date of death the property value was worth £1m and the rest of financial assets are also worth £1m, then the property share is 50% of the total estate of £2m. If the overall IHT bill is say £400,000, then 50% of this IHT bill can be paid over 10 yearly instalments. The first payment (at the end of 6 months following month of death) might therefore be comprised:

£200,000 (relating to the financial assets); and

£20,000 (first year instalment of IHT relating to the property assets).

Total: £220,000. All of this can hopefully be paid from the financial assets without therefore requiring property to be sold. Remaining payments would be paid of £20,000 per annum for 9 years and interest at prevailing rate (3.25% p.a. as at May 2022).

Note: if the property asset is sold, all outstanding IHT becomes immediately payable following completion. That is because the property is no longer property and is instead capital. The instalment option then ceases to apply.

## **Contact Us**

For more information and for an initial discussion for advice please contact us on:

Email: [info@protrustconsulting.co.uk](mailto:info@protrustconsulting.co.uk)

Telephone: 0207 113 5760