Paying for CV19: Time to make a plan

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THE cost of the coronavirus pandemic on UK finances has been huge. Estimates of government borrowing range between £263bn and £391bn for 2020/21 and the likelihood is that spending will need to continue to rise, at least for the short to medium term.

It is perhaps inevitable that the Treasury will seek ways to rebalance the drain on public finances. Press speculation has suggested that one way of doing so might be through an attack on Inheritance Tax (IHT) reliefs.

Back in January, an all-party report recommended reform of the UK's IHT regime. One radical proposal was the repeal of many of the existing IHT reliefs, including Agricultural Property Relief (APR) and Business Property Relief (BPR). This would be a monumental change and of huge significance for farmers, landowners and business owners.

Though not pursued by the UK Government as yet, the report should be a reminder to taxpayers to ensure that they have, and maintain, a succession plan. Current IHT reliefs may not be with us forever.

Take advantage of existing reliefs

APR is a relief given on the value of land and buildings used in agriculture. It is an extremely valuable relief, providing 100% IHT relief on values based on the notional assumption that the asset can only ever be used for agricultural purposes. Farming and other trading businesses can also take advantage of BPR to seek relief of 100% on the remainder of the business assets.

There are however significant exceptions to the assets covered by APR and BPR, such as rental cottages and land with significant development potential. Therefore regular reviews of farm/estate activities should be carried out to identify and deal with any assets that may not qualify for relief.

Keep things flexible

Tax laws are always subject to change and it is crucial to keep things under review and also have a will prepared and updated as required. One measure which can give some protection against future uncertainty is a 'discretionary will', under which assets are left to a trust on death, with trustees managing the assets at their discretion for the benefit of identified beneficiaries. The sheer flexibility of the discretionary will makes it an ideal vehicle for adapting to changing circumstances, allowing trustees to manage the assets in light of the tax regime that applies at the time and not necessarily the regime that applied when the will was made.

Powers of attorney

Appointing trusted individuals to manage assets is not restricted to wills. A properly drafted power of attorney can allow an attorney to continue tax and estate planning work, or to make changes where appropriate, where the granter is no longer able to do so themselves.

It remains to be seen how the government will plug the UK spending gap but what is not in doubt is that the costs of CV19, both human and economic, will be with us for a long time. Estate planning has never been more important.