Discover How to Avoid the 5 Most Common — and Costly — Inheritance Tax mistakes Executors Make

GOOD WILLS

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Why This Guide Matters

As an Executor, you have a legal duty to ensure all inheritance tax forms are completed correctly and all available exemptions and reliefs are claimed when filing the Estate Return to HMRC. Missing out on these can mean:

- Beneficiaries inherit less than they should.
- Interest and penalties are payable to HMRC.
- Executors are held personally liable for any shortfall, interest and penalties.

Many Executors mistakenly believe HMRC will automatically apply all allowances and reliefs or alert them to unclaimed exemptions and reliefs. In reality, HMRC will not do this — so it's vital to get it right.

Introduction

If you've been appointed as the Executor of an Estate, you're facing a significant responsibility. Not only must you ensure the Will is properly understood and the Estate is correctly valued, but you are also personally liable for making sure all inheritance tax is paid correctly.

Many Executors are surprised by the complexity of the process and the number of forms and calculations required. The risk of missing out on valuable tax reliefs is high — and the consequences can be costly, both for the Estate's beneficiaries and for you personally.

This guide is designed to help you avoid the most common and expensive inheritance tax mistakes Executors make. You'll learn about some of the allowances available and why it's essential to get expert help.

By the end of this guide, you'll understand the key pitfalls to avoid, the steps you need to take, and how to ensure you're not paying more inheritance tax than necessary.

The 5 Most Common and Costly Inheritance Tax Mistakes Executors Make

1

Not Deducting All Inheritance Tax Allowances

Many Executors are unaware of the full range of reliefs and allowances available when calculating inheritance tax. These allowances can make a substantial difference to the final tax bill.

Exemptions and allowances may be available on assets that pass to a spouse or civil partner, businesses, agricultural assets, charities or gifts.

Why it matters:
If you fail to claim all available allowances, the Estate could pay thousands more in inheritance tax than necessary. This reduces the amount beneficiaries receive and could leave you, in your capacity as the Executor, personally liable for any shortfall, interest and penalties.

Impact of ignoring this:
Missing out on allowances and reliefs means less money for the deceased's loved ones and more for HMRC.

Solution:
Always check which allowances and reliefs apply to the Estate and seek expert advice to ensure nothing is missed.

Example:
We helped an Executor claim all the available allowances and reliefs, which resulted in a saving of more than £100,000 in inheritance tax.

Reminder:
Don't assume the standard nil-rate band allowance is all that's available — there may be additional reliefs you can claim.

2 Not Claiming Inheritance Tax allowances for the Main Residence (including if the Deceased Sold Their Main Residence) Within 2 years of the Death

The Residence Nil Rate Band (RNRB) can provide significant tax relief, but strict rules and deadlines apply — especially if the deceased sold their main residence before death.

This is an allowance that takes the form of an extra amount that can be offset against the value of property that has at some point been occupied as the deceased's main residence and which is being inherited by the children, stepchildren or grandchildren of the deceased.

There are downsizing provisions that allow this allowance to be claimed even if the deceased sold the property during their lifetime.

This is a complex allowance and Executors should properly understand how this works.

Why it matters:

If you don't claim the RNRB within two years of the death, you could lose out on this valuable relief entirely.

Impact of ignoring this:

Missing the deadline can result in a much higher inheritance tax bill, reducing the Estate for the beneficiaries and leaving you personally liable for any shortfall.

Solution:

Act promptly and ensure all relevant forms are completed and filed within the required timeframe.

Example:

We were instructed to assist an Executor in an Estate. We obtained all the relevant information within weeks of the death and submitted the return to ensure the available RNRB was picked up. We were also able to transfer the unclaimed RNRB of the deceased's late spouse, resulting in the beneficiaries receiving nearly £50,000 more inheritance.

Reminder:

Even if the main residence was sold, relief may still be available under the downsizing provisions — don't overlook this opportunity and always take advice to be certain.

3

Failing to Include the Value of Trust Assets When the Deceased Had a Right to Benefit

If the deceased had a right to benefit from assets held in a trust, the value of these assets must be included in the Estate for Inheritance Tax purposes.

It doesn't make a difference if the deceased had no control over what happened to the assets on their death, for inheritance tax purposes the assets are treated as having belonged to the deceased.

Why it matters:

Omitting trust asset values can lead to incorrect calculations and potential interest and penalties from HMRC.

Impact of ignoring this:

The Estate may be subject to investigation, and you could be held personally liable for any underpaid tax, interest of the unpaid tax, and penalties.

Solution:

Investigate and carefully review the deceased's financial affairs. Seek advice if trusts are involved.

Example:

We were instructed to deal with an Estate on behalf of the Executors to ascertain the deceased's assets and file the necessary return and supplementary forms to HMRC.

We carried out a full asset and liabilities search on the Estate and obtained the valuations HMRC requires. We reviewed the trusts the deceased had a right to benefit from and reported these on the forms.

During our investigation of the Estate, it transpired that the deceased's late spouse's Estate had not been filed correctly regarding a trust they had the right to benefit from. We submitted a corrective account which resulted in HMRC providing a refund of more than £6,000 to the Executors for distribution among the beneficiaries of the late spouse's Estate.

Reminder:

Trusts can be complete — don't try to navigate them alone.

4 Not First Deducting the Annual Gifting Allowance When Reporting Gifts Made in the 7 Years Prior to Death

Gifts made in the 7 years before death may be subject to inheritance tax, but the annual gifting allowance can reduce or eliminate the tax due on these gifts.

Why it matters:

Failing to apply the annual allowances means the Estate could pay tax unnecessarily.

Impact of ignoring this:

The Estate may pay more tax than required, reducing the inheritance for beneficiaries.

Solution:

Review all gifts made by the deceased in the 7 years prior to the death and deduct the annual allowance before calculating any tax due. If the allowance wasn't used one year, this can be carried over, but only for one year.

Example:

We went through records the deceased had kept and reviewed their bank statements for 7 years prior to the death to ascertain all the gifts that were made by the deceased. These figures were recorded, with the annual allowance deducted and the balance of the figures reported in the account to HMRC.

HMRC requested more information about the gifts. We were able to supply the information we had prepared which satisfied HMRC and they accepted the value of the gifts with the deductions.

Had the annual allowance amounts not been deducted, this would have resulted in inheritance tax being calculated on £21,000 more than was necessary.

Reminder:

Keep detailed records of gifts to support your calculations.

5 Not Having Access to the Information HMRC Requires When Claiming Relief on Gifts Made Out of Surplus Income

Gifts made out of surplus income can be exempt from inheritance tax, but only if you have the right supporting evidence and in order to qualify, the gifts must satisfy HMRC's strict rules.

Why it matters:

Without proper records, HMRC will not allow this relief to be claimed, and the gifts will be treated as part of the taxable Estate.

Impact of ignoring this:

Potentially valuable reliefs are lost, and the Estate pays more tax which results in the beneficiaries receiving less inheritance.

Solution:

The deceased should keep records of their annual income and expenditure so you can gather all the necessary financial records and evidence before making the claim.

Example:

We were named as professional Executors in the Will of one of our clients. When we took instructions for his Will, we went over the various gifting allowances including gifts out of surplus income. We advised the client what information would be required in order to claim this relief when he passed away and provided him with a form to complete each year.

When the client passed away, we found the forms he had completed and were able to provide this information to HMRC and make a successful claim for this relief.

This resulted in an inheritance tax saving of more than £45,000.

Reminder:

Keep good records and if in doubt, seek professional advice to ensure you have everything HMRC needs.

Real-Life Consequences

If all allowances are not claimed, more inheritance tax may be due. This reduces what beneficiaries receive, and Executors can be held personally responsible for the shortfall.

We were approached to assist an Executor to deal with a complex Estate that included trusts and gifts which were made by the deceased in the 7 years prior to death. We reviewed the trust instrument and supporting documents and made a record of the gifts. We completed the HMRC IHT Return and supplementary forms claiming all the available inheritance tax allowances and reliefs which resulted in a saving of more than £128,000 in inheritance tax.

What Should You Do Next?

Seek legal advice to ensure all the inheritance tax return forms are filed correctly and all the available exemptions and reliefs are claimed.

Expert assistance can help you avoid costly mistakes and protect you from personal liability such as having to pay tax that you didn't need to pay.

Put in place a plan of action to minimise your liability

In this call we will:

- Explore your role as an Executor
- Discuss the Estate
- Put in place a plan of action to minimise your liability

Get peace of mind and ensure you're not missing out on valuable inheritance tax allowances and reliefs. Arrange an Executor Protection Call with us to discuss how we can assist you.

Call us on **01293 978979**
E-mail us on **clientsupport@good-wills.co.uk**
Book using this **link**
Or visit **good-wills.co.uk**

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I am a Trusts and Estates Practitioner at Good Wills Law Ltd, a specialist law firm with over 10 years' experience in Probate and full Estate Administration.

We work closely with Executors, offering expert assistance through every stage of the process. You will receive regular updates and clear communication throughout the course of your matter.

We are happy to support non-professional Executors who wish to handle some aspects of the work themselves, ensuring you have the right level of help and reassurance at every step.

Arrange your free 15-minute Executor Protection Call to discuss how we can help you.

What others say:

"Thank you so much for all your support with this. You and your team have been absolutely wonderful and incredibly helpful."

"I just want to say thank you so much for all your help with Chris's probate, I can't believe it was so quick, I really appreciate your work for me."

"Thank you for being so amazing and patient with us."

"Thank you for all your great work."

"I wanted to say a huge thank you to you for your support and your honesty. I am truly grateful. You've also kept costs to a minimum and to be honest I didn't expect anything back but I am also grateful to receive back the extra too.

Thank you again to you and your team and I most certainly will recommend you to others and access you again when needed."

"You made something I was dreading very smooth. Solicitors sometimes get a bad rap but I am going to stand up for them now!!"

"Thank you very much for all your work getting us through this difficult process."