

A guide to Inheritance Tax

Ensure you maximise your allowances



What is inheritance Tax?

Inheritance Tax (IHT) is the tax paid on the money or possessions you leave behind when you die (and on some gifts you make during your lifetime). Before assessing your IHT liability on your death, your assets are added together (in addition to any relevant gifts made in your lifetime) and any debts are taken off this figure. Your IHT liability must be paid before a Grant of Probate can be applied for.

Inheritance Tax rates

Inheritance tax is payable at two rates:

- 0% on the first £325,000 (known as the IHT threshold or nil rate band)
- 40% on the balance above the threshold.

The threshold is subject to change but is currently frozen until 2017/2018.

New rules for married couples / civil partners

From 9th October 2007, any unused proportion of your IHT allowance can be transferred to the estate of your surviving spouse or civil partner for use on their death.

Therefore, depending on the individual circumstances, this can increase the allowance available to the surviving spouse or partner from £325,000 up to £650,000. The maximum proportion which can be claimed is 100%.

This allowance can be built up from the estates of more than one deceased spouse or civil partner.

Gifts

There are a number of gifts that you can make during your lifetime (or in your will) that are free of IHT:

- Gifts between spouses or civil partners who are both domiciled in the UK
- Gifts to UK charities
- Gifts out of income paid as part of your normal expenditure (provided such payments do not encroach on your capital)
- Certain wedding gifts to family members (up to specified limits)
- Gifts totalling £3000 each tax year
- Small gifts of up to £250 a person each tax year
- Gifts made to individuals over seven years ago (provided no benefit in the gift is reserved by you)
- Gifts of assets which qualify for Business or Agricultural Property Relief

This is not intended as an extensive list but a guide to some of the exemptions and reliefs available. There are various methods of avoiding or mitigating inheritance tax. Seeking appropriate advice is therefore recommended.

The information in this guide has been prepared to give the reader a brief outline of the area of law to which it relates.

Tallents do not accept any responsibility for any loss that you may incur if you make decisions based on this guide without seeking the detailed advice of a solicitor. The law referred to is correct at the time of going to press but the law is always changing and affects each person differently.

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