

Lifetime gifts and Inheritance Tax

Mitigating the tax due on your death



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). If the value of your estate exceeds the IHT threshold (currently £325,000) then tax is payable on the balance at the rate of 40%.

There are some exemptions available to mitigate the tax that may be due on your death.

Exempt beneficiaries

IHT is not payable on:

- Gifts between spouses or civil partners who are both domiciled in the UK
- Gifts to qualifying UK charities or certain national institutions, museums or universities
- Gifts to a UK political party, subject certain rules.

Annual exemption

Every individual can give away £3,000 each tax year, free of IHT. You can carry forward any unused allowance, or part allowance, for one year only.

Exempt gifts

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

- Certain wedding gifts to family members (up to specified limits)
- Small gifts of up to £250 per person each tax year. You can give £250 to as many individuals as you like but if you give the same person more than £250 during the tax year, then the entire small gift exemption is lost.
- Gifts made out of income as part of your normal expenditure (provided such payments do not encroach on your capital funds). Such gifts require detailed record keeping as to your annual income and expenditure.
- Gifts of assets which qualify for Business or Agricultural Property Relief

The Seven Year Rule

Gifts to individuals are exempt from IHT if you survive for seven years after making the gift. These are known as Potentially Exempt Transfers or PETs.

You cannot retain an interest in any gift made. For example, giving your home to your children but continuing to live there rent free. If you die within seven years of the gift, its value will be added back onto your estate to assess any IHT due.

Subject to the value of the gift, IHT may be payable by the person who received the gift or by the Executor of your estate.

If the value of the gift exceeded the IHT threshold when it was made, relief may be due if you die between three and seven years of making the gift.

Keeping records

It is extremely helpful to the Executor of your estate if you keep an accurate record of all gifts made and note which exemption or relief was applied.

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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