

## Inheritance Tax Summary

One way to reduce the exposure to IHT is to reduce the assets in the estate during lifetime by making lifetime gifts. A lifetime gift will be either a potentially exempt transfer, a chargeable lifetime transfer or an exempt transfer. Below are some of the basic exempt transfers that you can make and a few details on potentially exempt transfers.

### Annual allowance and small gifts

As you may be aware, every UK taxpayer has an annual allowance of £3,000 for Inheritance Tax purposes and you can also make an unlimited number of gifts of £250 to any number of recipients. The small gift exemption will only apply where the value of all gifts in a year to any individual does not exceed £250 and a party who has received part of the £3,000 annual gift cannot also benefit from the £250 small gift allowance. The annual allowance of £3,000 if unused can be carried forward one year. The small gift exemption cannot be carried forward.

### Gifts out of income

For the gifts to be exempt from IHT under these rules, the gifts must become part of your normal/habitual expenditure, be made from income and not capital and should leave you with sufficient income to maintain your usual standard of living.

### Gifts on marriage

Gifts in consideration of marriage are exempt from inheritance tax on the value transferred up to the following limits:

- £5,000 by a parent of either party to the marriage.
- £2,500 by one party to the marriage to the other or by a grandparent or remoter ancestor.
- £1,000 in any other case.

The gift should be made 'on or shortly before the marriage' and to be fully effective on the marriage taking place. Gifts or settlements made after marriage or civil partnership do not qualify for the exemption unless made in the fulfilment of a binding promise before marriage.

### Potentially exempt transfer

Potentially exempt transfers (PETs) enable an individual to make specified gifts of unlimited value which will not be subject to tax if the individual survives for a period of 7 years following the gift. Inheritance tax taper relief will apply if the transferor survives the gift by three years but not by the full seven. Please note that there is no limit to the amount you can gift as a PET, although if you gift assets rather than cash you would need to consider the capital gains tax implications.

If you are making PETs, it is advisable to write a letter stating clearly the amount of the gift and that you intend for this to be an outright gift so that this cannot be contested at a later date.

All gifts should be recorded along with a record of who the gift was made to and any of the above exemptions that apply and with a copy of any letters or documentation that are relevant. We would be happy to assist with drafting the relevant letters for you and to keep a record of all your gifts if this would be helpful.



## Gifts with Reservations

'Gifts with Reservations' is legislation which does not allow an individual (donor) to make a gift, for example their home, whilst still gaining the benefits from it. Where such a gift is made, and the individual is still benefiting from the property up until the time of death, the property remains within the donor's estate for IHT purposes. If it ceases before then, a potentially exempt transfer is treated as occurring.

## Nil Rate Band (NRB)

There is a nil rate band for all individuals which is currently £325,000. Any assets within this band are taxed at 0%. The NRB is available regardless of the level of assets, it can be used on lifetime transfers as well as on death and can be transferred between spouses.

## Residence Nil Rate Band (RNRB)

In addition to the NRB, is also the residential NRB, introduced in April 2017 where an interest in a main residence passes to direct descendants. The amount of relief is being phased in over four years; starting at £100,000 in the first year and rising to £175,000 in 2020/21.

The additional threshold will be gradually withdrawn, or tapered away, for an estate valued at more than £2 million, even if a home is left to direct descendants. The additional threshold will be reduced by £1 for every £2 that the value of the estate exceeds £2 million. Therefore, estates worth £2,350,000 or more (in 2020/21) will not benefit from the RNRB.

The family home doesn't need to be owned on death to qualify. This is of assistance to those who may have downsized or sold their property.

In ascertaining the value of your estate for the purpose of calculating the available RNRB, it is the value before any IHT reliefs, such as BR and AR, that is considered. Even if you reduce the value of your taxable estate by investing in Business and/ or Agricultural Property the RNRB will not be available if you own these assets at date of death and the estate is valued at over £2.35 million.

## Conclusion

This is a very brief summary of the basic IHT exemptions and PETs. Please note that these should all be considered within the overall position and it is important to consider that amount of income and capital you might require for the future before making any gifts.

 [info@hfp.co.uk](mailto:info@hfp.co.uk)

 01382 200055

