

Inheritance tax

Naturally, you will want to protect your wealth for the benefit of those you care for and that survive you. Remaining firmly within the law, we can help you to achieve this and give you the peace of mind that the money you've worked hard for, will reach the intended recipients.

Inheritance tax (IHT) is payable at 40% on transfers on death and at 20% on lifetime transfers.

In this guidance note, we briefly explain exemptions, reliefs and potentially exempt transfers. The area is complex, and to protect your wealth and those you wish to benefit, advice specific to your circumstances should be obtained before embarking on a course of action.

On death, IHT is not payable on the first £325,000 worth of transfers, provided the allowance hasn't been used up with lifetime gifts. The unused nil rate band can be transferred to the surviving spouse if certain conditions are satisfied. From April 2017, a new additional allowance of £100,000 will become available where a person leaves their home to their descendants. This allowance will increase over the next 3 years. It does not apply in all circumstances - please ask us to advise on your particular circumstances.

Main exemptions and reliefs from inheritance tax

Transfers between husband and wife

Transfers during life or on death between you and your spouse are wholly exempt, provided the recipient spouse is domiciled in the United Kingdom. If not, an exemption limit of £325,000 applies.

Annual exemption

Transfers during life up to a total of £3,000 in any one tax year are exempt together with any unused part of the previous year's exemption.

Small gifts

Transfers during life to any one person in each tax year are exempt if the total value transferred to that person does not exceed £250. These cannot be added to the annual exemption above.

Normal expenditure

Transfers made out of the transferor's income which are part of his normal expenditure are exempt provided that after allowing for all such transfers the transferor is left with sufficient income to maintain his usual standard of living. E.g. if you have income (either earned, from investment or another source) which



exceeds your requirements you might choose to give away from of that surplus on a regular basis. If you did so, that would be tax free.

Gifts on marriage

Parents can give up to £5,000 as a tax free gift on marriage. Other family members can give up to £2,500, any other person can give £1,000.

Maintenance of family

You may choose to set up arrangements for maintenance, education or training of a child (e.g. payment of school/university fees). These transfers during life are not taxed. Payments for maintenance of a spouse or former spouse are also exempt. Other exemptions also apply, e.g. provisions for the care of a dependent relative.

Other

Transfers during life or on death to charities are exempt, as are transfers to recognised political parties if made more than one year before the transferor's death. Transfers during life or on death to certain bodies such as National Gallery, British Museum, National Trust and Universities in the United Kingdom and also those for public benefit are totally exempt.

Business and agricultural property

If you own or part own a trading company (excluding investment companies) and have done so for at least 2 years, then those assets will normally be free of Inheritance Tax.

Useful to know...

If, after someone's death, it's evident that not all relevant IHT exemptions have been put to effect, then the beneficiary of the will (or beneficiaries if all over 18) can seek to vary the will up to 2 years after the deceased's death i.e. – tax savings can be made retrospectively. Talk to us for more information.

Gifts without reservation of benefit

In order that the recipient does not to pay IHT on a gift, you must not receive any benefit from it once given. This can be a grey area and important to consider carefully. If you gift a painting to someone, it cannot remain in your home. One might think that gifting a second home to your children is a safe way to avoid IHT, but if you still use the holiday home, it will be subject to IHT on your death. An exception may be made if you pay rent for its use.

Potentially exempt transfers (PETs)

Once you have survived a gift by 7 years, it becomes exempt. There is 'taper relief' on tax payable if you survive the gift by between 3 and 7 years. For gifts to fall into



the PET category, they MUST be made to individuals and not into trust. One exception is the transfer into a 'bare trust' for minors, which effectively holds the funds until the individual reaches 18. However, all gifts are of course exempt if they are within the nil rate band £325,000.

Charitable gifts can bring down the rate of IHT

In giving 10% of your estate to charity, the remainder of your taxable estate is taxed at a rate of 36% rather than the usual 40%.

In this document, we've tried to give you a summary of the key issues relating to inheritance tax. In talking through your particular issues, we can address the more detailed aspects of these provisions and ensure that any inheritance is protected as much as possible, and within the legal framework.

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