Inheritance Tax Notes

Gifts and allowances.

You can make exempt gifts to:

- your husband, wife or civil partner, as long as they have a permanent home in the UK
- a 'qualifying' charity established in the EU or another specified country (find out more in the link below)
- some national institutions such as museums, universities and the National Trust
- any UK political party that has at least two members elected to the House of Commons or has one elected member, but the party received at least 150,000 votes

Annual exemption

You can give away gifts worth up to £3,000 in total in each tax year and these gifts will be exempt from Inheritance Tax when you die. You can carry forward any unused part of the £3,000 exemption to the following year, but if you don't use it in that year, the carried-over exemption expires.

Exempt gifts

Some gifts made during your lifetime are exempt from Inheritance Tax because of the type of gift or the reason for making it.

Wedding gifts/civil partnership ceremony gifts

Wedding or civil partnership ceremony gifts are exempt from Inheritance Tax, subject to certain limits:

- parents can each give cash or gifts worth £5,000
- grandparents and great grandparents can each give cash or gifts worth £2,500
- anyone else can give cash or gifts worth £1,000

You have to make the gift - or promise to make it - on or shortly before the date of the wedding or civil partnership ceremony. If the ceremony is called off and you still make the gift - or if you make the gift after the ceremony without having promised it first - this exemption won't apply.

Small gifts

You can make small gifts up to the value of £250 to as many individuals as you like in any one tax year. However, you can't give more than £250 and claim that the first £250 is a small gift.

If you give an amount greater than £250 the exemption is lost altogether.

You also can't use your small gifts allowance together with any other exemption when giving to the same person.

Regular gifts or payments that are part of your normal expenditure

Any regular gifts you make out of your after-tax income, not including your capital, are exempt from Inheritance Tax. These gifts will only qualify if you have enough income left after making them to maintain your normal lifestyle.

Notes – lets say income is £20k pa and you only spend £10k then you can give away £10k without worry. You could pay for School Trips, Nursery Fees etc.

These include:

- monthly or other regular payments to someone
- regular gifts for Christmas and birthdays, or wedding/civil partnership anniversaries
- regular premiums on a life insurance policy - for you or someone else

You can also make exempt maintenance payments to:

- your husband, wife or civil partner
- your ex-spouse or former civil partner
- relatives who are dependent on you because of old age or infirmity
- your children, including adopted children and step-children, who are under 18 or in full-time education

The seven-year rule - 'potentially exempt transfers'

Notes – Very useful provided you survive for at least 3 years.

Any gifts you make to individuals will be exempt from Inheritance Tax as long as you live for seven years after making the gift. These sorts of gifts are known as 'Potentially Exempt Transfers' (PETs).

However if you give an asset away at any time, but keep an interest in it - for example you give your house away but continue to live in it rent-free - this gift will not be a potentially exempt transfer. Follow the link below to find out more.

If you die within seven years and the total value of gifts you made is less than the Inheritance Tax threshold, then the value of the gifts is added to your estate and any tax due is paid out of the estate.

However, if you die within seven years of making a gift and the gift is valued at more than the Inheritance Tax threshold, Inheritance Tax will need to be paid on its value, either by the person receiving the gift or by the representatives of the estate.

If you die between three and seven years after making a gift, and the total value of gifts that you made is over the threshold, any Inheritance Tax due on the gift is reduced on a sliding scale. This is known as 'Taper Relief'.

You must keep accurate records – REALLY.

http://www.hmrc.gov.uk/inheritancetax/paying-iht/record-keeping.htm#1

The Inheritance Tax threshold (or 'nil rate band') is the amount up to which an estate will have no Inheritance Tax to pay.

If the estate - including any assets held in trust and gifts made within seven years of death - is more than the threshold, Inheritance

Tax will be due at 40 per cent on the amount over the nil rate band. From 6 April 2012 people who leave 10 per cent or more of their net estate to charity can choose to pay a reduced rate of Inheritance Tax of 36 per cent.

Inheritance Tax thresholds - present day back to 18 March 1986

From	To	Threshold/nil rate band
6 April 2009	5 April 2015	£325,000

If either were widowed prior to this marriage there is a chance to claim ‘double allowance’.