

IHT & Gifts

Gifts

You may make gifts during your lifetime to reduce your estate, potentially subject to Inheritance Tax.

Exemptions that may apply to lifetime gifts are as follows:

Annual Exemption

You can give away £3,000 each tax year exempt from Inheritance Tax. If all or part of the exemption is not used in one year it can be used in the next year provided the current years exemption has been used first.

Gifts on Marriage

Gifts made to a person about to get married or form a Civil Partnership are exempt from Inheritance Tax as follows:

£5,000 made by the persons parent

£2,500 made by the persons grandparents

£1,000 made by anyone else

Small Gifts

Gifts up to £250.00 in each tax year to any number of different recipients are exempt. This exemption cannot be combined with any other exemptions such as the annual exemption.

Normal Expenditure out of Income

Gifts that are made purely out of income as part of your normal expenditure are exempt from Inheritance Tax. You should be left with sufficient income to maintain your normal standard of living and there should be an established pattern of giving for the exemption to apply.

Gifts to Charities and for National Purposes

Gifts made to charities or for national purposes, e.g. The National Gallery, are exempt from Inheritance Tax.

Gifts to Spouses and Civil Partners

Gifts of unlimited size may be made to your spouse or civil partner and will be exempt from Inheritance Tax. This exemption also applies to gifts made on death.

Gifts to Individuals More Than 7 Years Before Death

Gifts outside the above exemptions may be Potentially Exempt Transfers (PETs). They must be outright gifts to individuals (or absolute trusts) and not be made subject to any other sort of trust. If the donor survives for seven years or more the PET falls out of the estate. The donor must not retain any benefit e.g. rental income from a property. This will be a gift with reservation and the full value will remain in your estate.

Practical Considerations of Gifting

Making an outright gift will reduce your estate if you survive the gift by seven years. However, reducing your capital in this way could reduce your own standard of living. Furthermore, there may be an unplanned need for capital and income in future, such as Long Term Care / Nursing Home fees which can be very expensive.

As an alternative to reducing your estate by making large outright gifts, there are a number of arrangements available which could reduce Inheritance Tax in a more useful way depending on your circumstances.

For help in this area please visit our enquiry page.