

Inheritance Tax **Allowances and Exemptions**

There are a number of allowances and exemptions to Inheritance Tax, this information sheet sets out the most common. For more information about any of the exemptions please do not hesitate to contact us.

Tax free allowance.

Everyone has a basic Inheritance Tax free allowance for Inheritance Tax purposes. This is currently £325,000.

Spouse/Civil Partner exemption

Any gifts/transfers between spouses/civil partners are free of Inheritance Tax.

Transferable Nil-Rate Band between Spouses/Civil Partners

In October 2007 the Government introduced the concept of transferable Nil-Rate Bands between spouses/civil partners. This allows the unused percentage of the tax free allowance of the first spouse/civil partner to be transferred to the survivor. This allows the survivor to have a basic Inheritance Tax allowance of up to £650,000

Main Residence Property relief

If you own/have owned property that you have lived in and under your Will you are leaving it to your direct descendants your personal inheritance tax threshold is increased by £125,000 per person. This allowance is also transferable like the basic allowance

Consequently your personal inheritance tax threshold would be £450,000 (if you own your property and it passes to your descendants) and a maximum of £900,000 would be available after the transfer of your spouse's allowance.

The property allowance goes up by £25,000 each every year so from the 6th April 2019 you will be able to give away up to £950,000 free of tax and from April 2020 you will be able to give away up to £1million between you to your descendant on the current rules.

Gifts to Charity

Any gift to a registered UK charity is free of Inheritance Tax.

Potentially Exempt Transfers

You can make as many gifts of as much as you like during your lifetime. If you survive for a least seven years after making the gift and do not retain a benefit from the gift it will fall outside your estate for Inheritance Tax purposes.

If you die within the seven years, the amount of the gift(s) will reduce the amount of the tax-free allowance available at your death.

If the amount of your lifetime gifts within the seven years prior to your death exceed your tax free allowance, on your death Inheritance Tax will be payable on the excess. This may be reduced by what is known as taper relief. This is where the amount of tax payable is reduced by the length of time since the gift that attracts the tax.

Years between gift and your death	Rate of Tax paid
Less than 3 years	40%
3 – 4 years	32%
4 – 5 years	24%
5 – 6 years	16%
6 – 7 years	8%
7 or more	0%

Please note any lifetime gifts into a trust of over the Tax free allowance will attract an immediate charge for Inheritance Tax of 20%.

We strongly recommend that you keep full written details of all lifetime gifts that you make to ensure that you executors have all the information that they need to prepare the Probate papers.

Annual exemption

Each person can give away £3,000 per year to a non-exempt person (i.e. not a spouse or charity). If someone has not used the previous year's exemption they can also use that years exemption to give away £6,000.

Small gift exemption

You can give away as many gifts of up to £250 per year as you wish. However they cannot be stacked up to make a larger gift to an individual.

Gifts of surplus income

You can give away any amount of surplus income that you receive free of Inheritance Tax, provided that it does not effect your standard of living.

Gifts in contemplation of marriage

You can give a gift in contemplation of marriage to the bride/groom free of Inheritance Tax of

- up to £5,000 by a parent,
- up to £2,500 by a grandparent or
- up to £1,000 by any other person

Agricultural Property Relief

Transfers/gifts of certain types of agricultural property attract 100% or 50% relief from Inheritance Tax. Please ask for further information.

Business Property Relief

Transfers/gifts of certain types of business property attract 100% or 50% relief from Inheritance Tax. Please ask for further information.

Assets in excess of available allowances and reliefs

If your estate is over the available allowances the excess over the allowances is taxed at 40%

For more information on these exemptions or on making a tax efficient Will please contact

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Disclaimer

This information sheet is written as a general guide. As any course of action must depend on your individual circumstances, you are strongly recommended to obtain specific professional advice before you proceed. We do not accept any responsibility for action which may be taken as a result of having read this information sheet.