IHT Reliefs

Inheritance Tax

Tax is chargeable on estates worth more than £325,000 at a rate of 40% on the excess over that amount. Certain lifetime transfers are also taxable. However gifts to individuals during lifetime are not taxed unless the donor dies within seven years.

There are other reliefs and exemptions, including:

Annual exemption

£3,000 can be given in total in any tax year. This rises to £6,000 if nothing was given the previous year.

Small gifts

£250 can be given to any individual in a tax year.

Business and agricultural property

Reliefs can be 50% or 100% depending on the circumstances. There are a number of conditions and the H M Revenue and Customs are taking steps to restrict the reliefs by tightening definitions. For example, they are looking at what constitutes a farmhouse, rather than simply a house on farm land. Assets not used for business purposes, for example cottages that are let out, do not qualify.

Spouse exemption

Gifts to a husband or wife are generally exempt. If the spouse is not domiciled in the UK then there is a limit to the exemption of £325,000, however, there is now an opportunity for a non-domicile spouse to elect to be treated as UK domicile for IHT purposes and get a full exemption.

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IHT Reliefs

Normal expenditure out of income

This exemption is in addition to the annual amount of £3,000. The gift must be clearly out of income, so if the donor's net worth decreases during the year then the amount of the decrease will not count.

The gifts must be regular. This can be established by showing a pattern of expenditure or by showing a commitment to making future gifts. Examples would include a promise to pay school fees or to meet the premiums on an endowment policy.

Gifts on marriage

These can be made in addition to the annual amount. The limit depends on the relationship to the person getting married:

- parent £5,000
- remoter ancestor 2,500
- Party to marriage 2,500
- other person 1,000

Political parties

Gifts to political parties are exempt.

Community Amateur Sports Clubs

Again, any gifts are exempt.

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IHT Reliefs

Charities

Any gift to charity is exempt. During lifetime, these can be structured in most cases to gain Income Tax higher rate relief as well. From April 2012 if 10% or more of a deceased's estate is given to charity then the IHT rate on the remainder of the estate will be reduced to 36%.

Gifts to national bodies

Gifts to bodies such as National Museums or the National Gallery are exempt from Inheritance Tax.

Tapering relief

The value of an estate on death is taxed as the top slice of cumulative transfers in the seven years before death. Transfers within seven years of death are taxed on the value of the gift at the date of the gift, but using the death rate of tax applying at the date of death. There is a sliding scale which reduces the tax by one fifth for each year from year three to year seven.

However, it should be noted that in many cases the gifts during lifetime will be within the £325,000 nil rate band. There will, therefore, be no tax payable on them and so there is no reduction. They use up part of the nil rate band, so the tax payable on the estate on death is higher than it would otherwise be.

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