

INHERITANCE TAX EXEMPTIONS

Find out what IHT is, how to work out what you need to pay and when, and some of the ways you can reduce it.

Inheritance Tax

According to current legislation, each individual has a nil-rate band exemption (i.e. value of estate at which no inheritance tax is charged) of £325,000, less the value of all gifts made within the 7 years preceding death, above which sum their estate is charged to tax at 40%.

Since April 2008 the law is that the percentage of the nil-rate band exemption of the first to die - to the extent that it is not used on that death (i.e. after deducting any gifts made within the previous 7 years of death) - will be available on the death of the surviving spouse - at whatever value the nil-rate band at that time is - in addition to the nil-rate band exemption available to the surviving spouse.

Gifts that do not reduce the value of your nil-rate band

The following gifts (either lifetime or testamentary) can be made free of IHT and do not reduce the value of your nil-rate bands.

Namely:-

- **Spouse exemption.** Your estate does not pay Inheritance Tax on anything left either by will or by way of a lifetime gift to a spouse even if the amount is above the nil-rate band threshold.
- **UK charity exemption.** Any gifts you make to a UK registered charity - during your lifetime or in your will - will be exempt from Inheritance Tax. A reduced rate of 36% is available on the remainder of the estate if the testator left 10% of their taxable estate to charity.
- **Potentially exempt transfers.** If you survive for seven years after making an absolute gift to one or more persons, the gift is exempt from Inheritance Tax, no matter what the value.
Tapering relief applies after 3 years - that is to say that during years 4 to 7 the rate of tax is reduced by 8% per year, namely year 4 @ 32%, year 5 @ 24%, year 6 @ 16% and year 7 @ 8%.
- **Donor (Annual) exemption.** You may give away during your lifetime up to £3,000 each year (plus £3,000 for the previous year if unused) either as a single gift or as several smaller gifts.
- **Donee (Small gift) exemption.** You may make annual gifts of up to £250 to as many individuals as you wish tax-free.
- **Regular expenditure out of income.** You may make a commitment to make a regular payment of an unlimited amount out of surplus income (not savings) i.e. such that your standard of living is not thereby reduced.
- **Wedding gifts.** Gifts on consideration of a marriage are exempt up to the following amounts:- £5,000 from a parent, £2,500 from a grand-parent and £1,000 for anyone else.
- **Agricultural or Business Property Relief.** If you own farming land or a trading business, some relief from Inheritance Tax is available. Property investment companies are not normally considered as trading companies for this purpose.
- **Gifts of shares to employee trusts, Investments in shares listed on the Alternative Investment Market (AIM) or in an Enterprise Investment Scheme (EIS) and Partnerships in a child's business** attract 100% relief after 2 years.

In order for these exemptions to apply it is essential that no benefit is retained or received by the donor from the asset given away.