Inheritance tax factsheet

The increasing burden of Inheritance Tax (IHT) is hitting more families than ever due to ever rising property prices.

IHT is often referred to as a 'voluntary tax' because for most people, some pre-planning means you can reduce the amount of your estate that is subject to IHT, leaving more of your hard-earned money for your family and loved ones.

To help you secure your wealth for your loved ones, The Private Office has produced this factsheet to highlight some of the key factors to consider when building your legacy.

If you need any assistance, call The Private Office on **0333 323 9060**.

IHT rules as they currently stand

The nil rate band is currently £325,000 per person, up to £650,000 for a married couple or civil partners. If you are married or in a civil partnership any part of the nil rate band not used on first death can be claimed and transferred to the survivor. This will be applied as a percentage of the prevailing nil-rate band at the time of the survivor's death.

Passing property to the next generation

From April 2017, the Government has changed the rules on IHT so anyone passing a qualifying residential property to their direct descendants will receive an additional IHT allowance. This will give each person an additional exemption from IHT of £175,000, (£350,000 for a couple).

Anyone who does not have children or anyone with an estate valued at more than £2.35 million and one residence nil rate band available (2020-21) will not be able to benefit from this allowance.

What is a direct Descendant?

A child (including a step-child, adopted or foster child) of the deceased and their lineal descendants (their children's children and grandchildren) and the spouses/civil partners of direct descendants (including their widow, widower or surviving civil partner).

Current rules for gifting to reduce IHT liabilities

Potentially exempt transfers

Gifts made to relatives or friends during your lifetime which are not exempt gifts may be exempt from or eligible for a reduction in inheritance tax, however, you must live for 7 years after making the gift for it to be completely outside of your estate. These gifts are sometimes known as Potentially Exempt Transfers, or PETs.

If you do not survive the gift by seven years, and inheritance tax becomes due as the nil rate band has been fully used then the amount of tax paid by the recipient of the gift may be tapered down. If you live three years or less, the tax due will be the full 40% on the gift you made. Then the taper applies as per the table below:

Years between gift and death	Tax paid
Less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

Source *www.gov.uk/inheritance-tax/gifts*

HRMC defines a gift as:

Anything that has a value; for example, money, property, possessions; or
A loss in value when something is transferred, for example, if a parent sells a property to their child for less than it's worth, the difference in value counts as a gift.

Exempt Gifts

You are able to gift up to £3,000 per tax year, which runs from April 6 to April 5. This is known as the annual exemption, and you are able to carry one year forward to the next, but only for a single year and only where you have fully utilised your current year allowance.

In addition to this, you can also make unlimited small gifts of up to £250 each (the recipient must not receive any larger gift than this from you in that tax year) , gift up to £1,000 for wedding or civil ceremonies (different limits apply for family members), make regular gifts out of your income for any amount, as long as they do not affect your standard of living, and you can make payments to help only certain defined individuals with their living costs.

Are you sure your estate will not be liable to pay inheritance tax?

DO YOU OWN ASSETS VALUED AT MORE THAN £325,000?

YES

Does this include your current home or a residential property you have occupied in the past which you intend to leave to a direct descendant when you die?

YES

If the net value of your assets (after deducting any outstanding mortgage or other debts) is more than £500,000 (2020-21) you are likely to have an inheritance tax liability that needs addressing.

Please call The Private Office on 0333 323 9060 for more information.

NO

Have you made any gifts to another person or a Trust in the past seven years (excluding traditional gifts such as birthday presents)?

YES

Does the value of any gifts made and assets you still own exceed £325,000?

YES (leads to: Does this include your current home…)

NO

Do you expect to receive an inheritance in the future which will increase the value of your assets above the nil rate band threshold of £325,000?

YES

It is not essential that you undertake any planning today but you are likely to have an IHT liability that will need addressing in the future.

NO

As the value of your assets is below £325,000 your estate would not suffer an inheritance tax charge in the event of your death today. Should you receive an inheritance or accumulate assets above the nil rate band, perhaps as a result of a lottery win or a change in personal circumstances, you should re-assess your situation.

If you are still unsure how best to proceed and would like to speak to a financial adviser, please contact The Private Office on 0333 323 9060 and we can put you in contact with experts that can help.

The Financial Conduct Authority does not regulate tax advice and Inheritance Tax Planning.

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