

# It's a Gift!

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## Inheritance Tax and Gifts

Inheritance Tax (IHT) is applied to the net value of a person's assets (estate) when they die. In addition to that, the gifts and transfers made by the same person in the previous seven years are also taken into account when working out the tax due, and as a result tax may become due on earlier gifts as well.

IHT may also be payable during a person's lifetime, on certain transfers, but Gifts during lifetime can be an effective way to reduce IHT.

### Who has to pay IHT?

A person who is 'domiciled' or deemed domiciled in the UK when they die is liable to UK IHT, on all their assets when they die and on transfers during lifetime. Those who are not UK domiciled are only liable to UK IHT on their UK assets (a person who is not UK domiciled and has been UK resident for seventeen out of the last twenty years, will usually be treated as UK domiciled for IHT purposes).

Trustees may also have to pay IHT on certain events as well.

### IHT Rates

The value of the Nil Rate Band (currently £312,000) is taxed at 0%. Lifetime transfers, where the cumulative prior seven years of gifts and transfers exceeds that, are taxed at 20%.

When a person dies the value of their estate above the Nil Rate Band, including the prior seven years of gifts and transfers, is taxed at 40%.

### Exemptions

There are some specific exemptions on lifetime gifts as follows:

- Potentially Exempt transfers (PETs) – gifts to individuals or trusts for the disabled are not chargeable if the donor survives seven years
- The first £3,000 of gifts each year
- Small gifts up to a maximum of £250 to each person
- Gifts on marriage – these vary depending on your relationship to the couple
- Regular gifts out of surplus income

In addition the following exemptions apply both in life and on death:

- Gifts to charities or political parties
- Transfers between spouses or civil partners – subject to restrictions where one of the couple is not UK domiciled

### Reliefs

There are two main reliefs for business property and for agricultural property at either 100% or 50% depending on certain qualifying conditions.

### Pitfalls to watch out for

The 'Gift with Reservation' rules or 'Pre-Owned Asset' tax are two examples of changes the government has made over the years to catch those giving away gifts that they can still benefit from.

### Making sure advantage is taken of the exemptions and reliefs

If possible advantage should be taken of the various exemptions, particularly the annual exemptions and gifts out of surplus income. The Nil Rate Band can be used to make larger gifts tax free every seven years.

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## Contact details:

For more information or to discuss any specific queries please get in touch with Sarah Axe or your usual contact in the first instance.

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