

MONTPELLIER GUIDE TO INHERITANCE TAX



In this guide we will provide you with an overview of the UK Inheritance Tax position.

Overview

There are a number of exemptions which are made available that allow you to make gifts of your assets which are not liable to Inheritance Tax (IHT). These reliefs should be considered as part of your wider financial planning.

Exemptions

Small Gifts – each year it is possible to make a gift of £250 to an individual. You may make as many of these individual gifts as you like. It is not possible to use both the £3,000 annual exemption and the £250 annual exemption in respect of the gift to the same person in the same tax year.

Annual Exemption – each tax year you may gift £3,000. If you did not use the allowance in the previous tax year you may make a gift of £6,000 during the course of the tax year.

Regular Gifts of Income – where you have excess income you may gift this free of Inheritance Tax, but remembering that gifting of capital will be liable to IHT for a period of at least 7 years.

Regular Gifts of Income are allowed providing that;

- There is a transfer of income
- The transfer is regular in nature
- The transfer does not reduce your quality of life

It is possible to gift income without any liability to tax. This is a very beneficial method of reducing an estate. For example, where you have income of £150,000 and only spend £130,000, it is possible to gift that additional income without any exposure to IHT. There are ways of further benefiting from these rules with the right financial planning.

Wedding Gifts

Gifts in consideration of marriage are exempt from IHT up to a limit, which varies according to the relationship between the donor and the parties to the marriage. To qualify for the exemption the gift must be to one or both of the parties to the marriage and it must be a lifetime gift.

The exemption limits are:

- £5,000 if the donor is a parent of one of the parties to the marriage,
- £2,500 if the donor is one of the parties to the marriage, or a grandparent or remote ancestor of one of them,
- £1,000 for any other gift.

The exemption applies both to outright gifts and gifts to marriage settlements. However, a marriage settlement would not normally qualify for the exemption if the persons entitled to benefit from it were other than those being married, their issue, and the wife or husband of any issue. The exemption is confined to gifts that become fully effective only on the marriage.

Transfers Between Husband & Wife

Transfers between husband and wife are free of Inheritance Tax. This means that a married couple may pass assets freely between one another without any liability to UK Inheritance Tax.

Maintenance & Education

Lifetime gifts for the maintenance of a spouse, child or dependent relative of the donor are exempt from UK Inheritance tax in certain circumstances. A gift for the maintenance of a spouse, or former spouse, is exempt unconditionally. A gift for the maintenance, education or training of a child of either the donor or the donor's spouse is exempt provided that it is for the child's maintenance, education or training up to the age of eighteen or until the completion of full-time education if later. Similarly, a gift made for the maintenance, education or training of a child who is not in the care of either parent is exempt until the child attains age eighteen.

If the child has been in the care of the person making the disposition for substantial periods, the exemption can be extended until the child has completed their full time education or training. These exemptions are available also for gifts to stepchildren, illegitimate children and adopted children.

A gift made to a dependent relative of the donor is exempt to the extent that it makes reasonable provision for the relative's care or maintenance. 'Dependent relative' means any relative of the donor (or spouse) who is unable to maintain himself or herself because of old age or infirmity. It also includes the donor's mother or mother-in-law whether or not she is elderly or infirm unless she is living with her husband.

Charitable Gifts

Gifts and bequests to charities which are established in the United Kingdom are wholly exempt from IHT. In addition, provided the total amount left to charity by a deceased is 10% or more of the deceased's estate then the rate of IHT payable on the rest of the estate will be taxed at 36%.

Gifts and bequests to political parties are also exempt - S24(1) IHTA 1984. A political party qualifies for this exemption if two of its members were elected to the House of Commons at the last general election before the gift, or if one of its members was elected and at least 150,000 votes were cast for its candidates.

Gifts and bequests to national museums, universities, the National Trust and certain other bodies (Gifts for public benefit) are also exempt.

Gifts and bequests made before 17 March 1998 of national heritage property to a suitable non-profit-making body, where approved by the Board of Inland Revenue, are exempt. This exemption applies to;

- land of outstanding scenic, historic or scientific interest
- buildings of outstanding historic, architectural or aesthetic interest, together with land used as the grounds of the building and objects kept in and given with the building
- works of art and similar objects of national, scientific, historic or artistic interest

Transferable Nil Rate Band

For deaths occurring on or after 9 October 2007 it is possible for the executors of the deceased person to make a claim for any unused portion of a former spouse's or civil partner's Nil Rate Band (NRB) irrespective of when that spouse died. The amount of NRB available for transfer will be based on the proportion of unused NRB at the time of death of the first spouse but at the rate applicable at the time of death of the survivor. A maximum 100% of the NRB will be available, although it can be accumulated on more than one occasion, for example if a person dies having survived more than one spouse.

Business Property Relief & Agricultural Property Relief

Relief is available for transfers of certain categories of businesses and business property. Where the relief applies the value attributable to the 'relevant business property' is reduced, according to the category in which it falls, by 100% or 50%.

Agricultural property relief is available for transfers of agricultural property, whether it is owned, occupied or let. It is available for transfers both during lifetime and on death. The relief also extends to certain transfers of shares in companies that own or occupy a farm.

Gifting & The 7 Year Rule

If you make a transfer of assets and it does not form part of one of the reliefs mentioned earlier the value of the transfer will form part of your estate for a period of no less than seven years. Gifting is an important element of estate planning and careful thought should be given specifically to gifting and the impact on your estate.

Example Liability for a joint couple worth £1,000,000;

Main Residence	£650,000
Investment Property	£200,000
ISA's	£50,000
Investments	£100,000
Total	£1,000,000
Joint Nil Rate Band	£650,000
Liable to Inheritance Tax	£350,000
Tax Payable	£140,000

Basic IHT liability on fixed sums for a combined estate

750k	£40,000
£1.5m	£340,000
2.0m	£540,000
3.0m	£940,000

Trusts

See the Montpellier Asset Management Guide to Trusts for more information on how trusts work and the types of trust that exist.

We hope that you have found this brief guide useful. If you would like to find out how this may affect you or if you would like to learn how to implement elements of this planning within your financial affairs then please contact us on the details below.