

Inheritance Tax in a page (almost)

The aim of this document is to give you a working knowledge of inheritance tax (IHT) with the least possible amount of reading on your part.

Inheritance tax is a tax that is charged mainly on death.

In some circumstances it can be charged on gifts made during a person's lifetime.

On death, the first £325,000 in value of the money, property and assets owned by a deceased person (known as his "estate") is tax free. The tax-free amount is known as the Nil-Rate Band.

Anything above the Nil-Rate Band figure of £325,000 is taxed at the rate of 40%. E.g., if a person died in October 2009 leaving an estate of £425,000, the IHT that would be payable would be £40,000. (40% of £100,000).

The Nil-Rate Band figure rises every year. £325,000 is the Nil-Rate Band figure for 2009-2010.

Click on the following link <http://www.hmrc.gov.uk/rates/iht-thresholds.htm> for further HMRC Nil-Rate Band

Lifetime gifts and transfers of estates between spouses and civil partners are free of IHT. This is known as the spouse exemption. (E.g., if a husband were to die and leave his wife £100,000,000 this would be tax free because of the spouse exemption). Exception: if the spouse/civil partner is not U.K. domiciled the spouse exemption is limited to £55,000.

The Nil-Rate Band can be used up by a person during his or her lifetime. If it is used up, there will be no Nil-Rate Band available on his or her death. It will be used up if that person makes gifts during the last 7 years of his or her life which amount in total to the value of the Nil-Rate Band. If the gifts add up to less than the value of the Nil-Rate Band, the Nil-Rate Band will be partly used up. Gifts to a spouse or civil partner where the spouse or civil partner is UK domiciled will not use up or reduce Nil-Rate Band, nor will gifts to UK charities and political parties.

If the deceased is a surviving spouse or civil partner, his or her executors/administrators may be able to claim any unused Nil-Rate Band of his or her predeceased spouse or civil partner. E.g., Fred died in September 2009 with a full Nil-Rate Band because he has not made any gifts. Fred's wife Cecile who had also not made any gifts died in 2005 with a full Nil-Rate Band and left her entire estate to Fred. Fred's executors/administrators should be able to use Fred's Nil-Rate Band of £325,000 and transfer the unused Nil-Rate Band of Cecile to use against the value of his estate, so that Fred's estate gets the benefit of £650,000 free of IHT. (Two Nil-Rate Bands of £325,000 each).

If a person makes a gift to a trust during his lifetime this is called a Chargeable Transfer. If the gift exceeds the Nil-Rate Band the value of the gift above the Nil-Rate Band is immediately chargeable to IHT at half the lifetime rate (currently 20%, i.e., half the 40% referred to above). If the person who made the gift dies within 7 years of making it the remaining 20% tax must be paid on the gift. If he survives the gift by 7 years no further tax will be payable.

If a person makes a gift to another individual during his lifetime this is known as a Potentially Exempt Transfer (PET). If the value of the gift exceeds the Nil-Rate Band and he survives for 7 years after making the gift no tax will be payable on it. If he dies within 7 years, IHT will be payable. However, his



executors/administrators may not have to pay the full charge to tax. They may be entitled to relief (known as Taper Relief) depending on how long the Donor survived after making the gift.

Lifetime gifts that are not taxable on death: gifts of less than £3,000 in value (or £6,000 in value if the £3,000 from the previous year has not been used; normal expenditure out of income (e.g., the payment of school fees); gifts of £250 or less to different beneficiaries. gifts to UK charities and political parties (gifts and transfers of Estates to U.K. charities and political parties are free of IHT, whether they take place on death or as lifetime gifts).

There are various exemptions and reliefs – e.g., Business Property relief (BPR) available at the rate of 100% on some business assets and at 50% on some other business assets; Agricultural property Relief (APR) available at the rate of 100% on the agricultural value of agricultural assets/property.

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