

INHERITANCE TAX ("IHT")

What is IHT?

IHT is a tax on the estate of someone who has died (often referred to as the Death tax). Your estate is defined as your property, savings and other assets after any debts and funeral expenses have been deducted.

The rate of IHT is 40% on an estate value above the nil rate band of £325,000.

Rate of IHT?

The standard IHT rate is 40%.

Gifts to qualifying charities are exempt from IHT regardless of the value of the gift. However, if a gift to a charity in a Will meets certain conditions, the lower rate of IHT of 36% can apply to the taxable part of an individual's estate.

IHT Nil Rate Band

The Nil Rate Band ("NRB") is £325,000 until 2026.

You can benefit from a deceased spouse's/ civil partners unused nil rate band when calculating the IHT payable on the death of the surviving spouse.



IHT Nil Rate Band

Transfers between married couples and civil partners are not usually subject to IHT, therefore, if the first spouse/ partner to die leaves their entire estate to the other spouse/ partner, then no IHT will be payable.

Therefore, any unused NRB passes to the surviving spouse/ partner and they can utilise this in their estate.

What is the Residence NRB ("RNRB")?

The RNRB is a NRB available on top of the IHT NRB (currently of £325,000) and works in a similar manner by reducing the value of an individual's estate that is subject to IHT at the rate of 40%. The RNRB is only available where the main residence passes to the children (including adopted, foster or step children) or linear descendants on death.

The current RNRB is £175,000.

The amount of RNRB due starts to be withdrawn if the value of an individual's estate immediately before death exceeds the £2m taper threshold.

Exemptions and Gifts

There are exemptions and gifts that can be utilised during the lifetime:

Annual exemption

Annual exemption - an individual has an annual allowance of £3,000 per year and this means that they can give away assets or cash up to a total of £3,000 in a tax year, without this being added to the value of their estate for IHT purposes.

Any part of the annual exemption which isn't used in the tax year can be carried forward to the following tax year. It can only be used in the following tax year and can't be carried over any further

For more information please call 020 8863 4566 and ask for the Tax team. Alternatively please visit our website to find out more www.charter-house.net

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Gifts worth less than £250

An individual can give as many gifts of up to £250 to as many individuals as they want. Although they cannot make these gifts to anyone who has already received a gift of their entire £3,000 annual exemption. None of these gifts are subject to Inheritance Tax.

Wedding gifts

For a wedding gift to be effective for IHT purposes, it has to be made before, not after, the wedding and the wedding has to happen and the allowable gifts amount are as follows:

- A gift to a child must be worth £5,000 or less;
- A gift to a grandchild or great-grandchild must be worth £2,500 or less, or
- A gift to another relative or friend must be worth £1,000 or less.



Gifts to help with living costs

Gifts to help pay the living costs of an ex-spouse, an elderly dependent or a child under 18 or in full-time education might be exempt.

Gifts from surplus income

If you have sufficient income to maintain your standard of living, you can make gifts from your surplus income. For example, regularly paying into your child's savings account, or paying a life insurance premium for your spouse or civil partner.

To make use of this exemption, it's very important that you keep very good records of these gifts. Otherwise, Inheritance Tax might be due on these gifts when you die.

The rules for this exemption are complex therefore please speak to your advisor to get further details to use this exemption.

Grandparents can also use it to pay for things like their grandchildren's school fees.

Gifts to a charity

A gift to a charity, museum, university, or community amateur sports club is exempt from IHT.

Gifts to a political party

A gift to a political party under certain conditions is IHT free.

How can we help?

We provide advice and planning on ways to reduce the IHT payable on death.

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