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Our Guide to Inheritance Tax and Gifting

Gifting your money throughout your lifetime can be the easiest way and most efficient way of reducing your Inheritance Tax (IHT) bill.

There are a few ways to gift which are exempt from IHT. Each tax year you have an allowance of £3,000 without it being counted as part of your estate. Wedding and civil ceremonies are also exempt up to £1,000 per person and £5,000 to children and £2,500 for grandchildren.

Press on the button below for a link to Gov.UK to read all the options available.

How Inheritance Tax Works 5

The 7 year rule

No tax is due on any gifts you give if you live for 7 years after giving them - unless the gift is part of a Trust. This is known as the 7 year rule.

If you die within 7 years of giving a gift and there's Inheritance Tax to pay on it, the amount of tax due after your death depends on when you gave it.

Gifts given in the 3 years before your death are taxed at 40%.

Gifts given 3 to 7 years before your death are taxed on a sliding scale known as 'taper relief'.

Taper relief only applies if the total value of gifts made in the 7 years before you die is over the £325,000 tax-free threshold.

NUMBER OF YEARS SURVIVED	REDUCTION IN TAX	EFFECTIVE TAX RATE
0-3	0%	40%
3-4	20%	32%
4-5	40%	24%
5-6	60%	16%
6-7	80%	8%
7+	100%	0%

Trusts

Setting up a trust can be complex, but when used in the right way it can help you and your loved ones keep hold of more of their inheritance.

Gifting money into most trusts is classified as a Chargeable Lifetime Transfer. This means any money gifted over the £325,000 IHT threshold will be immediately taxed at a lower lifetime rate of 20%.



Do contact us if you would like advice on any of the topics mentioned.

Looks like Autumn has officially arrived!

Take Care

Best Regards

Ray



To read our Money Matters article on Inheritance tax and gifting press on the link here

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