

TIPS FOR MINIMISING INHERITANCE TAX – LIFETIME GIFTS

Tax-efficient gift-giving is an essential aspect of estate planning that can significantly reduce your inheritance tax (IHT) liabilities while benefiting your loved ones. By carefully planning and utilising the available allowances and exemptions, you can ensure that more of your wealth passes on to your family and less is lost to taxes. Outright gifts also have the attraction of being relatively quick and easy to execute, which could well be appealing in view of the impending Budget on 30 October and speculation surrounding what changes to IHT, if any, might be announced.

IHT is currently charged at 40% on estates above the Nil-Rate Band (NRB), which has remained at £325,000 for many years (there is also a 'Residence Nil Rate Band' of £175,000 per person, subject to certain restrictions). Properly planned gifts can reduce the taxable value of your estate, potentially saving your beneficiaries a significant amount in IHT.

I have highlighted below some helpful tips, but these are by no means an exhaustive list and, as always, each individual's circumstances will be different and specific advice tailored to your needs is essential.

Exemptions for Lifetime Gifts

A large part of IHT planning is making use of the exemptions which are available to us all. Most straightforward gifts of any value can be made completely free of IHT provided the donor lives for 7 years after making the gift and does not reserve any benefit whatsoever in respect of the gifted property (e.g. one cannot just give a property away and continue to enjoy living in it rent free). Such gifts should however only be made after consultation with your tax adviser and your solicitor in order to ensure that all relevant factors (including possible Capital Gains Tax consequences) are taken into account.

In addition, the following gifts may be made each tax year without using up any part of an individual's NRB:

- Small gifts of up to £250 to each of as many individuals as the donor wishes to benefit;
- Annual gift allowance of up to £3,000. This exemption is applied to larger gifts not covered by the £250 exemption above. It can also be carried forward for one tax year only if it is not used in the year in question;
- Gifts that are a wedding or civil partnership gift worth up to £5,000 to a child, £2,500 to a grandchild or great grandchild and £1,000 to anyone else;

- Gifts to registered charities, museums, universities, political parties, housing associations, national heritage bodies or community amateur sports clubs.

Gifts From Surplus Net Income

Perhaps one of the most overlooked IHT exemptions is one entitled "normal expenditure out of income". For gifts to qualify for this exemption (which means that even if the donor dies within seven years, they are still not subject to IHT) there are three main criteria which have to be met:

- The gifts must have been made as part of the normal expenditure of the donor and generally speaking there has to be some regularity to the gifts being made;
- Taking one year with another, the gifts must be made out of income (not capital); and
- After allowing for all gifts etc. forming part of the normal expenditure, the donor must be left with sufficient income net of income tax to maintain his or her normal standard of living.

You must also maintain careful records of your gifts and expenditure in order for your Executors to be in a position to prove that you were able to maintain the same standard of living after making the gifts. If your Income Tax Returns and tax calculations are retained they should go a long way to providing details of your taxable income and if you also summarise your annual expenditure and your non-taxable income from time to time this would no doubt be appreciated by those dealing with your affairs after your death.

Although lifetime gifts are a useful means of reducing future IHT bills, it is important to ensure that you do keep enough for your own needs in the future, whatever those may be. As life expectancy increases, providing for future care becomes an important factor and none of us can be certain what lies ahead.

The above is for general guidance only and no action should be taken without obtaining specific advice.

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