

Lifetime Inheritance Tax Exemptions

Inheritance tax ("IHT") is a tax on money or possessions you leave behind when you die, and on some gifts you make during your lifetime. However, your IHT liability can be reduced (sometimes to nil) by the availability of certain exemptions and reliefs.

This note provides an overview of the main UK IHT exemptions and reliefs available.

GENERAL EXEMPTIONS

These exemptions are available on gifts made both during a lifetime and on death.

Nil Rate Band- Everyone has a tax-free IHT allowance, known as the 'nil rate band'. The current nil rate band is £325,000, which has remained the same since 2010-11. This will stay frozen until at least 2017.

Spouse Exemption- Transfers between spouses or civil partners are exempt from IHT. This is without limit except in the case where one party is UK domiciled and the receiving spouse is not. In that case the exemption is limited to the nil rate band amount. For this exemption to apply, the couple must be legally married or in a registered civil partnership.

Gifts to Charities - All gifts to UK Registered Charities, or to charitable trusts from which only those charities may benefit, are exempt from IHT.

Gifts to Political Parties- All gifts to Political Parties are exempt from IHT. The Political Party must have at least one Member of Parliament for it to qualify.

Gifts of land to housing associations- Gifts of land to housing associations or to registered social landlords are exempt from IHT.

Gifts to heritage maintenance funds - Heritage maintenance funds are trusts that maintain historic buildings, or land of scenic, scientific or historic interest. A gift to a heritage maintenance fund is exempt from IHT.

Transfers to employee trusts- A transfer of shares to an employee benefit trust is exempt provided that:

- The shares are held on trust for the benefit of all or most of the employees or office holders of the company; or under an approved profit sharing scheme or share incentive plan.
- On (or within one year of) the transfer, the trustees hold more than half of the ordinary shares in the company and have voting control on all questions affecting the company as a whole.
- The trust cannot be used to benefit any shareholder who is entitled to 5% or more of any class of shares in the company or to 5% or more of its assets on winding up.

EXEMPTIONS AVAILABLE FOR LIFETIME GIFTS ONLY

Potentially Exempt Transfers- You can give unlimited amounts to individuals and these will be exempt from IHT, provided you survive the gift by seven years. ‘Taper relief’, reducing the amount of tax payable, may be available if you do not survive the full seven years. However, you must not “reserve a benefit” in the asset given away. This means that you must not continue to benefit from the asset or funds gifted. If you do, then you will need to pay full market rent for any occupation or use if a gift with reservation is to be avoided.

Annual Exemption- You can give away up to £3,000 in a year free of IHT. You do not have to survive seven years for the gift to be exempt (as noted above). If you have not used your annual exemption from the previous year, then it can be carried forward so that the current year exemption is increased to £6,000, but any unused exemption can only be carried forward one year.

Small Gifts- You can gift up to £250 to individuals (as long as they are different to the recipients of the £3,000 gift noted above, or any part of it).

Gifts in consideration of Marriage or Civil Partnership- Lifetime gifts on the occasion of a marriage or civil partnership are exempt from IHT up to certain limits. The limits vary depending on your relationship to the couple: £5,000 if you are a parent, £2,500 if you are a grandparent, £1,000 in any other case.

Normal expenditure out of income- You can make regular gifts free of IHT provided these are made out of income, and not out of capital, and leave you with sufficient income to maintain your usual standard of living. Complete records of income and expenditure must be kept if this exemption is claimed.

RELIEFS

Business Property Relief (“BPR”)- Most shares in private trading companies, or interests in unincorporated businesses as either a sole proprietor, or as a partner, will receive 100% BPR and so, in effect, be exempt from IHT. Some business assets in certain cases may only qualify for 50% BPR.

Generally, you must have owned the shares or the interest in the business for at least two years prior to the gift (whether made during lifetime or on death). Certain types of activities and investments are excluded from this relief.

Agricultural Property Relief (“APR”)- Where land in the European Economic Area (including the UK) has been occupied for the purposes of agriculture, the land and any ancillary buildings may benefit from relief at 100% or 50%, depending on who farms the land and how long the land has been owned. Tenanted agricultural land and buildings may also receive APR at 100% or at 50%.

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