

Guide to Monetary gifts and IHT

With Christmas having passed and the end of the current tax year fast approaching, now is a good time to consider utilising your lifetime gifting allowances to reduce the value of your estate for Inheritance Tax planning if you have not done so already. Lifetime gifting, if done in a tax efficient manner, can significantly reduce the value of your estate and therefore your Inheritance Tax liability.

Can I give a gift to my spouse or a charity without incurring IHT?

Gifts of any amount between spouses or to a charity are classed as exempt persons and are free of Inheritance Tax.

How much can I gift this year without incurring any IHT? I didn't gift anything last year have I lost out?

Every individual has the ability to gift up to £3,000 in total each tax year (6 April to 5 April) without any Inheritance Tax implications. If you have not utilised your exemption from the previous year, this can be bought forward – but only once. Note that this is an exemption totalling £3,000 each tax year and not £3,000 to each recipient.

You can make small gifts not exceeding £250 to any one person in any one tax year provided that they are not the recipient of a gift of your annual exemption (i.e. the small gifts exemption cannot be set against a larger gift which exceeds £250). Whilst this is a small amount, it is surprising how many people are not aware that this is available and can soon add up over the years. It is particularly useful for gifting to grandchildren.

Our daughter is getting married can we provide a monetary gift?

You are able to gift certain amounts as a marriage gift which will be exempt from Inheritance Tax. The amount of the gift depends on your relationship to the recipient as follows:-

- £5,000 by a parent of a party to the marriage
- £3,500 by a remoter ancestor of a party to the marriage (i.e. a grandparent)

£1,000 in any other case.

Is it possible to gift my surplus income at the end of the year?

If you have surplus income which must be deemed and accepted by HMRC as surplus to your requirements there is the ability to gift your net surplus income with no Inheritance Tax implications. Used alongside the annual exemption, it can be very useful in moving assets out of your estate. The gifts must, however, be clearly out of income as opposed to capital

wilson browne

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(i.e. salary, dividends, interest, pensions, rental income, business profits etc.), must be made routinely (i.e must form part of a regular pattern of payments) and you must retain sufficient income to maintain your standard of living.

I've heard there are also Potentially Exempt Transfers (PETS), where do they come in?
If a gift that you are considering making does not fall within any of the categories above, it is likely that it will be a PET.

You are able to gift any amount to any person during your lifetime but if no other allowances or exemptions apply, there may be Inheritance Tax chargeable to either your estate or the recipient of the gift should you fail to survive the period of seven years following the date of the gift. This is to prevent people from giving away their estate on their deathbed and avoiding an Inheritance Tax charge altogether.

Should you die within the seven year period, a relief applies to reduce the rate of tax charged depending on the number of years that you survive the gift.

If your estate is currently over the nil rate band threshold of £325,000 (or £650,000 for a married couple) and with all other Inheritance Tax exemptions and allowances available to you, you still have a tax liability, you may wish to consider the options available to you in more detail.

If you would like advice on Estate Planning, please contact our Specialist Team