



Inheritance Tax Useful Exemptions As At April 2011

1. Annual Exemptions- Some gifts afford complete exemption from Inheritance Tax (that is there are no seven year survival periods). These are as follows:-

(a) In any tax year 6 April to 5 April an individual is entitled to make gifts up to an annual exemption of £3,000. Any unused balance of the previous tax year can be carried forward to the following tax year but no further. (i.e. if an individual can gift assets to a value of £6,000.in 2010/2011 tax year if they have the previous years exemption available and a husband and wife can gift assets to a value of £12,000.if they both have the previous years exemption available)

(b) Small gifts – In any given tax year an individual may give up to £250. To any number of people and it will be immediately exempt from Inheritance Tax.

(c) Gifts in consideration of marriage – Each parent can give £5,000.to their child on the event of the child’s marriage. Grandparents or remoter relatives can give £2,500. and any other person £ 1,000.

(d) Normal Expenditure (Gifts of Income).

Any regular gifts you make out of your after-tax income, not including your capital, are exempt from Inheritance Tax. These gifts will only qualify if you have enough income left after making them to maintain your normal lifestyle.

These include:

- monthly or other regular payments to someone
- regular gifts for Christmas and birthdays, or wedding/civil partnership anniversaries
- regular premiums on a life insurance policy - for you or someone else

2. Spouse Exemption – Married couples should be aware that there is an exemption for transfers between spouses whether made during their lifetime or on death and it is beneficial if the respective estates are equalised. Please note that the spouse exemption is restricted to £55,000 when a transfer is made from a UK domiciled spouse to a foreign domiciled spouse.

3. Other Exemptions – Using the nil rate band no Inheritance Tax will arise if the gift and any other chargeable lifetime gifts made by the giver within the previous 7 years are below the prevailing nil rate band threshold (£325,000 with effect from 6

April 2009). The gift of assets up to the value of the nil rate band and a gift which qualifies for say business property relief at 100% will allow an even greater value to be gifted from the givers estate without triggering an immediate Inheritance Tax charge.

4. Potentially exempt transfers – From 22 March 2006 only outright gifts to individuals, disabled trusts and the new interest in possession trusts will qualify for potentially exempt transfer (PETS). Survival of the 7 years would ensure the value of the gift falls out of the givers estate (provided that the gifts with reservation of benefit rules do not come into play) but even survival of the gift by at least 3 years may see a measure of Inheritance Tax savings due to the taper relief provisions.

WHEN MAKING A LIFETIME GIFT THEN THE FOLLOWING NOTE SHOULD BE PLACED WITH ANY GIVERS RECORDS:-

- (a) the value of the gift
- (b) the date of the gift
- (c) the recipient

If for example the gift was made out of normal expenditure out of income then the giver should put on record:-

- (a) annual income after tax for the tax year in which the gift is made £
- (b) expenditure for the tax year out of taxed income £
- (c) Amount of gift being excess of expenditure over income given to [*recipients name*] on [*date*] in respect of excess income for the tax year [*year*].

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