ACTIVE PRACTICE UPDATES AUGUST 2016

Plus+ accounting

chartered accountants

Gifts and inheritance tax

How gifts can reduce your liability for inheritance tax.

Inheritance tax (IHT) at 40% is due on the portion of a person's estate that exceeds £325,000. This can be reduced to 36% if 10% (or more) of the estate is given to charity.

Married couples and civil partners can transfer any unused allowance to their spouse, meaning the nil-rate band can potentially double to £650,000.

Although leaving an inheritance has traditionally been a key part of estate planning, attitudes are changing.

Research by Prudential has found that people's expectations around being able to leave an inheritance have changed significantly in the last 5 years.

28% of people planning to retire this year think they'll leave an inheritance, compared to 52% in 2001.

Instead, people are choosing to financially support their loved ones while they are alive:

- 35% already give money to family members
- the average gift is £250 a month
- 13% give more than £500 a month.

In most cases (81%) children and their partners are the beneficiaries, though 15% of individuals support their parents.

Seeing your assets being put to use while you are alive can be very rewarding. In addition, gifts can help reduce IHT as most are exempt from IHT if you live for 7 years after making the transfer.

A careful gift-giving strategy can help minimise your liability to IHT and ensure that you leave as much as possible of your estate to your loved ones.

Lifetime gifts

Gifts are not restricted to money - they can include possessions and a loss in value (for example if you sell something for less than its worth, the difference is considered a gift).

Married couples and civil partners who live permanently in the UK can give anything to their spouse without attracting IHT. This means it is possible to reduce the value of an estate by giving assets to a spouse. However, the gift may form part of the spouse's estate when they die so this is not always the most tax-efficient strategy.

Most other lifetime gifts are free from IHT if the giver lives for 7 years after making the transfer.

If you die within 7 years and your estate is worth more than £325,000, tax will be charged on the gifts at the following rates:

Years between gift and death	Tax (unless paying the reduced rate)
Less than 3	40%
3 - 4	32%
4 - 5	24%
5 - 6	16%
6 - 7	8%

There is no limit on lifetime gifts, so they can be a tax-efficient way of transferring assets that you do not need to keep in your estate. It may be advisable to cover substantial gifts by insurance against death within 7 years.

If you continue to benefit from a gift, it will form part of your estate for IHT purposes and the 7-year rule will not apply. For example if you gave a painting to your son but kept it at your home, you would still be considered to be benefitting from it.

Preston Park House South Road
Brighton BN1 6SB
01273 701 200 info@plusaccounting.co.uk

www.plusaccounting.co.uk

Gifts and inheritance tax

Other exempt gifts

Certain types of gift are exempt from IHT.

Annual exemption

You can give away up to £3,000 in gifts each tax year. Any remaining annual exemption can be carried over to the next tax year making the maximum annual exemption £6,000.

Wedding and civil partnership gifts

There are different limits depending on your relationship to the bride or groom:

- £5,000 to a child
- £2,500 to a grandchild or great-grandchild
- £1,000 to anyone else.

Small gifts

You can give as many people as you like gifts of up to £250 a year. There are certain restrictions around this exemption:

- it cannot be set against a gift of more than £250
- you can't give a person £250 if you've already given them a gift using another exemption.

Regular gifts from income

Gifts from income are exempt from IHT provided that the gift giver can maintain their normal lifestyle.

The definition of 'normal' is subjective but generally speaking, the gift shouldn't change your ability to continue your current standard of living. If your ability to meet your financial obligations (such as mortgage payments or utility bills) changes as a result of a regular gift from your income, this will be seen as you not being able to maintain your normal lifestyle.

Examples of this kind of gift include:

- payments into savings accounts
- life insurance policy premiums
- Christmas, anniversary and birthday presents.

Help with living costs

There is no IHT due on gifts that go towards helping certain people with living costs. This includes:

- ex-spouses or partners
- relatives who are dependent because of illness, old age or disability
- children (including step-children and adopted children) under 18 or in full-time education.

Political parties

Gifts to political parties with either 2 MPs or 1 MP and at least 150,000 votes in a general election are also free from IHT.

Charities

Gifts to charities, museums, community amateur sports clubs and universities are not liable for IHT.

Speak to us about IHT planning and gifts.

Giving away your home

Perhaps the ultimate gift that can be given is a place to live and the security it provides. Homes are treated like any other gifts and the 7-year rule applies.

However, there are different criteria to meet if you give the home away and then continue to live in it.

The home won't be included in the value of the estate provided that the original owner:

- lived in the house for at least 7 years
- paid rent at the market rate
- paid their share of the bills.

The 7-year rule applies if the original owner dies within 7 years.

In other circumstances, different rules apply. This area of IHT is complicated, so you should seek professional advice about your particular situation before giving property away.

We can advise on gifts of property and your circumstances.

Keeping records

Keeping a record of gifts will help your executor and HMRC calculate which how much of your estate (if any) is liable for IHT. Information to include:

- what you gave
- how much the gift is worth
- the recipient
- the date you gave it.

Creating a gifting strategy

Although it is tempting to transfer assets out of your estate in order to minimise IHT, you shouldn't take risks with your financial stability. Ensuring that you are financially secure, particularly in retirement, should be a priority.

Once you have made the gift you no longer have control over the asset in question, so think carefully about the implications before making a decision.

Contact us today to talk about IHT planning.