



Exempt gifts for inheritance tax purposes

An introduction

There are some circumstances where you can give cash or assets away to people and certain organisations without having to pay any inheritance tax. This leaflet outlines some of the main exemptions.

Gifts to exempt beneficiaries

Any assets transferred outright to your husband, wife or civil partner (as long as you both have a permanent home in the UK).

Gifts to UK charities.

Gifts to UK political parties.

Gifts to certain institutions such as universities and the National Trust.

Wedding or civil partnership gifts

Each parent can give £5,000 to their child as a wedding or civil partnership gift. Grandparents and other relatives can each give £2,500 and anyone else can give £1,000. However, for the exemption to apply the timing of the gift is important.

Small gifts

Small gifts of up to the value of £250 can be made to as many different people as you like in any one tax year. However, this exemption cannot be combined with any other exemption, such as wedding gifts to your children of £5,250 when they marry.

Annual exemption

You can give away up to £3,000 in each tax year without paying any inheritance tax. It is possible to carry forward to the next year all or part of the annual exemption you do not use. It is not possible to use the annual exemption with the small gifts exemption; however it can be used alongside the marriage or civil partnership gift exemption. This means you could give up to £8,000 to your son or daughter on their marriage.

Gifts that are part of your normal expenditure

Gifts that are made out of your income (not your capital) after tax may be exempt from inheritance tax if they are part of your regular expenditure. This could include regular payments to someone for birthdays or anniversaries.

After allowing for all gifts forming part of your normal expenditure, you must be left with enough income to maintain your usual standard of living. In order to establish this you will need to document evidence indicating that you did not need to resort to capital to maintain your standard of living for your own living expenses.

You may be wondering what would be classed as normal expenditure. There is no set time span over which you must show the habit of giving. H M Revenue & Customs (HMRC) state in their guidelines that a reasonable span would normally be three to four years. Normal is considered to be typical of your circumstances, and not necessarily those of the average person.

The requirement that the gift is made out of income means that, where there is a gift of property other than cash, it must be shown that the property was purchased from your income with the intention of making the gift.

Generally income refers to current income and the exemption will not normally apply if the gift is made from a source which, although originally income, has been retained for some time and has acquired a capital nature.

For instance, if you were to save your surplus current income over a period of years and then make a gift, HMRC may assert that this was a gift of capital and not income. The fact that the retained income has been invested or saved in a form that itself yields income will normally indicate that it has become capital.

To take advantage of this exemption it is important that you

- Keep detailed records of your annual income and outgoings. It may well be that you or your accountant already keep records of this nature.
- Keep a record of when any gifts are made from your current income, and to whom they were made, so that a pattern can be established.

This guide can only provide a brief summary of the main exemptions. As with all taxes there are many complicated and detailed rules laid down by Parliament.

For further information, or to discuss your estate planning needs, please contact Barry Glazier, David Parkhouse, Richard Fairbairn, Ann Corke, Michael Norton, Dorothy Burton, Emily Copping, Natalie Gamble, Paula Weir, Mahendree Naidoo or Sarah Roberts of our Tax Trusts and Wills Team who will be pleased to help you.



0870 224 0405
info@LA-law.com
www.lesteraldrIDGE.com