

# Inheritance tax – making tax-free gifts

There are various exemptions, and potential exemptions, which make it possible to make gifts free of inheritance tax. Making tax-free gifts is a useful way to reduce the value of your estate – and ultimately the inheritance tax that may be payable on gifts.

## What counts as a gift?

For inheritance tax purposes, a gift is anything that has value, for example, money, property or possessions. A gift may also arise if the value of your estate is reduced following a transfer, for example, if you sell your house to your children for less than it is worth; the discount element is regarded as a gift.

## Gifts to spouses

Gifts to spouses and civil partners are free of inheritance tax.

## Gifts out of income

The inheritance tax exemption for ‘normal expenditure out of income’ is very useful and can be used to make tax-free lifetime gifts. For the exemption to apply, the gift must meet three conditions:

1. It forms part of your regular expenditure.
2. It was made out of income (taking one year with the next).
3. After the gift, you were left with sufficient income to maintain your normal standard of living.

An easy way to use this exemption, for example, would be to set up a standing order for a regular amount, say £X per month, to your children or grandchildren, or to meet the cost of school fees or similar.

Gifts made in this way are completely exempt – you do not need to survive seven years to keep the gifts tax-free.

## Annual gifts exemption

There is an annual gifts exemption for inheritance tax which allows you to give away £3,000 of gifts in total IHT-free in each tax year. If the exemption is not used in full in one tax year, the unused amount can be carried forward to the following year, after which it is lost if it is not used.

## Wedding gifts

Tax-free gifts can also be made, up to certain limits, on the occasion of a marriage or civil partnership. The tax-free limit for wedding gifts is £5,000 where the gift is to a child of yours, £2,500 where it is to a grandchild and £1,000 where the gift is to someone else.

## Small gifts

It is also possible to give gifts of up to £250 per year IHT-free to as many people as you like, as long as the recipient has not benefited from another exemption.

## Other tax-free gifts

Gifts to help another person with their living costs, such as an elderly relative or a child under the age of 18 can be made free of inheritance tax, as can certain gifts to charities and political parties, housing associations, gifts for national purpose and for the public benefit.

## Potentially exempt transfers

You can also give as much as you like away IHT-free – as long as you survive seven years. However, there are anti-avoidance rules where you have previously owned an asset or where you continue to retain the benefit of it after you have given it away (for example, if you give your house to your children and continue to live in it rent-free), and care must be taken not to fall foul of these.

If you survive less than three years after making the gift, IHT is payable in full at the usual 40% rate. However, if you survive more than three years but less than seven years from the date of the gift, taper relief reduces the amount of IHT payable. If you survive at least seven years from the date of the gift, it drops out of account and is IHT-free.

XXXXXXXXXX

Date

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### **Recommendation**

If you are planning to make gifts, it is important to obtain advice to ensure you are following the appropriate rules. It is also important for gifts to be documented at the time of the gift.

If you do have any questions or concerns raised on the matters above, please contact

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