Inheritance Tax Reliefs

If the gift is of a special type of asset and the necessary conditions are met, relief may apply to reduce the amount of IHT payable, sometimes to nil. The main reliefs are as follows:

- Agricultural Property Relief and Business Property Relief can provide either 100% or 50% relief on the value of any property that qualifies for the relief and depending on the circumstances.
- Any gifts to charity can attract 100% relief so no IHT is due on them.
- Leaving the appropriate share of your estate to charity can also reduce the rate of IHT from 40% to 36%.

Our Wills & Probate team offer expert advice on:

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- Powers of Attorney
- Administration of Estates
- Obtaining Probate / Letters of Administration
- Intestacy
- Inheritance Tax
- Will Trusts

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Inheritance Tax

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When is Inheritance Tax Charged?

Inheritance Tax (IHT) is primarily a charge on your assets on death and includes the value of your share of any assets jointly held with another person. Lifetime gifts made within seven years prior to death can also be brought back into the calculation for IHT.

IHT is also charged where an asset has been given away, but where you retained the use of (or a significant benefit in) the asset. For example, where you give your home to your children but continue to live there without paying them full market rent.

What are the nil rate bands?

The nil rate band and residence nil rate band are amounts which are chargeable to IHT at 0%. The nil rate band is currently £325,000 and the residence nil rate band is worth up to £175,000 depending on the value of the property. There are other requirements that need to be met to claim this allowance, so legal advice should be taken to ensure that it is appropriately claimed rate band.

If you are married or in a civil partnership then your surviving spouse or civil partner's Executors can claim the unused portion of your nil rate band and/or residence nil rate band to offset against their estate to reduce the tax due.

Example

Mr X died several years before Mrs X. On his death, he had an available nil rate band of £325,000.

He left £1,000 to a charity and the remainder of his estate to his wife, Mrs X. The gift to charity was exempt from inheritance tax due to the 'charitable exemption' and the 'spouse exemption' applied to the residuary gift to Mrs X. Therefore, none of Mr X's nil rate band was used on his death and no IHT was payable.

When Mrs X dies, her executors can claim to transfer Mr X's unused nil rate band. Mrs X also did not use up any of her nil rate band of £325,000 and so the combined nil rate band allowances from both Mr and Mrs X mean that Mrs X can leave up to £650,000 of her estate tax free.

In addition, as Mrs X leaves the family home to her children (lineal descendants), her executors can claim the residence nil rate band of up to £175,000. As Mr X's residence nil rate band was not used on his death, Mrs X's executors can also claim his allowance. This means that Mrs X can potentially leave an additional £350,000 tax free.

It is important to note that the residence nil rate band is capped at the value of the property. So, if the property was worth £300,000, then only a total of £300,000 could be claimed. There are also limits on when the residence nil rate band is available, so it is always important to seek legal advice.

What is the rate of Inheritance Tax on death?

- The nil rate band is an IHT allowance of up to £325,000 at which IHT is charged at 0%.
- IHT will then be charged at 40% on any amount over the nil rate band. This can be reduced to 36% if the appropriate percentage of the estate is left to charity.

There are, also, various exclusions, exemptions and reliefs which can reduce the amount of IHT payable.

Inheritance Tax Exemptions

Certain gifts are exempt from IHT and do not use up your nil rate band. Briefly, the main exemptions are as follows:

- Gifts to your spouse or civil partner.
- Gifts to charities

Additional exemptions are also available for lifetime gifts, if none of the above apply. They are as follows:

- Gifts out of surplus income
- Small gifts of up £250.
- Gifts in contemplation of a marriage or civil partnership
- Annual exemption of £3,000 a year.
- Lifetime gifts where you then live for 7 years from the date of the gift.