

# Fulton's

Solicitors & Estate Agents



## Guide to Inheritance Tax

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## What is Inheritance tax?

Inheritance Tax (IHT) is a tax charge based on the value of a person's estate and is normally incurred upon that person's death.

## Who is liable to pay IHT and on what?

In general terms, any person who is resident in the UK and domiciled here (i.e. the UK is their country of birth) is subject to IHT on all property and assets which they own - both in the UK and abroad.

## Does tax only apply upon death?

The quick answer is No – if you make a transfer to a Trust during your lifetime, we call that a chargeable lifetime transfer and is subject to tax at the time of the transfer.

## How much tax is payable?

Upon death, IHT is charged at 40% on the amount of a person's estate which exceeds £325,000.

Lifetime transfers to trusts are normally subject to tax at 25%, but may be exempt due to the availability of the Nil Rate Band.

## Are any items exempt from IHT?

Yes – the main examples are:

- (i) No IHT is payable on an estate left to a surviving spouse or civil partner (see notes on Nil Rate Band)
- (ii) No IHT due on any transfers made to a spouse during lifetime
- (iii) No IHT due on bequests / donations to registered charities
- (iv) No IHT due on individual gifts up to £250.  
An individual has an annual gift exemption of £3,000 anyway
- (v) Any gifts in consideration of marriage by a parent (up to £5,000), by a grandparent (up to £2,500) and by any other person (up to £1,000) are exempt.

## What do we mean by the Nil Rate Band?

In simple terms, the first £325,000 of an estate is exempt from IHT. However, an individual may be entitled to an additional Nil Rate Band or a proportion of it if his or her spouse or civil partner has already died and they didn't

fully use the Nil Rate Band entitlement at the time of their death.

## Life-time gifts

A lifetime gift made to an individual (but not to a Trust) is known as a potentially exempt transfer (PET) and won't be subject to IHT at the time of the transfer. If the individual who makes the transfer lives for more than 7 years from the date of making that transfer, then IHT won't be liable on the death estate. If, however, the individual dies within 3 years, IHT may be due on the death estate. If the period is between 4 and 7 years, IHT may be due but may be reduced through taper relief (80% if 6 to 7 years reducing to 20% if more than 3 but less than 4 years).

## Business Property Relief

Certain transfers of business interests and private shares (from a trading company) may bring their own reliefs from IHT – this is known as Business Property Relief.

## How can I minimise the IHT payable?

- (i) Obviously the lower the value of the death estate, the less IHT is payable. If you can make gifts and transfers throughout your life, this has the effect of starting the "seven year clock" and possibly reducing the total value of the estate (in the event of death).
- (ii) Everybody has an annual allowance of £3,000 that can be offset against the value of gift transfers. Therefore, in a spouse/civil partnership, £6,000 allowances are available each year.
- (iii) If your annual income is significantly greater than your expenditure (i.e. outgoings), you can make regular gifts out of the excess, which would be in addition to the annual allowance. This could be useful in, for example, making funds available for grandchildren.
- (iv) You can take out an insurance policy to cover the estimated IHT liability. Such a fund is drawn in favour of the beneficiaries so that they have funds to pay the IHT at the time. The payment is made outwith your estate and the policy proceeds do not form part of the estate for IHT purposes. [continued over...](#)

## How can I minimise the IHT payable? cont.

- (v) Finally, there are some more complex procedures such as using a gift and loan Inheritance Trust or a discounted gift scheme. These can be employed for potential IHT savings.

However, there is no guarantee that the current schemes will not be subject to review or change by HMRC.

We hope that this brief summary is of some assistance to you. Should you require more detailed advice, please do not hesitate to contact us.

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1087 Cathcart Road  
Mount Florida, Glasgow G42 9XP  
Tel. **0141 632 2248** Fax. **0141 649 0301**  
Email. **[enquiry@fultonslaw.co.uk](mailto:enquiry@fultonslaw.co.uk)**

4 Howie Buildings, Mearns Road  
Clarkston, Glasgow G76 7ET  
Tel. **0141 621 1816** Fax. **0141 621 1820**  
Email. **[enquiry@fultonslaw.co.uk](mailto:enquiry@fultonslaw.co.uk)**

**[www.fultonslaw.co.uk](http://www.fultonslaw.co.uk)**