

MITCHELLS ROBERTON PRIVATE CLIENT DEPARTMENT

TAX PLANNING - REDUCING YOUR ESTATE - GIFTS

- Lifetime gifts are potentially exempt transfers for IHT purposes. If you live for seven years after making the gift, and provided you do not reserve any interest in it, the value of the gift falls out of your estate for Inheritance Tax.
- Making lifetime gifts can help to reduce or even eliminate the liability to IHT.
- Taper relief only applies where the total value of the lifetime gifts at the date of your death exceeds the nil rate band (NRB). Taper relief does not reduce the value of the gift. It only reduces the tax payable on the gift, so to benefit from this relief there must be tax due on it in the first place.
- If taper relief applies, the tax due on the gift is reduced by 20%, 40%, 60% and 80% if you die in the 4th, 5th, 6th and 7th years respectively after gifting.
- The current NRB is £312,000. You must have given gifts in excess of this amount to benefit from taper relief.

- The annual exemption is £3000, so you can give away £3000 every year and this is not added back if you die within 7 years. Over 10 years, say, you can give away £30000. If you had kept it and invested it, it might be worth say £50000 in your estate. So you will have saved £50000 x 40% or £20000. By gifting over an even longer period you can save even more tax.
- Over and above that you can make annual gifts which are exempt from IHT by reason of being gifts out of normal annual expenditure. This can be any amount provided that it can be shown at the end of the day that you could afford to make these gifts regularly out of income without affecting your lifestyle. You must keep detailed records to prove this to the satisfaction of HMRC.
- The foregoing periodic gifts can be made in the form of life insurance premiums into savings or endowment policies, thus building in an element of investment into the gifting.

To find out more or discuss your tax planning in general why not contact one of our Private Client Lawyers? You can click on Contact us and view our People pages.

Mitchells Roberton

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