



Making gifts in lifetime to reduce the value of an estate on death is becoming increasingly popular. There are specific rules that apply to the making of gifts to ensure, so far as is possible, that the value of the gift will not be taken in to account when the person making the gift dies.

Some gifts are exempt from Inheritance Tax purely because of the nature of the beneficiary i.e. charity, but other gifts are dependent on the value and, sometimes, the nature.

This guide is intended to provide an overview of the current rules relating to the Inheritance Tax exemptions for gifting.

1. Wedding and civil partnership gifts

Upon a wedding / civil partnership ceremony there are certain gifts which can be made exempt from any Inheritance Tax considerations:-

- Parents can give up to £5,000 each
- Grandparents and more remote relatives can give up to £2,500 each
- Anyone else can give up to £1,000 each

The gift must be made shortly before or on the date of the ceremony. If the ceremony is called off but the gift is still made then it will not be exempt for Inheritance Tax purposes.

2. Small Gifts

£250 can be given to as many people as you like in the period of one tax year. Anything over and above £250 will not fall within the small gifts exemption.

3. Annual Exemption

You may gift £3,000 in each tax year without there being any Inheritance Tax consequences of this. £3,000 is the total that applies personally to the person making the gift. Under the current rules, you are able to carry forward all or any part of an unused allowance for one year only. As a result, up to £6,000 in one year can be gifted if no gifts were made in the previous tax year that made use

of the annual exemption. This annual exemption cannot be used in conjunction with the small gifts exemption but can be used with the exemption relating to wedding/civil partnership ceremony gifts.

4. Gifts that are part of normal expenditure

Regular gifts made out of after-tax income (but not capital) and which do not affect the normal standard of living will be exempt from Inheritance Tax. If you do decide to utilise this as a way of gifting then you must ensure that clear records are kept of the amount of income received, income expended in day-to-day living expenses and confirmation of the value of the gift made and to whom. This is often utilised by people who have income in excess of their expenses and wish to assist others, i.e. children on, for example, a quarterly basis. We would recommend that advice is taken before using this exemption to ensure that this is suitable in your circumstances and that HMRC are likely to consider the gifting to be regular.

5. Maintenance Gifts

Gifts by way of maintenance payments are exempt from Inheritance Tax in so far as they are made to the following people and are considered to make reasonable provision for the person's care or maintenance:-

- A relative of the donor (or his spouse/civil partner) who is incapacitated by old age and/or infirmity from maintaining themselves
- A parent of the donor or his spouse/civil partner

We would recommend that advice is taken before consideration is given to using this exemption.

6. What if my gift does not fall within any of the above exemptions?

It will usually be a Potentially Exempt Transfer ("PET"). A PET is only Inheritance Tax free if you survive seven years after the date upon which the gift is made. If you should die within seven years

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and the total value of the gift you made is less than the Inheritance Tax nil rate band threshold, then the value of the gift is added to your estate thus reducing the nil rate band available to offset against the estate.

However, if you die within seven years of making the gift and the gift is valued at more than the Inheritance Tax nil rate band threshold, Inheritance Tax may be due on the gift. In this situation, the Inheritance Tax is primarily payable by the person who received the gift.

If death occurs between three and seven years after making a gift, and the total value of the gift made is over the threshold, any Inheritance Tax due on the gift is reduced on a sliding scale.

In any situation where such a large gift is proposed we would recommend that advice is obtained as to how the tax is to be paid in the event of death within 7 years.

7. Can I make a gift into a Trust?

Gifts into trust are normally immediately chargeable to Inheritance Tax. If the gift is being made to a "disabled trust" then this will count as a PET as opposed to being chargeable in lifetime. Advice should be obtained whenever a gift into a trust is proposed.

8. Do I need to take legal advice?

We would recommend that you seek legal advice before undertaking any significant gifting as there may be alternative ways of dealing with this, for example through trusts, which may be more beneficial in the long run. For a gift to be effective for Inheritance Tax no benefit should be retained by the person making the gift.

Whilst this guide is focused on the Inheritance Tax

factors concerning gifts, there may be other issues which require consideration. For example, a gift may trigger a disposal for Capital Gains Tax purposes and for those who are concerned about funding future care costs it is necessary to consider the charging and funding arrangements made by the local authorities and the anti-avoidance measures within the law to take account of some gifts.

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Contacts

Peterborough Greg Baker - Partner
Direct dial: 01733 295616
Email: greg.baker@hegarty.co.uk

Joanna Grewer - Associate Solicitor
Direct dial: 01733 295552
Email: joanna.grewer@hegarty.co.uk

Andrea Beesley-Hewitt - Solicitor
Direct dial: 01733 295557
Email: andrea.beesley-hewitt@hegarty.co.uk

Stamford Jo Wild - Solicitor
Direct dial: 01780 750952
Email: jo.wild@hegarty.co.uk

48 Broadway Peterborough PE1 1YW Tel: 01733 346333
10 Ironmonger Street Stamford PE9 1PL Tel: 01780 752066
you can also visit us online at: www.hegarty.co.uk

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Information prepared July 2009

Hegarty LLP Solicitors company number OC 316221. VAT registration # 330 2575 88

