

Transferable Nil Rate Band

Often when one spouse or civil partner dies, either all or the vast majority of their estate will pass to the surviving spouse and therefore qualify for a spousal exemption for Inheritance Tax. This means that one Nil Rate Band has either not been used at all or only partially used. It is now possible to transfer any unused percentage of the Nil Rate Band from the estate of the first spouse so that it can be used on the surviving spouse or civil partner's death, thus in the vast majority of cases giving a total of two Nil Rate Bands (currently £650,000) before Inheritance Tax will be due.

Chargeable Lifetime Transfers

Some gifts do attract Inheritance Tax when they are made, but even then, their cumulative value must exceed the Nil Rate Band before any Inheritance Tax is charged. The main category of transfers which are immediately chargeable in a person's lifetime are transfers into a Discretionary Trust. If the value of the gift (when taken with chargeable transfers made within the preceding seven years) exceed the Nil Rate Band, Inheritance Tax will be payable at the lifetime rate of 20% on the gift. If you fail to survive the gift by seven years, then the Inheritance Tax could be recalculated at the death duty rate of 40%. Again this is a complex area of tax law and this is not an exhaustive guide, it is always best to discuss these matters in terms of your own particular circumstances.

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Registered Address

1st floor, Unit 3
Chichester Business Park,
City Fields Way, Tangmere
Chichester, West Sussex
PO20 2FT

Tel: 01243 532777

email: info@owenkenny.co.uk

For more information on how we can help you, visit www.owenkenny.co.uk

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Inheritance Tax



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This factsheet aims to set out, in very broad terms, the main exemptions available to you if you are intending to make lifetime gifts. This is intended as a guide only, and we strongly recommend that you contact us for an appointment to discuss your likely exposure to Inheritance Tax and how this may be mitigated.

Basic Principles

Inheritance Tax was introduced on 18th March 1986, replacing Capital Transfer Tax. Inheritance Tax may be charged on certain lifetime gifts, on wealth at death and on certain transfers into and out of Trusts. In the Inheritance Tax legislation, gifts which serve to reduce the value of a person's estate are known as "transfers". Currently the first £325,000 of your estate is not chargeable to Inheritance Tax. This is known as the "Nil Rate Band". Chargeable lifetime gifts above the Nil Rate Band attract Inheritance Tax at 20%, whilst a charge of 40% is made on the amount by which a deceased person's estate exceeds the Nil Rate Band.

Exempt Transfers

Many gifts are completely exempt from Inheritance Tax. Others are exempt only if they are made during a person's lifetime. The exempt lifetime gifts are as follow:-

- **Small gifts to the same person**

Any outright lifetime gifts to any one person in any one tax year provided the total gifts to that person do not exceed £250.

- **Gifts in consideration of marriage**

If you are the parent of the bride or groom	£5,000
If you are a grandparent	£2,500
If you are a party to the marriage	£2,500
Anyone else	£1,000

- **Annual transfers not exceeding £3,000**

The first £3,000 of lifetime transfers for any reason in any tax year is exempt. Any unused portion of the exemption can be carried forward for one year only for use in the following tax year (so the total aggregated annual transfer amount is £6,000), provided the exemption for that year has not been used. So for example, if you made a gift of £2,500 in tax year 2015/16, you could make an exempt gift of £3,500 in tax year 2016/17.

- **Normal expenditure out of income**

To obtain the exemption, the gift must be part of your normal expenditure, and must not, taking one year with another, reduce your available net income (after taking account of any other gifts you have made) below that required to maintain your usual standard of living. This exemption will often apply to life assurance policy premiums paid for the benefit of someone else. In order to use the exemption you must keep very detailed records of your income and expenses.

- **Capital transfers for family maintenance**

You may sometimes need to make transfers of capital in order to provide for your family, for example, following divorce, when the usual exemption for transfers between husband and wife no longer applies, or to make reasonable provision for a dependant relative.

- **Waivers of remuneration and dividends**

A waiver or repayment of remuneration does not attract Inheritance Tax, nor does a waiver of dividends made within twelve months before any right to the dividend arises.

The following exemptions are available for transfers made in lifetime or on death:

- **Transfers between husband and wife**

These are exempt, except where a husband or wife domiciled in the UK makes a gift to a foreign domiciled spouse, in which transfers are only exempt up to £325,000.

- **Gifts to charities**

Gifts to charities, either outright or to be held on trust for charitable purposes and gifts to registered community amateur sports club are exempt.

In addition to the above, exemptions are also available for gifts to political parties, gifts for national purposes, gifts of land to registered housing associations, late compensation for World War Two claims, decorations awarded for valour, maintenance funds for heritage property and there is a conditional exemption for heritage property. If you would like more details in respect of any gifts under these categories, please do feel free to contact us to discuss matters further.

Other Lifetime Transfers

Most of the transfers you are likely to make in your lifetime are either probably wholly exempt from Inheritance Tax under the exemptions already mentioned, or are "potentially exempt" and will only be subject to Inheritance Tax if you die within seven years after making them. Even then, there will be no Inheritance Tax to pay on a potentially exempt transfer unless, when it is added to any other transfers made in the seven years before, it exceeds the Nil Rate Band at death (currently £325,000). Potentially exempt transfers will however be taken into account to decide how much, if any, of the Nil Rate Band is available to set against the value of your estate at death. This is a complex area of tax law and if you have any concerns or queries please contact us to discuss your own circumstances in detail.

