



# Inheritance Tax

## What is Inheritance Tax?

Inheritance Tax (IHT) is a tax on the estate of someone who has passed away. Currently, IHT is not paid on anything under £325,000, which is known as the nil rate band. Anything over this threshold is normally taxed at a rate of 40%.

## Exemptions and changes to IHT

There are some circumstances where your estate may be exempt from IHT, or where the threshold or rate of tax changes.

There is usually no IHT to pay if:

- Your estate is worth less than £325,000.
- You leave your entire estate to a spouse or civil partner, or to charity.

The amount of IHT paid can vary depending on a number of factors:

- If you give away your home to your children or further descendants (including fostered, adopted and stepchildren), the threshold changes to £425,000.
- If you're married or in a civil partnership, and your estate is worth less than £325,000, the unused tax free allowance can be passed to your partner. For example, if a husband dies, and his estate is worth £300,000, this can be added to his wife's tax-free allowance, and Inheritance Tax won't be paid on the first £625,000 of her estate.
- If you leave 10% or more of your estate to charity, Inheritance Tax is paid at a reduced rate of 36%.

## Residence Nil-Rate Band

From the 2017/18 tax year, a new 'main residence' allowance is being phased in, to allow you to pass your home to children or grandchildren, including adopted, fostered and stepchildren. The Residence Nil-Rate Band gives you an additional allowance on top of the £325,000 threshold, to be used against your home.

This is being phased in as follows:

Tax year	Residence Nil Rate Band	Nil Rate Band	Combined tax-free allowance
2017 – 18	£125,000	£325,000	£450,000
2018 – 19	£150,000	£325,000	£475,000
2019 – 20	£175,000	£325,000	£500,000

## Lifetime Gifts

You can give away some money and gifts tax-free in your lifetime. Gifts between spouses or civil partners, and gifts to charity are always tax-free.

In some circumstances, gifts you make in your lifetime become part of your estate and are eligible for IHT, these are called Potentially Exempt Transfers. Generally, if a gift is made to an individual (not a business or trust), seven years or more before your death, IHT will not need be paid on it.

You have a £3,000 gift allowance each year while you're alive, which means you can give up to £3,000 worth of assets or cash without having to pay IHT, even if you pass away within seven years. There are some types of gift that are always IHT-free:

- Gifts worth less than £250.

- Wedding gifts – these must be given before the wedding, and the wedding must go ahead. It must be:  
Given to a child, and worth up to £5,000.  
Given to a grandchild or great-grandchild and worth up to £2,500.  
Given to another relative or friend and worth up to £1,000.
- Gifts to help with living costs for an ex-spouse, elderly dependant or a child under 18 or in full time education.
- Gifts from your surplus income, for example, paying into your child's savings account, or paying a life insurance premium for your spouse or civil partner. The conditions to ensure that gifts of this sort are tax-free are complex so you should always take advice if you are considering rely on this principle.

- Woodland Property Relief – land from a woodland property is exempt from IHT, but trees may be taxable if sold or given away for timber.

The qualifying conditions for these forms of relief are complex, so it is recommended that you seek legal advice if you think they might apply to you.



## IHT Reliefs

Some assets are exempt from IHT or can be taxed at a reduced rate. These are known as tax reliefs, and include the following:

- Business Property Relief – depending on the type of business, and your involvement with it, a business or share in a partnership may be eligible for 50% or 100% tax relief.
- Agricultural Property Relief – a farm can be passed on free of IHT, however, assets such as machinery are not exempt.

## When should Inheritance Tax be paid, and who pays it?

IHT should normally be paid within 6 months. After this period, HMRC will start charging interest and may impose fines. It is possible for the tax to be paid in instalments for some assets, but interest will still be charged on this.

The executor of your estate will be responsible for making sure IHT is paid from the funds in your estate. For gifts made within seven years of your death, those who received the gifts must pay the Inheritance Tax themselves; if they are unable to do so, it will come out of your estate.

### Useful contacts

#### Citizens Advice Bureau

[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

#### Solicitors for the Elderly

0844 5676 173

[admin@solicitorsfortheelderly.com](mailto:admin@solicitorsfortheelderly.com)

[www.sfe.legal](http://www.sfe.legal)

#### The Law Society

020 7320 5650

[www.lawsociety.org.uk](http://www.lawsociety.org.uk)

#### Law Society of Scotland

0131 226 7411

[lawscot@lawscot.org.uk](mailto:lawscot@lawscot.org.uk)

[www.lawscot.org.uk](http://www.lawscot.org.uk)

**This fact sheet is for information only. Always seek legal advice for any questions or concerns surrounding these issues.**