

Is it time to gift smart?

Reducing your estate's Inheritance Tax liability for your loved ones

Considering the later years of your life is an essential part of financial planning, especially when it involves how your assets will be distributed after you pass away. Many people think about gifting their dependents or family members an early inheritance. However, this requires careful planning and a solid understanding of Inheritance Tax rules to ensure your wealth is transferred in a reasonable and efficient manner.

Talking to us about your needs can help you avoid unexpected tax burdens and understand the complexities of estate planning. So, let's think about what you should know if you are considering gifting part of your wealth early.

UNDERSTANDING THE BASICS OF INHERITANCE TAX

Inheritance Tax, in its simplest form, is the tax imposed on the estate of someone who has died. The value of an estate comprises all assets, including savings, investments, property and personal possessions. For many, IHT isn't a concern, as the current allowance for any individual in the UK is £325,000. This amount is known as the nil rate band (NRB).

If the total value of your estate is below this threshold, no tax is payable. However, if your estate exceeds the NRB, the executor of your Will or the administrator of your estate must pay 40% to HMRC on the amount above the threshold. This 40% is the standard IHT rate applied to the part of the estate that surpasses the £325,000 NRB, which remains frozen until at least 2031.

ADDITIONAL RELIEFS AND ALLOWANCES

Some relief might be available if you decide to pass your main residence to any direct descendant. The Residence Nil Rate Band (RNRB) can add an extra £175,000 to the usual IHT allowance. As a result, your personal allowance could rise to £500,000. For married couples or civil partners, these allowances can be transferred to the surviving partner, possibly letting up to £1,000,000 be passed on before incurring IHT.

One of the easiest ways to reduce the value of your estate before you pass away is to give money to your chosen beneficiaries early. By gifting parts of your inheritance, your total assets may drop

below the taxable threshold. A good starting point is to calculate your estate's total value to gain a clear understanding of its value. If it exceeds the IHT allowance, we can advise you on IHT mitigation planning, which may involve gifting.

GIFTING RULES AND THE SEVEN-YEAR CLOCK

When giving money as a gift early, it is important to understand the rules. The current limit for a small cash gift to a single person is £250 a year, which can be given to as many people as you like, as long as they haven't received another gift from you. For any amount above £250, you can utilise your annual exemption of £3,000, which can be gifted to one or more people within a tax year without IHT implications. If you do not use this exemption, you can carry it forward for one tax year, allowing a gift of up to £6,000.

If you decide to gift an amount above the annual exemption, you should become familiar with the 'seven-year rule'. These gifts are known as Potentially Exempt Transfers (PETs) if they are made to an individual or a Bare Trust. A PET can be of any value and is exempt from IHT if you survive more than seven years after making the gift. If you pass away within this seven-year period, the gift may become a taxable asset. The tax rate on the gift is on a sliding scale for amounts over the NRB.

OTHER TAX-FREE GIFTING OPPORTUNITIES

Along with the annual allowance, there are additional exemptions that let you gift part of your inheritance early. Assets left to a spouse or civil partner are exempt from IHT, as are unlimited gifts between you, as long as both of you live permanently in the UK. You can also make tax-free wedding gifts of up to £5,000 to a child, £2,500 to a grandchild or £1,000 to anyone else.

Furthermore, regular gifts from your surplus income that do not affect your standard of living can also be exempt. These could go towards a relative's living expenses or into their savings account. Detailed records must be kept of these payments to show that they are part of a consistent pattern and originate from surplus income. By planning ahead, you may be able to reduce future tax liabilities for your beneficiaries. ■

READY TO EXPLORE HOW YOU CAN SAFEGUARD YOUR FAMILY'S FUTURE?

To learn more about Inheritance Tax planning or to receive expert financial advice, contact us today to discover how we can help secure your family's future. Please get in touch, don't leave it to chance.

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