Pennymatters
THE MODERN APPROACH TO FINANCIAL ADVICE

Pennymatters Ltd
Building 329, Doncastle Road
Bracknell, Berkshire RG12 8PE
T: 01344 988390 F: 01344 988394
E: enquiries@pennymatters.co.uk
W: www.pennymatters.co.uk

Inheritance Tax gift rule many families may be overlooking

72% of UK adults unaware gifts from surplus income are IHT-exempt

For many families, gifting money to children or grandchildren is simply a way to help with everyday costs or to give them a financial head start. However, new research suggests that almost three quarters (72%) of UK adults do not realise that regular gifts funded by spare or surplus income can be immediately exempt from Inheritance Tax (IHT)[1].

The research, based on a survey of 2,000 UK adults conducted between 17 and 20 February 2026, also found that 31% of gifts made by those over 55 in the past seven years were funded by surplus or spare regular income.

A VALUABLE EXEMPTION

Known as 'normal expenditure out of income', the exemption allows qualifying regular gifts to be made without waiting seven years for them to fall outside the IHT calculation. Unlike many other gifts, the donor need not survive seven years, provided the strict conditions are met.

With Inheritance Tax rules changing from April 2027, more families may be considering how best to pass on wealth during their lifetime. For those with income left over after covering their usual living expenses, regular gifting could provide a tax-efficient way to support loved ones.

THREE CONDITIONS TO MEET

There are three important tests. First, gifts must come from income rather than capital, such as savings or investments. This could include pension income, interest, dividends or rental income after tax.

Second, the gifting should form a recognisable pattern. This might be monthly payments or regular contributions for birthdays or Christmas. One-off gifts are less likely to qualify.

Third, gifts must not leave the donor unable to maintain their usual standard of living. If savings or other capital have to be used to cover normal living expenses, the exemption may not apply.

KEEP CAREFUL RECORDS

Start by calculating your regular net income and deducting your usual household spending. Any genuine surplus could potentially fund a regular gifting plan. Setting up standing orders can help establish a clear pattern of payments.

Good records are equally important because the exemption may need to be demonstrated by executors after death. Keep bank statements, correspondence and a schedule of gifts. HMRC's IHT403 form includes a section for recording gifts, which can help establish whether the exemption applies. ■

GET HELP IF UNSURE

This exemption can be valuable, but the rules are specific and each family's circumstances differ. If you are considering regular gifts from surplus income, it is essential to obtain professional advice to confirm that the conditions are met and that appropriate records are kept. For further information, or to discuss how the rules may apply to your circumstances, please contact us. We look forward to hearing from you.

Source data:

[1] Research for Canada Life was conducted among a nationally representative sample of 2,000 UK adults between 17 and 20 February 2026.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. ESTATE AND TAX PLANNING ARE NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.