

IHT – A Brief Guide

IHT is the present form of death duty.

IHT can apply to both lifetime gifts and transfers on death.

The ***IHT rates*** are:

- lifetime : 20%
- death : 40%

IHT is only usually payable on lifetime gifts into most trusts, where the total of the transferor's "lifetime chargeable transfers" exceeds the IHT tax-free allowance (the "nil rate band").

For tax year 2009/10, the ***IHT nil rate band*** is £325,000.

The other main ***IHT exemptions and reliefs*** are:

Spouses – gifts between UK domiciled spouses are IHT exempt. The spouse exemption also applies to those who have entered into a Civil Partnership.

Annual (main) – gifts of up to £3,000 per tax year are IHT exempt. Any unused balance of this exemption may be used in the following tax year (only).

Annual (small) – gifts of up to £250 per tax year per recipient are IHT exempt, as long as the recipient has not benefited from a gift under the main annual exemption.

Normal expenditure from income – regular gifts, made from income, which leave the donor with sufficient income to maintain their usual standard of living, may be IHT exempt.

Gifts in contemplation of marriage or Civil Partnership – such gifts up to the following limits are IHT exempt:

- by a parent : £5,000
- by a grandparent : £2,500
- by others : £1,000

Maintenance – certain payments for family maintenance/dependent relatives are IHT exempt.

Charity etc – gifts to charities, housing associations, for national purposes, to political parties and for the public benefit are all IHT exempt.

Certain types of ***business and agricultural property*** also qualify for IHT reliefs.

Potentially exempt transfers (PETs) – a gift between individuals or into a limited category of trusts that is not covered by other exemptions and reliefs is termed a PET and will become IHT exempt if the donor survives for 7 years from making the gift.

Taper relief – this may serve to reduce the IHT payable on a failed PET.

Finally, it should be noted that, under the **reservation of benefit** rules, gifts where the donor continues to benefit from the asset given away, whilst legally valid, do not qualify for IHT relief. IHT is calculated as if the gift had not taken place.

Please contact Shaun Parry-Jones for more information.

This fact sheet is for general guidance purposes only. No steps should be taken relying only on it. Appropriate professional advice should be sought before any course of action is pursued.
