

IHT Taper Relief

A gift between individuals or into certain types of trust that is not covered by other exemptions and reliefs is termed a Potentially Exempt Transfers (PET) and will become IHT exempt if the donor survives for 7 years from making the gift.

If someone makes a PET and then dies within the 7 year period, the value of the failed PET will be taken into account in the calculation of IHT due on their death.

If the value of the failed PET exceeds the available IHT nil rate band (NRB), IHT will be payable on the excess at the death rate of 40%.

Example

A made a PET of £425,000 to B on 1 May 2008. There were no other gifts between then and A's death in July 2009. The IHT NRB (i.e. the tax free allowance) for tax year 2009/10 is £325,000. Assuming there were no other relevant factors, the IHT due on the failed PET made by A on 1 May 2008 is calculated as follows:

	£
Tax due on first £325,000 (the tax-free allowance)	nil
Tax due on next £100,000 (ie/£425,000 less £325,000) at 40% =	<u>40,000</u>

IHT taper relief can serve to reduce the IHT payable

If a gift is made between 3 and 7 years before the date of death, IHT taper relief would apply and would reduce the IHT payable per the scale set out below. The longer the gap between the date of the gift and the date of death, the greater the reduction of tax payable.

<i>Years between gift and death</i>	<i>Percentage of tax payable</i>
0 – 3 years	100%
3 – 4 years	80%
4 – 5 years	60%
5 – 6 years	40%
6 – 7 years	20%

Accordingly, if, in the above example, A had made the original gift on 1 May 2004 rather than 1 May 2008, the IHT calculation on the failed PET would be as below:

	£
Tax due on first £325,000 (the tax-free allowance)	nil
Tax due on next £100,000 (ie/£425,000 less £325,000) at 40% =	<u>40,000</u>

Tax actually payable after taper relief applicable as the gift was made more than 5 but less than 6 years before death:

£40,000 x 40% =	<u>16,000</u>
-----------------	---------------

Tax saving by virtue of application of taper relief (£40,000 - £16,000) =	<u>24,000</u>
-------------------------------------------------------------------------------------	---------------

NB/ It should be noted that IHT taper relief applies to the tax due **NOT** the value of the gift. This means that, where the value of a gift made within 7 years of death is within the available IHT tax-free allowance, IHT taper relief has no effect.

Please contact Shaun Parry-Jones for more information

This fact sheet is for general guidance purposes only. Appropriate professional advice should be sought before any course of action is pursued.