

# Gifting and Inheritance Tax Planning



This is a summary only. If you have any questions or would like advice on your personal situation, please contact us.

Gifting and Inheritance Tax ('IHT') planning can be fairly complicated. However, certain gifts can be made which may be free of IHT, and those that can be made within an individual's lifetime are:

### 1. The annual gift exemption

- ◆ For gifts up to £3,000 each tax year
- ◆ Can be carried forward for one tax year only. The current year's exemption will be used before any amount carried forward (a couple who have not used the exemption in the current or previous tax year could make exempt gifts of £12,000)
- ◆ Cannot be combined with the small gifts exemption to make an IHT-free gift of £3,250

### 2. Small gifts exemption

- ◆ Gifts of up to £250 can be made to any number of people in the same tax year
- ◆ Must be an outright gift, not to a trust
- ◆ If the total of gifts made in the tax year to the same person is more than £250, this exemption cannot apply at all

### 3. Normal expenditure out of income

- ◆ Gifts must form part of normal expenditure and as part of a habitual pattern of gifting, so around at least three to four years
- ◆ Gifts must be made out of income and not capital, but can include dividends and regular pension withdrawals or ISA income
- ◆ Donor must be left with enough income to maintain their usual standard of living (see below for more detail)
- ◆ These do not have to be made to the same recipient every year

This exemption allows the donor to make a series of potentially exempt gifts from surplus income. There is no monetary limit to their size, but they must qualify with the bullet points above to qualify. If this is something you wished to begin doing, it is important to keep a record.

### 4. Gifts in consideration of marriage or civil partnership

- ◆ Usually made before the marriage or civil partnership takes place
- ◆ Each parent can give £5,000
- ◆ Each grandparent can give £2,500
- ◆ Any other person can give £1,000

### 5. Gifts for education and maintenance

- ◆ Lifetime transfers to a current or former spouse or civil partner or a dependent relative for their maintenance are not subject to IHT
- ◆ Payments for a child's maintenance, education or training

## 6. Exempt gifts made during lifetime or on death

- ◆ Gifts between UK domiciled spouses and civil partners. Special rules apply if the gift is from a UK domiciled to a non-domiciled spouse (see below)
- ◆ Gifts to charities and political parties
- ◆ Gifts for national benefit, such as to museums, universities, libraries or the National Trust

### Important information



This document is for information only and is based on our understanding of current legislation, which may change in the future. It does not constitute individual financial planning advice. The value of investments can fall as well as rise and is not guaranteed.

If you have any questions or would like advice on your personal situation, please contact us on 01225 613444 or email [info@baileycookfp.co.uk](mailto:info@baileycookfp.co.uk).

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