


Five tips on using gifts to reduce inheritance tax

As the saying goes, it's better to give than to receive. But did you know that along with the pleasure of seeing your loved ones enjoy your gift you can also reduce inheritance tax at the same time? However, to avoid potential pitfalls, you'll want to understand the rules first. Read this short article to find out more.

 a 5-minute read

1. Know what's defined as a gift

What counts as a gift for inheritance tax purposes? Simply put, it can be anything that's part of your estate. Property, cars, cash, investments, jewellery – even collections of stamps, wine, coins or sports memorabilia can be liable to inheritance tax.

One thing to remember is normally you can't add conditions to your gifts. For example, if the gift is a car, you can't continue to drive it. If the gift is a home, you can't continue to live in it rent-free or inheritance tax may apply.

2. Begin giving early

As soon as you give a gift, an inheritance tax clock starts ticking. Usually, seven years must pass before your gift is 100% inheritance tax-free. If you die before this time lapses, the person you've given the gift to may owe inheritance tax.

It's one reason for giving gifts early. When you're younger you're more likely to live seven years from the time the gift was given. Making gifts earlier also increases your chance of getting to experience the pleasure that comes from seeing those you love enjoy what you've given – and to thank you for it.

This information is based on our current understanding of taxation law and practice in the UK, which may change. The amount of tax you pay and relief you receive depends on your own personal circumstances which may also change in the future.

3. Use annual gift exemptions

Each of us has an annual allowance that allows gifts up to £3,000 free of inheritance tax each year. If this full amount isn't taken one year, it carries over into the next year. This means that if you don't give the full amount one year, you can give £6,000 the following year. However, this allowance can only be carried over for one year.

Everyone can also give as many gifts as they like up to £250 per person. These gifts are currently inheritance tax exempt – there's no seven year clock ticking. It's important to note that you cannot combine this small gift allowance with any other gift allowance for the same person. This means that you can't give someone a £3,000 gift and then another £250 small gift.

Donations to charities, including gifts to political parties, can also reduce inheritance tax.

4. There are special rules for weddings

Weddings are gift-giving occasions. But, before handing over a gift to the happy couple, consider inheritance tax.

You may not be aware, but a wedding gift offers a chance to reduce inheritance tax. The amount that you can give inheritance tax free depends on your

relationship to the couple, the timing and amount of your gift. Generally, the more closely you're related to the couple, the more you can give.

So if one of your children marries, you can give up to £5,000. If a grandchild or great-grandchild marries, this reduces to £2,500 or less. And if you're giving to a relative or friend this drops to £1,000. But don't wait until after the honeymoon to give your gift. It must be given before, not after the wedding to avoid attracting inheritance tax.

5. Document, document

It's very important that you track the details of any gifts that you've made to reduce inheritance tax. You'll need to record whom each gift was given to, the gift they were given, the date the gift was given, and the value of the gift.

It's also helpful to keep evidence of the gift, for example, you can use a bank statement to evidence a gift of money. This will make it easier to establish if there is any inheritance tax due on your gifts.

Reducing inheritance tax, one gift at a time

We recommend you speak to your financial adviser to help you set up a plan that will aim to reduce or even eliminate inheritance tax. This could include giving gifts as well as a number of other strategies.

Gifts – a snapshot

Some tips to keep in mind:

- Usually seven years must pass before a gift is inheritance tax-free.
- Give up to £3,000 each year.
- As many gifts up to £250 each year.
- Wedding gift allowances may apply.

What to do next ?

No one wants a gift given with love to create an unwanted tax issue. Contact your financial adviser to find out how gifts can be used to reduce inheritance tax.

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