Friends Provident International

IHT Taper Relief

How does it work?

For financial advisers only.

What is taper relief?

It is a tax relief that is applicable when UK inheritance tax (IHT) is due on a gift that is made within 7 years of a person's death.

When does taper relief apply?

Taper relief applies where:

1. the transfer was made more than three years before the transferor's death, and
2. tax is due on the transfer in its own right (the amount that exceeds the nil rate band (NRB) (currently £325,000)).

The following examples assume that no previous gifts have been made and all lifetime exemptions have already been used:

EXAMPLE 1

In December 2013, Mr Jones made a gift of £500,000 into a Bare Gift Trust. He dies in October 2018.

The IHT calculation is: £500,000 (value of gift) - £325,000 (NRB) = £175,000 X 40% (rate of IHT on death) = **£70,000** tax payable.

The gift was made 4 years and 10 months before the death of Mr Jones. Therefore, taper relief of 40% can be applied to the IHT payable on the gift.

Taper relief = £70,000 (IHT due on gift) X 40% = **£28,000**

Tax payable = **£42,000** (£70,000 - £28,000)

Effective Rate on Gift: £42,000/£175,000 x 100 = 24%

What are the current rates for taper relief?

Time between date of gift and date of donor's death	Taper relief applied to tax due	Effective rate on gift
0-3 Years	0%	40%
3-4 Years	20%	32%
4-5 Years	40%	24%
5-6 Years	60%	16%
6-7 Years	80%	8%

After 7 years the gift will be outside of the estate and no UK IHT is due.

EXAMPLE 2

In December 2011, Mrs Taylor made a gift of £1,000,000 into a Bare Discounted Gift Trust. Based on the initial underwriting decision, £563,815 (the discount) is immediately outside of Mrs Taylor's estate for IHT. The value of the gift for IHT is reduced to **£436,185** (£1,000,000 - £563,815). Mrs Taylor dies in July 2018.

The IHT calculation is: £436,185 (value of gift) - £325,000 (NRB) = £111,185 X 40% (rate of IHT on death) = **£44,474** tax payable.

The gift was made 6 years and 7 months before the death of Mrs Taylor. Therefore, taper relief of 80% can be applied to the IHT payable on the gift.

Taper relief = £44,474 (IHT due on gift) X 80% = **£35,579.20**

Tax payable = **£8,894.80** (£44,474 - £35,579.20)

Effective Rate on Gift: £8,894.80 / £111,185 x 100 = 8%

Important Notes

For financial advisers only. Not to be distributed to, nor relied on by retail clients.

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our current understanding of the law and HM Revenue and Customs (HMRC) practice. You should note however, that we cannot take on the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change. Legislation varies from country to country and the plan owner's country of residence may impact on any of the above.

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