

UK Inheritance Tax

– exemptions and reliefs

For advisers only. Not for use with customers.

This guide looks at some of the key exemptions and reliefs that are available to an individual to help them reduce a potential UK inheritance tax (IHT) liability during their lifetime.

UK IHT Liability

An individual that is treated as a UK long term resident will be subject to UK IHT on the value of their worldwide estate.

The Nil Rate Band (NRB)

The NRB is the amount up-to which no IHT is payable on a UK estate and is currently £325,000. Upon death, IHT is payable on the value of the estate that exceeds the NRB at a rate of 40%.

An individual may have a reduced NRB on death if gifts were made during their lifetime and are not covered by the tax-free allowances (exemptions) and they died within seven years of making the gift.

Exemptions

The following exemptions allow an individual to reduce their estate that is subject to IHT without reducing the available NRB.



Annual Exemption

Every tax year an individual is entitled to make transfers up to £3,000. These can be made to other individuals or into trusts.

Any amount of the annual exemption that is not used in any tax year can be carried over to the following tax year. This means the maximum annual exemption in any tax year could be £6,000.



Spousal Exemption

Transfers made between spouses or civil partners are completely exempt and free of IHT. There is no limit to the amount that can be transferred.

A transfer from an individual that is treated as a UK long term resident to a spouse or civil partner that is not treated as a long term resident is limited to £325,000 unless the spouse makes an election to be treated as a long-term UK resident for IHT purposes. The election would remain effective for 10 successive tax years from the date of election.



Small Gift Exemption

Gifts made to individuals of less than £250 are not subject to IHT. There are no limits to the amount of gifts an individual can make under this exemption.

NB: this exemption can't be used in connection with other exemptions.



Normal Expenditure Out of Income

This allows gifts to be made out of the individual's surplus income. To qualify, the taxpayer must be able to show that the gift:

- Formed part of their normal expenditure
- Was made out of income, and
- Left the transferor with enough for them to maintain their normal standard of living



Gifts in Consideration of Marriage Exemption

Depending on the relationship between the person making the gift and the recipient couple gifts in consideration of marriage or civil partnership are exempt for IHT, up to:

- £5,000 to the donor's child
- £2,500 to the donor's grandchild
- £1,000 to any other couple

Reliefs



Tapering Relief

This relief can be used to reduce any IHT that may become payable on a lifetime gift by the recipient should that transfer become subsequently chargeable.

For further information. Please refer to our guide on Tapering Relief.



Quick Succession Relief

Where property has been gifted and IHT become payable, relief can apply if the recipient subsequently dies within 5 years of receiving the gift. Relief is given on a sliding scale.

It is important which each of the reliefs and exemptions mentioned that accurate records are maintained so that any executors of an estate can correctly calculate any IHT liability.

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.

Friends Provident International Limited: Registered and Head Office: Royal Court, Castletown, Isle of Man, British Isles, IM9 1RA. Isle of Man incorporated company number 11494C. Authorised and regulated by the Isle of Man Financial Services Authority. Provider of life assurance and investment products. **Singapore branch:** 182 Cecil Street, Level 17 Frasers Tower, Singapore 069547. Registered in Singapore No. T06FC6835J. Licensed by the Monetary Authority of Singapore to conduct life insurance business in Singapore. Member of the Life Insurance Association of Singapore. Member of the Singapore Financial Dispute Resolution Scheme. **Hong Kong branch:** 803, 8/F., One Kowloon, No.1 Wang Yuen Street, Kowloon Bay, Hong Kong. Authorised by the Insurance Authority of Hong Kong to conduct long-term insurance business in Hong Kong. **Dubai branch:** PO Box 215113, Emaar Square, Building 6, Floor 5, Dubai, United Arab Emirates. Registered in the United Arab Emirates (UAE) with the Central Bank of the UAE as an insurance company. Registration date, 18 April 2007 (Registration No. 76). Registered with the Ministry of Economy as a foreign company to conduct life assurance and funds accumulation operations (Registration No. 2013). Friends Provident International is a registered trademark and trading name of Friends Provident International Limited.