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**INHERITANCE TAX PLANNING  
LIFETIME GIVING**

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**Argo Life & Legacy Ltd.**

Little Chequers  
Stone Street  
Petham

Kent CT4 5PW

T: 01227 700 702

E: [info@argolifeandlegacy.co.uk](mailto:info@argolifeandlegacy.co.uk)

W: [www.argolifeandlegacy.co.uk](http://www.argolifeandlegacy.co.uk)

## INHERITANCE TAX PLANNING – LIFETIME GIVING

Inheritance Tax is charged at 40% on the value of an estate in excess of the “nil rate band”. Currently, the nil rate band stands at £325,000. The value of an estate falling within the nil rate band is charged to Inheritance Tax at 0%. In addition to the nil rate band, there is also an exemption available for transfers between spouses on death (the spousal exemption) and also Business and or Agricultural Property Relief is available at 100% for qualifying assets.

There are a number of ways in which Inheritance Tax liability can be reduced and these are as follows:-

### 1) Lifetime Gifts;

- ④ **Potentially Exempt Transfers:** Any gifts that you may give during your lifetime are known as Potentially Exempt Transfers because if you survive 7 years after making the gift, then the value of the asset transferred does not form part of your Estate for Inheritance Tax purposes. However, if you die within the 7 year period the asset is treated as part of your Estate. Nevertheless, if you survive more than 3 years the liability to Inheritance Tax is tapered down the longer you survive.
- ④ **Annual Exemption:** Each year you have an annual exemption of £3,000 and where more than £3,000 is used in any year any unused balance in the preceding year may be used. In other words, there is up to £6,000 available every other year, which can be gifted without being brought back into your estate if you do not survive 7 years. It is important that gifts utilising the Annual Exemption are made to beneficiaries who would normally be chargeable. For example, making gifts utilising the Annual Exemption to your spouse would not be tax efficient.
- ④ **Normal Expenditure:** Normal expenditure out of income is also exempt providing it leaves you with sufficient net income to maintain your normal standard of living (i.e. without resorting to capital). Traditionally it has been argued that a pattern of expenditure of at least 3 years must be shown for this to be allowed although a recent case has disproved this. Nevertheless, a pattern of gifting should be started as early as possible, and records kept to backup any claim.
- ④ **Small Gifts:** An exemption of £250 for each beneficiary in any given tax year is available although this cannot be used in conjunction with the annual exemption.
- ④ **Marriage Gifts:** An exemption of £5,000 per parent, £2,500 per Grandparent or remoter ancestor and otherwise simply £1,000 is also available. However, it must be an outright gift to a full party to the marriage (no exemption if the wedding is called off!).

2) **Insurance:** It is possible to arrange for insurance to cover the Inheritance Tax liability but premiums are generally expensive. Nevertheless, it may be worthwhile liaising with your financial advisor to consider this further.

3) **Charitable Bequests:** Gifts to charities are exempt to Inheritance Tax and this can be used, for example, to reduce an estate so that it falls within the nil rate band.

**The information contained in this document provides background information only and should not be relied upon as an exhaustive list of the legal issues involved. For more information and individual advice please contact us**

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