

INHERITANCE TAX, GIFTS AND PHILANTHROPY

Considerations when giving to loved ones or a cause.

When you're writing a will and planning your estate, you'll want to make sure as much as possible goes to the people and causes you care about.

The good news is there are incentives for those who decide to give a part of their estate to charity, as well as tax exemptions when you give certain types of gifts during your lifetime.

It's not all straightforward, however, and there are exemptions for inheritance tax that apply differently depending on who your gift is for, and the circumstances in which you're giving it.

The various gifting rules for inheritance tax are in place to prevent people from avoiding the tax altogether and giving away everything that would otherwise have been considered a part of their estate, but the 'complex' system has been criticised.

In July 2019, the Office for Tax Simplification published a report recommending the removal of all gift exemptions for inheritance tax, instead saying they should be replaced with a single personal gift allowance.

In January 2020, a report by the all-party parliamentary group for inheritance and intergenerational fairness echoed the need for reform, calling for a 'radical overhaul' of the inheritance tax system, which has remained largely unchanged since 2009.

For now, though, the gifting exemptions are still in place, and anyone planning their estate will need to take care to understand the rules and avoid the pitfalls.

INHERITANCE TAX AND GIFTS

Before going into the detail of gifting rules and exemptions, it's important to understand the circumstances in which inheritance tax might be due on an estate.

Each person has a £325,000 nil-rate band where no inheritance tax is due – and that's not including shared nil-rate bands between married couples or civil partners, and relief for passing on a family home.

Assuming an individual is not married or in a civil partnership when they die, and is not passing on a family home, the value of their estate above this £325,000 threshold will be charged at 40% after they die.

However, if they give gifts during the seven years before they die, those gifts could also be liable for inheritance tax.

These are referred to as 'potentially exempt transfers' – only potentially exempt, because they may or may not be taxed as part of a person's estate depending on when they were given.

A gift given within the three years before a person dies will be taxed at the full rate of 40%, tapering down to 0% for those given seven or more years before a person's death:

Years between gift and death	Tax rate on the gift
Less than three	40%
Three to four	32%
Four to five	24%
Five to six	16%
Six to seven	8%
More than seven	0%

For the purposes of inheritance tax, a gift could be anything of value, such as money, property, investments or possessions.

It could also be a loss in value, such as selling an item for less than it's worth.

However, it can't be something you still have an interest in, such as a house you sell to a relative but continue to live in. Under these circumstances, the house would most likely be considered a part of your estate for the purposes of inheritance tax.

GIFT EXEMPTIONS

Each person has a £3,000 annual exemption for gifts, but certain types of gifts are also excluded from inheritance tax.

In each tax year, you can give:

- **Wedding or civil ceremony gifts** of up to £1,000 per person. If you're giving the gift to your grandchild or great-grandchild, this exemption increases to £2,500, and if it's for your child you can give up to £5,000. This exemption qualifies if the gift was given on the date of the wedding, or shortly before it.
- **Gifts out of your income**, such as Christmas or birthday presents, or contributions towards things like school fees or mortgage payments for your children or grandchildren are deemed 'normal'. You need to be able to maintain your standard of living after making the gift for this to count as 'normal', and several other conditions apply.
- **Payments to help towards another person's living costs**, such as an ex-spouse, an elderly relative, or a child under 18.
- **Gifts to charities and political parties**, which we've explained in more detail later in this article.
- **Any number of small gifts worth up to £250**, unless you have already used another exemption on the same person.

If your gift doesn't fit into one of those categories, it will go towards your annual exemption.

GIVING TO CHARITY

By giving to charity, you can support a cause you care about, while at the same time potentially reducing the value of your estate for inheritance tax. This is because gifts to charities are exempt from inheritance tax.

Charities have to meet certain criteria set out by HMRC to be deemed eligible.

HMRC's tax guidance says something is defined as having been "given" to charity "if it becomes the property of charities or is held on trust for charitable purposes only".

Community amateur sports clubs can also qualify for an inheritance tax exemption, as can certain political parties.

There's no limit on the amount you can give, and it applies to gifts given both before a person's death and in their will.

As well as the charity exemption, a separate rule applies for those giving a large part of their estate to qualifying charities.

If you leave at least 10% of your net estate to a charity, you could qualify for a reduced inheritance tax rate of 36% on the rest of your estate that is eligible for death duties.

For example, let's say a person dies and leaves an estate worth £425,000. They were not married or in a civil partnership, and had their full nil-rate band of £325,000.

This leaves £100,000 that's liable for inheritance tax, but they choose to leave 7% of that (£7,000) to charity. The remainder, £93,000, is charged at 40%, meaning there's a total inheritance tax bill of £37,200.

If, on the other hand, they gave 10% (£10,000) of their net estate to charity, and the remainder to their relatives, that would leave a net estate of £90,000.

If the lower 36% tax rate applied to this, there would be an inheritance tax charge of £32,400 on the estate. In this example, an additional £3,000 would be given to charity, but it would save £4,800 in tax.

Of course, most people's circumstances will be far more complex than this, and your charity donation must meet HMRC's requirements to qualify for the reduced rate.

It's essential to seek professional advice before making any decisions about your estate.

[!\[\]\(a8ff699ced33317c53c86f9bf3171905_img.jpg\) Get in touch to talk about planning your estate.](#)

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any decisions based on its content.

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