

## **Your Guide to Lifetime Gifting, Inheritance Tax and other considerations**

The inheritance tax threshold is currently £325,000.00 (with married couples having a combined threshold of up to £650,000.00).

If the value in your estate including the value of your home, personal belongings, bank accounts, shares and investments exceeds the threshold you may be thinking about passing on some of this to the next generation sooner rather than later with a view to reducing the potential inheritance tax liability. Lifetime gifting can be a simple and effective inheritance tax planning strategy but it is important to take expert advice before going ahead. Here are some key points you should consider in conjunction with advice from relevant professionals (such as your tax accountant, independent financial advisor and a specialist solicitor): -

- Is what you are planning to give away genuinely surplus to your needs ? Once you have gifted cash or assets, you cannot, legally speaking, demand them back.
- If you “reserve a benefit” to yourself, the tax man will still treat you as owning the asset you have gifted for inheritance tax purposes (for example if you transfer your holiday cottage into the names of your children but still treat it as your own). It is for this reason that generally speaking it is difficult to remove the value of your own home from inheritance tax through lifetime gifting.
- The value gifted will be vulnerable to the circumstances of your recipient. If, for example, he or she is subject to matrimonial or creditor proceedings, the value of the gift may pass to 3rd parties whom you did not intend to benefit. If the recipient is entitled to means tested benefits then the gift may affect that entitlement leaving him or her no better off.
- The value gifted may not immediately be discounted from the value of your estate for the purposes of inheritance tax. Generally speaking, there is a 7 year waiting period.
- It is important to make the most of the exemptions and reliefs which are the exceptions to the “7 year rule” so that the value leaves your estate as soon as the gift is made (provided that there is no “reservation of benefit”).
- Useful exemptions/reliefs of which you should be aware –
  - Annual exemption (for gifts of capital up to £3000.00 in each year per person and with unused exemption carried forward for 1 year)
  - Small gifts exemption; covering any number of gifts of up to £250 in any tax year to any individual other than recipients of gifts for which the annual exemption above is claimed
  - Gifts out of surplus income (if you can clearly establish that your income exceeds your outgoing then whatever the surplus is can be gifted and the value of the gift will leave your estate immediately)
  - Gifts on marriage (or registration of a Civil Partnership) of up to £5,000 from parents, £2,500 from grandparents and £1,000 from anyone else
  - Gifts to charitable bodies
- It is important to be aware that gifts can have other tax consequences – if you gift an asset that has

risen in value since you bought it then capital gains tax may arise on the making of the gift even though you are not realising the profit (so for example, if you gift a second home away to adult children and in fact the property is worth more now than when you first acquired it, the gift will, in principle, give rise to capital gains tax).

The importance of seeking expert advice cannot be understated.

**This fact-sheet is intended only as an initial guide based on current laws and general principles and is no substitute for specific advice based on your individual needs and circumstances.**

**For further information and advice please contact Lisa Davies at Leo Abse & Cohen on 02920 507 473 or via email at [lisad@leoabse.com](mailto:lisad@leoabse.com)**