

INHERITANCE TAX AND LIFETIME GOALS

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With the inheritance tax (IHT) nil rate bands unchanged for 16 years, more individuals are making lifetime gifts to minimise IHT liability when they ultimately die. However, anyone making gifts needs to be aware of the available exemptions.

Gifts, regardless of their size, are exempt from IHT if the donor then lives for seven years. However, it is always prudent especially for older donors to make use of available exemptions.

The most useful exemptions are those for gifts to a spouse or a civil partner, the annual exemption and gifts from income.

SPOUSE OR CIVIL PARTNER

Although a gift to a spouse or civil partner is exempt from IHT, such a gift will not reduce the value of a couple's combined estate. However, if one spouse or civil partner is younger or in better health than the other, it makes sense for that individual to have sufficient funds so they can then make family gifts.

ANNUAL EXEMPTION

The exemption is only £3,000 a year, although any unused amount can be carried forward to the following year; with the current year's exemption used before any brought forward amount. A couple could use this exemption to invest £6,000 a year into a Junior Individual Savings Account (JISA) for a grandchild.

GIFTS FROM INCOME

Probably the most useful of the exemptions is gifts from income, given that the amount of gift is, in theory, unlimited each year. It's also the most complicated, with three conditions to be met:

- The gift must be made out of income, not capital (income is after paying income tax, with HMRC arguing that income becomes capital two years after it is received);
- The gift must be part of the donor's normal expenditure (this means the expenditure has to be habitual or regular)
- The donor is left with sufficient income to maintain their usual standard of living (so, it is essentially just surplus income that qualifies).

This exemption is ideal for paying school fees for grandchildren. However, it would be of no use where a parent or grandparent helps with a house deposit, because such a gift would not be habitual or regular.

HMRC's basic guide to how IHT works, including details of various exemptions, can be found [here](#).

WE CAN HELP

If you require further information, please contact us on **01753 888 211** or email **info@nhllp.com**.
We are here to help.