

Inheritance Tax Exemptions

By using the exemptions outlined below, it is possible, over a period of time to remove a substantial proportion of your estate from the Inheritance Tax net.

The Annual Allowance

Each individual may gift capital of up to £3,000 per annum. Transfers made within this limit in any one year (April 6th to April 5th) are wholly free of Inheritance Tax. If the allowance has not been used in the preceding year it can be carried forward to the present year provided the donor has used the present year's allowance first. If no previous exemptions have been used, you can immediately transfer

£6,000 completely free of Inheritance Tax.

A married couple have a separate allowance and can therefore each gift £3,000.

Normal expenditure out of income

Individuals may also gift surplus income. The rules provide that a gift is exempt if:

1. It was made as part of the normal expenditure of the donor and;
2. Taking one year with another it was made out of his or her taxed income and;
3. After allowing for all gifts forming part of the normal expenditure the donor is left with sufficient income to maintain his or her usual standard of living.

This exemption most frequently arises in connection with payment of premiums to maintain an insurance policy written in trust for someone other than the premium payer. It is not however limited to this purpose and can be used, each year, simply to distribute excess income to beneficiaries.

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Small Gifts Exemption

Each year a person is able to make gifts of up to £250 outright to any number of individuals. Provided these do not exceed the £250 limit, they will be completely free of Inheritance Tax. The exemption is not available for gifts into trust.

Gifts in contemplation of marriage

At present, the rules allow a gift to be made to a child of up to £5,000 in anticipation of marriage, in which case it will be exempt from Inheritance Tax. For grandparents it is £2,500.

Gifts for maintenance of the family

Lifetime gifts made to maintain a child or dependent relative would generally be exempt, provided where it is a child the gift is for the maintenance, education or training of that child up to the age of 18, or until the completion of full time education. Where the gift is for a dependent relative (that is a person unable to maintain him or herself because of old age or infirmity) it must be reasonable for the provision of care or maintenance.

Gifts to Charities and other bodies

Gifts made to UK Charities are wholly exempt from Inheritance Tax whether made during lifetime or at death. This is also true of gifts to certain political parties, national museums, universities, National Trust and other approved bodies.

This factsheet is intended to give a brief overview of Inheritance Tax Exemptions. It has been produced on the basis of our understanding at the time of production and is not intended to provide legal advice. If you have queries regarding this topic please contact a member of the Tax, Trusts and Estate team.