Inheritance tax
Lifetime gifts
Contents

Introduction 1
Some general terms and ideas 3
Rates of charge 5
Gifts that are liable to inheritance tax 6
Gifts that are exempt from inheritance tax 7
Valuing the gift 9
Working out how much tax there is to pay 10
Payment, interest and liability to tax 14
Delivery of an Account 15
Capital Gains Tax 16
Help and advice 17

Further information 18

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.
This leaflet tells you about inheritance tax on gifts. It enables you to work out which gifts are liable, which are exempt and how to work out any inheritance tax due.

Introduction

Inheritance tax (IHT) is administered by Inland Revenue Capital Taxes. You can phone the Probate and Inheritance Tax Helpline on 0845 3020 900. Our advisers deal with enquiries of genuine uncertainty about the law but cannot comment on tax planning or advise about transactions that are designed to avoid or reduce tax. Our leaflet COP10 'Information and advice' explains this further.

We have three branches that deal with IHT and the addresses are given below. If you write to Capital Taxes, please quote our reference number. If you do not know it, you should give the full name of the person who has died ('the deceased') and the date of death.

**Nottingham**
Inland Revenue Capital Taxes
Ferrers House
PO Box 38
Nottingham
NG2 1BB

**Edinburgh**
Inland Revenue Capital Taxes
Meldrum House
15 Drumsheugh Gardens
Edinburgh
EH3 7UG

**Belfast**
Inland Revenue Capital Taxes
Level 3, Dorchester House
52-58 Great Victoria Street
Belfast
BT2 7QL

You can also get forms and leaflets about inheritance tax
- by e-mailing ir.purchasing@gtnet.gov.uk
- by calling our Orderline on 0845 234 1000 (An answerphone service operates during out-of-office hours.)
- by fax on 0845 234 1010.

Helpline and Orderline calls are charged at local rates.
This booklet outlines the rules that apply to gifts made on or after 18 March 1986. It does not cover every type of situation that might occur. You can get more information about lifetime gifts by calling our Helpline.

When you make a gift you may be concerned about the tax consequences that might arise either in your lifetime or when you die. This booklet tells you how inheritance tax applies to gifts and gives a brief outline about capital gains tax. You can find more information about capital gains or stamp duty in our leaflet CGT1 'Capital Gains Tax. An introduction' and Self Assessment Helpsheet IR295 'Reliefs for gifts and similar transactions'.
Some general terms and ideas

What is an ‘estate’?
A person’s estate includes
• everything owned in his or her name
• their share of anything jointly owned
• ‘assets’ held in trust from which he or she gets some personal benefit, for example, a right to an income
• gifts from which he or she keeps back some benefit, for example a house still lived in and maintained although given to someone else.

What is an ‘asset’?
Assets can be owned solely or jointly and are either
• immovable property, such as land or houses, or
• moveable property, such as cash or shares.

What is a potentially exempt transfer?
An outright gift to an individual is a potentially exempt transfer. Seven years after the date of the gift, the gift becomes an exempt transfer.

What is an ‘outright gift’?
An outright gift is one in which you do not retain any benefit. In other words, you give away full ownership of the gift so that it is no longer part of your estate.

What is a ‘gift with reservation of benefit’?
A gift with reservation of benefit is one that is not fully given away so that either
• the person getting the gift does so with conditions or restrictions attached, or
• the person making the gift keeps back some benefit for themselves.

Where this happens to gifts made on or after 18 March 1986, we can include the assets as part of your estate but there is no seven year limit as there is for outright gifts.

A gift may begin as a gift with reservation but some time later the reservation may cease.
Inheritance tax. Lifetime gifts

Example

If you give your house to your child but continue to live there rent free, that would be a gift with reservation. If after two years you start to pay a market rent for living in the house, the reservation ceases when you first pay the rent. The gift then becomes an outright gift at that point and the seven year period runs from the date the reservation ceased.

Or a gift may start as an outright gift and then become a gift with reservation.

Example

If you give your house to your child and continue to live there but pay full market rent, there is no reservation. If over time you stop paying rent or the rent does not increase, so it is no longer market rent, a reservation will occur at the time the rent stops or ceases to be market rent.

Our statement RI55 sets out different examples of gifts where we consider that any benefit or interest retained is not enough to make the gift one with reservation of benefit. Please ask our Helpline (details are on page 1) for a copy of this statement, to help you decide how to treat the gift. The statement also explains what happens if the reservation ceases before the death of the person making the gift.

Am I a ‘donor’ or a ‘donee’?

If you give away any of your assets you are known as a donor. Similarly, if you are the recipient of a gift you are known as the donee.

What about joint assets and gifts?

If you make a gift of property that you own jointly with your spouse, special valuation rules can apply. Our Helpline (details on page 1) can provide more information.
Rates of charge

The taxable threshold from 6 April 2004 is £263,000. Details of the current threshold are available on the Internet at

www.inlandrevenue.gov.uk

What is the ‘taxable threshold’ at the moment?

On the amount exceeding the taxable threshold a gift is taxed

• at 40% when you die
• immediately at 20% in your lifetime.

If you make an immediately taxable gift and die within seven years, then, if the chargeable value of the gift is above the threshold at your date of death, tax will be due at 40% on the amount exceeding the taxable threshold. A credit will be given for the tax previously paid at 20%.

What is the rate of tax due on gifts?
Gifts that are liable to inheritance tax

Usually not. If you make an outright gift to someone during your lifetime it is a ‘potentially exempt transfer’ and will only become chargeable to inheritance tax if you die within seven years of making the gift.

However, if you make a gift to a company or to certain types of trust (known as discretionary trusts) the gift is immediately chargeable and you might have to pay some tax in your lifetime – if the total value of those gifts exceeds the taxable threshold (you can find more information on page 5). If you are not sure if a gift is immediately chargeable, you can get help and advice from our Helpline (details are on page 1).

When you die, all the potentially exempt transfers you have made in the seven years before death become chargeable transfers. They are all added together to work out whether any inheritance tax is payable. Any immediately chargeable gifts you have made in those seven years are also taken into account.

At the date of your death if the total value of the gifts you have made
• is more than the taxable threshold, there will be some inheritance tax to pay on the gifts
• is less than the taxable threshold but added to your assets at death the total comes to more than that threshold, there will some inheritance tax to pay on your assets
• is added to your assets at death and is still below the taxable threshold, there will be no inheritance tax to pay.

You can find more information about the taxable threshold on page 5.
Gifts that are exempt from inheritance tax

Yes, gifts that are exempt include:

- gifts made to individuals more than seven years before your death
- anything you give to your husband or wife, but there is a limit of £55,000 if you are domiciled in the UK but your spouse is domiciled elsewhere (We consider ‘domiciled’ to mean the country in which you have your permanent home. You can find more information on ‘domicile’ in our leaflet IHT18 ‘Inheritance tax. Foreign aspects’)
- gifts not exceeding £3,000 in any tax year. (A tax year runs from 6 April in one year to 5 April the following year.) This applies to one gift or a number of gifts and may be used with other exemptions (except the small gifts exemption). If the total value of gifts in one year is less than £3,000 any surplus can be carried forward to the next tax year but no further.
- payments for the maintenance of your husband or wife, ex-husband or ex-wife, relatives who are dependent on you through old age or infirmity, and usually any of your children (including adopted children and step-children) who are under 18 or in full-time education
- wedding gifts of up to
  - £5,000 for each of your children (including adopted children and step-children) or the person that your child is marrying
  - £2,500 to each grandchild, great grandchild or the person your grandchild or great grandchild is marrying
  - £1,000 to anybody else
  (To qualify, a wedding gift must be made on or shortly before the marriage, to one or both parties, and exemption only becomes fully effective when the marriage takes place.)
- gifts to UK based charities, registered housing associations and qualifying Parliamentary political parties
- gifts to national museums, universities, The National Trust and certain other bodies
- gifts in any tax year up to a total of £250 to as many people as you wish, but such gifts are only exempt if the total given to any one person in any tax year is not more than £250 (You cannot use this with any other exemption for the same person.)
• gifts out of your income after tax. To qualify, you must show that the gifts are a part of your normal ‘usual expenditure’, and leave you with sufficient income to maintain your usual standard of living.

What is ‘usual expenditure’?

These are payments that are a regular part of your expenditure, for example
• regular premium payments on an insurance policy for another person
• a monthly or other regular payment to someone including gifts made at Christmas, birthdays or wedding anniversaries.

You should keep some record, such as a simple account of your net income for the tax year and your expenditure, together with details of the gifts made.
Valuing the gift

The value of the gift for inheritance tax is the amount of the ‘loss to your estate’. This is worked out by looking at the value of your estate before and after you gave the gift away. If you make a cash gift, the loss is the same value as the gift. But this is not the case with all gifts.

Example

John owns a pair of Ming vases. The pair is worth £1 million, but a single vase is worth only £300,000. John gives one of the vases to his daughter. The gift, for the purposes of inheritance tax, is not simply the £300,000 vase. Before the gift, John’s estate included the pair of vases worth £1 million. Afterwards he owned one vase worth £300,000. The value of the gift for inheritance tax is £700,000 (£1 million less £300,000). This shows the ‘loss to John’s estate’.

A similar principle applies to the transfer of shares in a company, which results in the ‘donor’ losing overall control of the company. The value of the retained shares is usually much lower than that of the original holding, even if only a few shares have actually been given away.
Working out how much tax there is to pay

We look back seven years from your death. The chargeable value of gifts in that period (that is, the value of the gift after exemptions have been taken off) is added to the total value of your estate at death. The gifts will use up all or part of the taxable threshold (you can find more information on page 5) first.

You can find more information about working out if inheritance tax is due on your estate in our leaflet IHT3 ‘Inheritance tax. An introduction’.

Example

In May 1997 Richard, a widower, made a cash gift of £153,000 to his son. The chargeable value of the gift was £150,000 (after deducting the £3,000 annual exemption). In June 2002, when the taxable threshold is £250,000, Richard dies leaving an estate worth £500,000. As less than seven years has passed since Richard made the gift, the chargeable value of the gift is added to Richard’s estate.

<table>
<thead>
<tr>
<th>Amount of threshold used</th>
<th>Taxable balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of gift</td>
<td>£150,000</td>
</tr>
<tr>
<td>Value of Richard’s estate at death</td>
<td>£500,000</td>
</tr>
<tr>
<td></td>
<td>£250,000</td>
</tr>
</tbody>
</table>

The inheritance tax payable on £400,000 at 40% is £160,000. The tax is payable by Richard’s legal personal representatives, normally out of estate funds.

No tax is payable on the gift itself, because it does not exceed the taxable threshold. However, the existence of the gift means that consequently more of the estate at death is taxed at the 40% rate because the gift uses up some of the available threshold that is tax free.

If the gift had been made in 1993, then it would have been made more than seven years before Richard’s death. It would therefore be an exempt transfer and we would ignore it for inheritance tax purposes. Inheritance tax would only have been payable on Richard’s estate at death. The tax payable would have been £100,000 (£500,000 less £250,000 at 40%).
There are three steps to follow.  
**Step 1** - place the gifts in the order that they were made, starting with the oldest and moving towards the date of death.  
**Step 2** - deduct all the exemptions and reliefs available against each gift, to find the chargeable value of each gift.  
**Step 3** - add the chargeable value of each gift together, beginning with the oldest, adding this to the second oldest and so on.  

At some point, the running total of the gifts will exceed the inheritance taxable threshold at the date of death. After this point, inheritance tax at 40% is payable on the chargeable value of the gifts.

---

**What if the total value of the gifts I have made is more than the taxable threshold?**

There are three steps to follow.  
**Step 1** - place the gifts in the order that they were made, starting with the oldest and moving towards the date of death.  
**Step 2** - deduct all the exemptions and reliefs available against each gift, to find the chargeable value of each gift.  
**Step 3** - add the chargeable value of each gift together, beginning with the oldest, adding this to the second oldest and so on.  

At some point, the running total of the gifts will exceed the inheritance taxable threshold at the date of death. After this point, inheritance tax at 40% is payable on the chargeable value of the gifts.
Example

Kate dies in October 2002 having an estate at her death worth £750,000. In the seven years before her death, she made a number of gifts.

<table>
<thead>
<tr>
<th>Date</th>
<th>Value of gift</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2001</td>
<td>£100,000</td>
</tr>
<tr>
<td>June 1999</td>
<td>£50,000</td>
</tr>
<tr>
<td>June 1996</td>
<td>£3,000</td>
</tr>
<tr>
<td>May 1996</td>
<td>£3,000</td>
</tr>
<tr>
<td>October 1995</td>
<td>£140,000</td>
</tr>
<tr>
<td>November 1995</td>
<td>£100,000</td>
</tr>
</tbody>
</table>

At her death, the taxable threshold is £250,000.

**Step 1** - place the gifts in the order that they were made, starting with the oldest and moving towards the date of death.

**Step 2** - deduct exemptions and reliefs. The only appropriate exemption in this case is the annual exemption. (You can find more information on page 7.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Value of gift</th>
<th>Exemptions value</th>
<th>Chargeable total</th>
<th>Running total</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1995</td>
<td>£140,000</td>
<td>£6,000*</td>
<td>£134,000</td>
<td>£134,000</td>
</tr>
<tr>
<td>November 1995</td>
<td>£100,000</td>
<td>Nil</td>
<td>£100,000</td>
<td>£234,000</td>
</tr>
<tr>
<td>May 1996</td>
<td>£3,000</td>
<td>£3,000</td>
<td>Nil</td>
<td>£234,000</td>
</tr>
<tr>
<td>June 1996</td>
<td>£3,000</td>
<td>Nil</td>
<td>£3,000</td>
<td>£237,000</td>
</tr>
<tr>
<td>June 1999</td>
<td>£50,000</td>
<td>£6,000*</td>
<td>£44,000</td>
<td>£281,000</td>
</tr>
<tr>
<td>January 2001</td>
<td>£100,000</td>
<td>£3,000</td>
<td>£97,000</td>
<td>£378,000</td>
</tr>
</tbody>
</table>

*You can find more information on page 7 about carrying forward unused annual exemption.

**Step 3** - add the chargeable value of each gift together. The running total shows how the total of the gifts mounts up. The June 1999 gift exceeds the taxable threshold at death (£250,000) and so tax will be payable on the part of its value which is more than £250,000.

The tax payable will be £12,400 (£281,000 - £250,000 = £31,000 at 40%).

The whole chargeable value of the January 2001 gift exceeds the threshold, so the tax payable will be £38,800 (£97,000 at 40%).

The tax is payable by the person who received the gift.
Is there any relief available on the tax paid on gifts?

Yes. There is a special relief known as ‘taper relief’ that may be available. If the total chargeable value of all the gifts you make between three and seven years before you die is more than the taxable threshold at death, then taper relief will be due. The relief reduces the amount of tax payable on a gift - it does not reduce the chargeable value of the gift. The reduction made is shown below.

<table>
<thead>
<tr>
<th>Number of years between the gift and death</th>
<th>Tax charged reduced by</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 3</td>
<td>No relief</td>
</tr>
<tr>
<td>3 - 4</td>
<td>20%</td>
</tr>
<tr>
<td>4 - 5</td>
<td>40%</td>
</tr>
<tr>
<td>5 - 6</td>
<td>60%</td>
</tr>
<tr>
<td>6 - 7</td>
<td>80%</td>
</tr>
</tbody>
</table>

Example

Sandra dies in May 2003 leaving an estate of £450,000. In the seven years before her death, she made a number of gifts.

<table>
<thead>
<tr>
<th>Date</th>
<th>Value of gift</th>
<th>Recipient</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1996</td>
<td>£100,000</td>
<td>Alison</td>
</tr>
<tr>
<td>July 1997</td>
<td>£300,000</td>
<td>Rachael</td>
</tr>
<tr>
<td>January 2001</td>
<td>£50,000</td>
<td>Jenny</td>
</tr>
</tbody>
</table>

The tax payable on the gifts, ignoring exemptions, is worked out as follows.

<table>
<thead>
<tr>
<th>Date</th>
<th>Value of gift</th>
<th>Amount of threshold used</th>
<th>Taxable balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1996</td>
<td>£100,000</td>
<td>£100,000</td>
<td>£0</td>
</tr>
<tr>
<td>July 1997</td>
<td>£300,000</td>
<td>£155,000</td>
<td>£145,000</td>
</tr>
<tr>
<td>January 2001</td>
<td>£50,000</td>
<td>Nil</td>
<td>£50,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>£255,000</td>
</tr>
</tbody>
</table>

There is no inheritance tax to pay on the gift to Alison as it is below the taxable threshold.

Inheritance tax on the gift to Rachael is worked out as £145,000 at 40% = £58,000. As Sandra died more than five but less than six years after the date of the gift, taper relief reduces the tax payable by Rachael by 60% to £23,200.

Inheritance tax on the gift to Jenny is worked out as £50,000 at 40% = £20,000. As this gift is within three years of the death, no taper relief is due.
Payment, interest and liability to tax

**When is inheritance tax due?**

If you make an immediately chargeable gift
- between 6 April and 30 September, inheritance tax is due on 30 April in the following year
- between 1 October and 5 April, inheritance tax is due six months after the end of the month in which the gift was made.

For gifts that become chargeable because the donor has died within seven years of making the gift, inheritance tax is due six months after the end of the month in which the death occurs.

**When is interest charged?**

Interest is charged on any inheritance tax not paid by the due date.

**Who is liable to pay the tax?**

Depending on the precise circumstances different people can be liable for the payment of inheritance tax including
- the donor (in which case the amount of the gift will be increased by the amount of the tax),
- the donee, or
- legal personal representatives of the estate.

If there is any difficulty in obtaining payment from one source, we can look to the others for payment.
Delivery of an Account

You should fill in form IHT100 to tell us about gifts (other than exempt or potentially exempt gifts). If you have
- made a gift to a company or to a discretionary trust so that an immediate charge to inheritance tax arises, you should tell us about it within one year of making the gift
- received an outright gift from someone and they have died within seven years of making the gift, you should tell us about it within one year of death
- received a gift with reservation of benefit from someone and they die after making the gift, you should tell us about it within one year of death.

Although you do not have to tell us about potentially exempt gifts or gifts with reservation of benefit at the time they are made, all gifts that are chargeable to inheritance tax because of the donor’s death must be reported to us after the donor has died.

Your legal personal representatives will be responsible for deciding whether they need to deliver an Inland Revenue Account for your estate on death. If an Account is needed, they must provide full details of all gifts made within the seven years of the date of death. You can help your legal personal representatives to deliver a full and proper Account by keeping a record of all gifts you make. For more information see our leaflet IHT14 ‘The personal representatives’ responsibilities’.

Who is responsible for telling the Inland Revenue about gifts?

Where can I get form IHT100?

You can get form IHT100 from our Orderline by
- e-mailing ir.purchasing@gtnet.gov.uk
- phoning 0845 234 1000, or
- faxing 0845 234 1010.

Where can I get help to fill in the form?

Please telephone our Helpline on 0845 3020 900. Our advisers will be happy to help you.
Capital Gains Tax

If you make a gift of an asset to another person or a company or trust, you will be treated as if you had sold the asset at its market value. Capital gains tax will be charged on any increase in the value of the asset since you acquired it.

However, you may be able to claim gift hold-over relief (i.e. defer the charge) if the asset is
• a business asset
• certain shares or securities, or
• agricultural land.

You may also be able to claim hold-over relief if the disposal is a chargeable transfer for inheritance tax purposes, but not if it is a potentially exempt transfer.

For more information see our Helpsheet IR295 ‘Relief for gifts and similar transactions' which deals with capital gains tax on gifts. It is available on the Internet at www.inlandrevenue.gov.uk, from the Orderline by phoning 0845 9000 404, and from any Inland Revenue office.

A gift you make to your husband or wife when you are living together is not normally liable to capital gains tax. For more information see our Helpsheet IR281 ‘Husband and wife, divorce and separation' which deals with transfers of assets between a husband and wife. It is available on the Internet at www.inlandrevenue.gov.uk, from the Orderline by phoning 0845 9000 404, and from any Inland Revenue Enquiry Centre.

A number of assets are exempt from capital gains tax, including
• gifts of cash sterling
• motor cars
• personal tangible assets worth £6,000 or less, and
• UK Government stocks and savings certificates.
Help and advice

This is a very brief guide to a complex subject. There are more rules that we may need to apply in certain cases.

We also have a range of other leaflets, which explain different aspects of inheritance tax. If you would like free copies or if you have any questions about inheritance tax, please

- e-mail ir.purchasing@gtnet.gov.uk
- phone our Orderline on 0845 234 1000
- phone our Helpline on 0845 3020 900, or
- write to one of our offices (details are on page 1).

Our advisers will be happy to help you.

Helpline and Orderline calls are charged at local rates.
Further information

We produce a wide range of leaflets. Some we have mentioned which you might find useful are:

- CGT1  Capital Gains Tax. An introduction
- COP10  Information and advice
- IHT3  Inheritance tax. An introduction
- IHT14  Inheritance tax. The personal representatives' responsibilities
- IHT18  Inheritance tax. Foreign aspects
- IR281  Husband and wife, divorce and separation
- IR295  Relief for gifts and similar transactions.
- COP1  Putting things right. How to complain

Our leaflets are available at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk) and from any Inland Revenue Enquiry Centre. Most are open to the public from 8.30am to 5.00pm, Monday to Friday. Addresses are in your local phone book under 'Inland Revenue' and at [www.inlandrevenue.gov.uk/local](http://www.inlandrevenue.gov.uk/local).

You can get many leaflets from our Orderline by:
- phone or textphone (for Minicom users) on **0845 9000 404** from 8.00am and 10.00pm, except Christmas Day, Boxing Day and New Year’s Day
- fax on **0845 9000 604**
- completing the on-line order form at [www.inlandrevenue.gov.uk/contactus/staustellform.htm](http://www.inlandrevenue.gov.uk/contactus/staustellform.htm)
- writing to
  - PO Box 37
  - St Austell
  - Cornwall
  - PL25 5YN.

Orderline calls are charged at local rates.

**Please note that the Orderline does not supply IHT leaflets.**

You can get these leaflets from the Inland Revenue Capital Taxes Orderline (details on page 1).

Your library or Citizens Advice Bureau may also have copies of some of our leaflets, but may not have them all.