INHERITANCE PLANNING COMPANY

How to Use Lifetime Gifts to Reduce Inheritance Tax

Introduction

Reducing the size of your estate during your lifetime can be one of the most effective ways to minimise inheritance tax (IHT). This guide will explore how lifetime gifts can help reduce the IHT burden on your estate and ensure that more of your wealth is passed on to your loved ones or chosen beneficiaries.

What are Lifetime Gifts?

Lifetime gifts are any transfers of money, assets, or property made to individuals or trusts while you are still alive. These gifts can significantly lower the taxable value of your estate if planned and executed correctly. The key is understanding the exemptions and allowances available for such gifts.

Exemptions to Inheritance Tax for Lifetime Gifts

1. Annual Gift Exemption: You can give away up to £3,000 per tax year without it being subject to IHT. If unused, this allowance can be carried forward one year, allowing for a total of £6,000 in some cases.

2. Small Gift Allowance: You can give up to £250 to any number of individuals annually, without it being added to the IHT liability.

3. Gifts Between Spouses: Gifts between spouses or civil partners are entirely exempt from IHT, regardless of the amount, provided both parties are domiciled in the UK.

4. Potentially Exempt Transfers (PETs): Gifts made to individuals are free from IHT, provided you survive for seven years after making the gift. If you die within this period, the gifts may still be subject to IHT, but the tax liability can be reduced through taper relief.

The Importance of Taper Relief

If you die within seven years of making a significant gift, the value of that gift could be added back into your estate for IHT purposes. However, taper relief applies, reducing the amount of tax payable on the gift depending on how long you survived after giving it.

Time Between Gift and Death Percentage of Tax Due

Less than 3 years	**100%**
3 to 4 years	**80%**
4 to 5 years	**60%**
5 to 6 years	**40%**
6 to 7 years	**20%**

Planning Lifetime Gifts

When making lifetime gifts, it's important to consider the financial impact on both your estate and the recipients. If managed properly, lifetime gifts can help reduce your IHT liability while providing immediate financial benefits to your loved ones.

FAQs about Lifetime Gifts

1. Can I gift my home to my children to avoid IHT?

You can gift your home, but if you continue to live in it, it may not be exempt from IHT unless you pay market rent.

2. What happens if I don't survive for seven years after making a large gift?

The value of the gift may be added back into your estate, potentially increasing your IHT liability, though taper relief can reduce the amount owed.

3. Are there any IHT-free gifts I can make regularly?

Yes, the annual gift exemption of £3,000 and small gifts of up to £250 per individual are free from IHT.

How We Can Help

At **Inheritance Planning Company,** we offer expert advice on structuring lifetime gifts in a tax-efficient manner. Our team will guide you through the best strategies for reducing IHT while preserving wealth for your beneficiaries.

Contact Us for a Free Consultation

Ready to explore how lifetime gifts can reduce your estate's IHT liability? Contact us today for a no-obligation consultation with one of our estate planning experts.

Disclaimer:

This information is correct as of September 2024. Legal updates or changes may have occurred since then. For the most current advice, please contact **Inheritance Planning Company Ltd** at:

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