

Inheritance Tax

When a person passes away, Inheritance Tax (IHT) their property will be charged on the assets which pass from their estate to others through their will or intestacy rules.

What is Inheritance Tax payable on?

Inheritance Tax is payable for any property owned by the deceased when they died. It is also payable on any property which was given away by the deceased within the 7 years before their death. However, the tax payable is reduced if the property was given away over 3 years before they died.

What is the rate of Inheritance Tax?

Inheritance Tax is charged at 0% for any assets below the nil rate band threshold. In 2010-2011, this threshold is £325,000. The threshold is reviewed annually in the Chancellor's Budget.

All assets above this amount are currently taxed at the rate of 40%.

Is any property exempt?

Any property which passes to the deceased's spouse or civil partner is fully exempt from Inheritance Tax. Gifts to charities and political parties are also fully exempt.

Business property which has been held for at least 2 years before it is gifted or inherited can be 50% or fully exempt depending on the type of business.

There are other exemptions which can only be used during a person's lifetime so will not be effective for gifts in a will. These include small gifts of up to £250 per person a year; gifts to somebody getting married (from £1,000 to £5,000 depending on your relationship); and an annual exemption, currently £3,000.

Your legal advisor would be able to suggest how you can best use the exemptions available to avoid tax being payable by your loved ones on your death.

Can my exemption threshold be increased?

If you have a spouse or civil partner who has passed away, you are entitled to a higher threshold limit if they did not use up their nil rate band. The percentage of the threshold limit which they did not use can be used by you on top of your existing limit. This is particularly common in cases where someone passes all of their property to a spouse, as this gift would be fully exempt from Inheritance Tax and therefore use none of the nil rate band.