Waddington & Son
SOLICITORS

Eight ways to reduce Inheritance Tax

1. **Use your annual allowance**
   Everyone can gift up to £3,000 per year free of inheritance tax. A married couple or civil partnership can gift up to £6,000

   If you don't use your allowance in one tax year, you can carry it forward to the following tax year. If you have a chargeable estate careful planning can help to reduce the amount of Inheritance tax that will be paid from your estate.

2. **Gifts to charity**
   Any money gifted to charity is 100% exempt from Inheritance Tax. As from 6 April 2012 if a will leaves 10% of its estate to charity then the estate itself will benefit from a reduction in the Inheritance Tax rate of 10% resulting in a rate of tax of 36% instead of 40%

3. **Normal expenditure out of income**
   This is often overlooked and is a useful tool for saving on your Inheritance Tax liability. It is important that gifting income doesn't impact on your standard of living as this relates to surplus income that could be gifted as opposed to converting your surplus income into capital thus increasing a potential Inheritance Tax bill.

4. **Marriage exemption**
   You can gift your child who is either getting married or entering into a civil partnership £5,000 and you can gift your grandchildren or more remote relatives can between 1,000 and £2,500.

5. **Small gifts exemption**
   There is small gift exemption is £250. There is no limit to how many £250 gifts you can make but it cannot be made in conjunction with the annual allowance of £3,000. It is in recognition that we may wish to make a number of gifts to friends and family on a regular basis for birthdays, Christmas or anniversaries.

6. **Spouse/civil partner exemption**
   Anything left to your spouse or civil partner provided that they are domiciled in the UK is exempt. October 2007 saw the introduction of the transferable nil rate band which means that potentially a couple can leave an estate of £650,000 before inheritance tax becomes an issue. This can make it more attractive for long term couples to formalise their relationship and take advantage of the tax benefit.

7. **Sharing your home**
   If you have an adult child living at home that is contributing to the running of the home it is possible to transfer a share of the house, thus taking it outside of your estate, to that child without it being classed as a gift with reservation for Inheritance Tax purposes.

8. **Potentially Exempt Gifts**
   If you make a gift under the Nil Rate Band Limit (currently £325,000) such a gift will be inheritance tax free and be classed as having been removed from your estate. You will of course need to ensure that you are not receiving a benefit from the gift you have made. This is a useful planning tool but you will need to take advice to ensure it is done in a way to prevent life time Inheritance tax or Income tax that may arise called a Previously Owned Assets Tax (POAT). It is also important to make sure that your gift is not classed as having a reservation of benefit. This is a simplistic explanation and taking the time to get expert advice can save problems in the future.

   Please note when considering making gifts that they may have an impact upon other taxes, always seek advice to ensure that your estate planning achieves what you are aiming for.