

The Inheritance Tax & Estate Planning Series



**LIFETIME GIFTING
AND TAXATION**

Gifts of money is becoming increasingly popular for parents, who are keen to help their loved ones by providing them with their "inheritance" early.



If you are thinking of gifting money or assets there are some key factors you need to be aware of that may impact upon your decision.

Is gifting money the best option for you?

Before making any gift you should consider whether or not gifting is actually the best way to achieve your objective. There may be options and these should be explored. You also need to consider what the impact of making the gift will have on your own situation – can you afford to be without the assets or money you are giving away?

What counts as a gift?

A gift can be anything of value, such as cash, personal possessions and property. If you choose to dispose of an asset for less than what it is worth, the difference in value also counts as a gift.

Who are you giving it to?

There are various tax allowances which mean that you can give certain amounts to certain recipients without any taxation consequences. For example:

- You can give as much as you like to your spouse without any taxation consequences.
- You can also give to qualifying charities tax free.

For other recipients it will depend on how much you wish to give and why.

How much are you giving and why?

You can gift £250 to as many people as you want every year for any reason. This is to cover birthday gifts, Christmas presents etc. There are no implications to making this gift either for you or the recipient.

You also have a £3,000 annual exemption which you can use to make gifts to anyone for any reason.

If you didn't use your exemption the previous year, you can carry it forward for one year only, giving you £6,000 which is exempt from Inheritance Tax (IHT) in that tax year.

You can also give up to £5,000 as a wedding present (£5,000 to your child, £2,500 to your grandchildren and £1,000 to others).

If you wish to give more than this then you should consider a few other factors so as to establish the consequences of the larger gift.

When are you giving it?

One-off gifts exceeding the £3,000 won't be counted for Inheritance Tax purposes – as long as you survive for seven years afterwards. If you don't survive the full seven years, the money you've given as gifts would use some of your nil rate band (£325,000*) available to offset against your estate. If the value of your gifts exceeds your Nil Rate Band then there could be Inheritance Tax to pay at that point.

For the "seven year rule" to apply the gift must be outright to an individual and cannot be to a trust fund. Gifts to a Trust Fund will immediately use your Nil Rate Band and if the value of the gift exceeds the Nil Rate Band the excess will be subject to an immediate charge to IHT of 20%.



What if I am thinking of gifting on a regular basis?

If you intend to make gifts more regularly and have surplus income to cover those gifts, then you could benefit from an exemption applying to gifts out of income. For this to apply:

- The gifts must be part of your normal expenditure, ie: the gifts must be part of a settled, regular pattern of gifting. The intention to gift should also be evidenced and within a reasonable time span.
- All gifting must be made out of income and not from capital. You cannot use money from your capital savings to top up your income in order to facilitate giving.
- You must have enough income to be able to make these gifts and maintain your current standard of living, without having to resort to capital.



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P R, Corsham

Other Taxes

Capital gains tax is raised when you gift an asset for more than you bought it for. You have a tax-free amount of £12,300* per annum but the excess is taxed at 18% for basic-rate taxpayers and 28% for higher-rate taxpayers. The amount you pay tax on is the difference between the market value of the asset at the time of the gift and the amount that you paid for it (or the value of it when you received it). You do not pay Capital Gains Tax on assets you give or sell to your husband, wife or civil partner.

Giving proper consideration to these exemptions and allowances and being aware of how they could apply to your own situation can make for a more tax efficient way of giving, which benefits your loved ones and provides you with real peace of mind.

Other Matters

If you are likely to need care in the foreseeable future, your will need to consider if your gifting could be classed as deliberate deprivation – see our leaflet on this. For clear, friendly advice on all aspects of making gifts in your lifetime or in your Will, please contact our highly experienced private client specialists today.

* the above information applies for the tax year 2021/2022



HAVE YOU BEEN PUTTING OFF UPDATING YOUR WILL?

Get in touch today.



CREATING A TRUST ISN'T AS COMPLICATED AS YOU MIGHT THINK.

Speak to your lawyer for more information.

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