

Inheritance Tax

Not everyone pays Inheritance Tax. It's only if your estate including any assets held in Trusts and gifts made within 7 years of death – is valued over the current Inheritance Tax threshold (£325,000 – 2014 / 15).

What is Inheritance Tax?

Inheritance Tax is usually paid on an estate when somebody dies. It's also sometimes payable on Trusts or gifts made during someone's lifetime. Most estates don't have to pay Inheritance Tax because they are valued at less than the threshold (£325,000). The tax is payable at 40% on the amount over this threshold or 36% if the estate qualifies for a reduced rate as a result of a charitable donation.

Who is responsible for paying Inheritance Tax?

Inheritance Tax is payable by different people in different circumstances. Typically, the executor or personal representative pays it using funds from the deceased's estate.

The trustees are usually responsible for paying Inheritance Tax on assets in, or transferred into a Trust. Sometimes people who have received gifts, or who inherit from the deceased, have to pay Inheritance Tax – but this is not common.

Inheritance Tax exemptions and reliefs

Sometimes, even if your estate is over the threshold, you can pass on assets without having to pay.

Examples include:

- Spouse of civil partner exemption – your estate usually doesn't owe Inheritance Tax on anything you leave to a spouse or civil partner who has their permanent home in the UK – nor on gifts you make to them in your lifetime – even if the amount is over the threshold.
- Charity exemption – any gifts you make to a 'qualifying' charity during your lifetime or in your Will – will be exempt from Inheritance Tax. A donation to charity in your Will may also reduce the rate that tax is paid at.
- Potentially exempt transfers – if you survive for 7 years after making a gift to someone, the gift is generally exempt from Inheritance Tax, no matter what the value.
- Annual exemption - you can give up to £3,000 away each year, either as a single gift or as several gifts adding up to that amount – you can also use your unused allowance from the previous year but you use the current's years allowance first.
- Small gift exemption – you can make small gifts of up to £250 to as many individuals as you like tax-free.
- Wedding & Civil Partnership gifts – gifts to someone getting married or registering a civil partnership are exempt up to a certain amount.

- Business, Woodland, Heritage & Farm relief – if the deceased owned a business, farm, woodland or National Heritage property, some relief from Inheritance Tax may be available.

Deadline for paying Inheritance Tax

In most cases, you must pay Inheritance Tax within 6 months of the end of the month in which the deceased died. After this, interest will be charged on the amount outstanding. You can pay in yearly instalments over 10 years if the value of the estate is tied up in property.

More information on Inheritance Tax can be found at www.hmrc.gov.uk.