

# GIFTS

## Guide to Tax-Efficient Giving

**In some instances, the Chancellor will charge you tax on the gifts you make. This factsheet shows you how this can be minimised—and perhaps avoided altogether.**

### Lifetime Gifts and Inheritance Tax

If you make an outright gift to someone, during your lifetime, it is classed as a **potentially exempt transfer** and will only become chargeable to inheritance tax if you die within 7 years of making the gift.

However, if you make a gift to a trust or a company the gift is classed as a **chargeable lifetime transfer**. It is subject to tax assessment and tax at 20% may be due if the total value of those gifts exceeds the nil rate band (the inheritance tax threshold—currently £325,000). If the nil rate band has already been used, tax at 20% will apply on the total value of the gift.

When you die, all the potentially exempt transfers and chargeable lifetime transfers you have made in the last 7 years before death are totted up and included in your estate for inheritance tax purposes. Any chargeable lifetime transfers you made in the final 7 years

may then be taxed at 40%. The tax of 20% already paid will be credited against this liability.

### Tax-Free Gifts

Everyone has a tax-free gift allowance—currently £3,000 per annum. If unused, this allowance (or a part of it) can be carried forward for one year only.

Outright gifts of up to £250 per annum to any number of persons are exempt, as are gifts to charities and political parties.

Wedding gifts are also exempt if below the permitted threshold—£5,000 from a parent, £2,500 from a grandparent and £1,000 from anyone else.

It's also possible to establish a regular pattern of giving from surplus income, whereupon it becomes exempt from tax.

### Gifts with Reservation

A gift where the donor continues to enjoy some benefit from the asset given away is known as a gift with reservation of benefit.

Any gifts with reservation that were made on or after 18 March 1986 will be included as part of the donor's estate—irrespective of however many years have passed since the gift was made.

#### Example

If you give your house to your child but continue to live there rent free, that would be a gift with

reservation. If after 2 years you started to pay a market rent for the house, then it would cease to be a gift of reservation and the 7 year potentially exempt period can begin. Equally, if you gift your house to your child and continue to live there paying a market rent right from the outset, there is no reservation. However, if at a later date you stop paying rent, or you don't increase it in line with market values, then a reservation of benefit will occur, and the gift is no longer exempt.



## Working out the Value of Gifts on Death

The total value of the gifts made—with any adjustments for exemptions and reliefs—for the 7 years preceding death should be calculated and then added to the value of the estate. The gifts will use up all or part of the inheritance tax threshold first.

### Taper Relief

If the total chargeable value of all the gifts made between 3 and 7 years before death exceeds the nil rate band, then a sliding scale of relief is applied.

### Valuing Gifts for IHT

A quick word of warning—gifts are valued by assessing the amount of the loss to your

estate. If you give away something and by doing so it devalues other assets in your estate, then the gift will be valued at the total loss, not the value of the gift itself.

### Step-by-Step

1. List the gifts in the order that they were made, starting with the oldest.
2. Deduct all the exemptions and reliefs available against each gift to find the chargeable value of each gift.
3. Add the chargeable value of each gift together, starting with the oldest.

Once the nil rate band has been reached, inheritance tax at 40% will be payable on the remaining chargeable value of the gifts.

## Capital Gains Tax and Gifts

Gifts made to individuals, companies or trusts are treated as though you had sold the asset at its market value. If the asset has increased in value since you acquired it, then you may be liable for capital gains tax on the increase.

### Gift Hold-Over Relief

This relief is available for business assets, certain shares or securities and agricultural land. This allows you to defer the tax charge. Chargeable lifetime transfers may also be subject to hold-over relief.

### Exemptions

Gifts to your spouse or civil partner when you are living together are not normally subject to Capital Gains Tax.

Other assets that are exempt from capital gains tax are:

- Gifts of cash sterling
- Cars
- Certain tangible assets worth £6,000 or less
- UK Government stocks and savings certificates

For further help and guidance on this subject, give us a call on

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