



Information Sheet: Lifetime Tax Planning

For some people it is an essential part of Inheritance Tax Planning to make use of Lifetime Tax Planning and in particular the making of absolute gifts.

The 7 year gift rule

When you make a gift this would be deemed as a Potentially Exempt Transfer for Inheritance Tax purposes and you would ordinarily need to survive the full period of seven years from the date of making the gift for it to fall outside of your estate for Inheritance Tax calculation purposes. It is the value of the asset at the date of the gift, which is added to a person's estate for Inheritance Tax calculation purposes, and not the value of the asset at the date of death of the Donor.

Annual exemption

Every individual can give up to £3,000 away each tax year without any liability to Inheritance Tax. Therefore married couples can give away £6,000 in total in any one tax year. If you do not make any gifts in a particular tax year then you can carry forward the annual exemption one year only.

Small gift rule

You can also make small gifts of £250 per recipient each year which do not count towards the £3,000 exemption but they cannot be made to the same person who received any part of the £3,000 sum.

Wedding gifts

If any of your relatives get married then you are able to make wedding gifts which would be exempt of Inheritance Tax. You can make a gift of £5,000 in respect of your own children, £2,500 in respect of your grandchildren and £1,000 in respect of anybody else. The gifts must be made "on or shortly before the marriage".



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Normal expenditure from income

It is also possible to make gifts if it can be shown that these gifts are considered as normal expenditure out of your income. This would have to be at least on an annual basis and would have to be gifts of surplus income rather than capital. There must be a regular pattern of giving that would stand up to scrutiny by the Inland Revenue.

How we can help

A person's ability to make any lifetime gifts is affected by their need to sustain both capital and income. Any strategies in respect of Lifetime Tax Planning do need to be considered very carefully but, with the appropriate advice, can be an efficient way of supplementing other tax planning schemes you have put in place or help to reduce a relatively minor potential liability.

We can help you understand and plan the mitigation of Tax.

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If you need any further information about matters in this information sheet, please do not hesitate to contact us.