



**BOWCOCK  
& PURSAILL**  
SOLICITORS

# INHERITANCE TAX EXEMPTIONS AND RELIEFS



## We will guide you through the Inheritance Tax Maze

Our experienced team of tax specialists can advise you on the efficient transfer of wealth from one generation to another. We can help you plan for the future ensuring your assets are dealt with according to your wishes protecting both you and your family. We will work closely with you to develop our knowledge and understanding of your individual and family circumstances to help minimise your exposure to Inheritance Tax.

When someone dies Inheritance Tax (IHT) is payable at the rate of 40% on the value of their assets in excess of £325,000. It is clear therefore that you do not need to be wealthy for IHT to be payable on your estate. IHT can be reduced or avoided by making use of the IHT exemptions and reliefs which are available as follows:

### Nil Rate Band

This is not really an exemption as such but the first £325,000 of a person's estate is not liable to IHT. On the death of the second party to a marriage, if the exemption was not used up on the first death, then the unused amount can be carried forward to the second death so that up to £650,000 may be exempt. If certain conditions are fulfilled, an additional residential nil rate band may be available which by 6th April 2020 will have increased to £175,000 per person. This means that by that time a married couple may have a joint exemption of £1m.

### Spouse relief

Any assets which pass on death from one party to a marriage to the other are exempt from IHT. Where possible it is helpful if on the death of the first party to the marriage the majority

of the assets pass to the survivor, who may then be able to pass them on possibly to children at a later date. If the donor survives 7 years the gift will be exempt from IHT.

### Potentially Exempt Transfer

If you give something away and survive 7 years the gift will not be liable to IHT. If you die in the 4th to the 7th years the amount of tax on the gift is reduced by a percentage. It is important that the donor does not continue to derive any benefit from the property gifted, otherwise it will be treated for IHT purposes as if the gift had never been made.

### Small gift relief

You can give £250 to as many people as you like and each gift is exempt.

## Annual exemption

You can give away up to £3,000 each tax year and it is exempt. If you did not use the exemption in the previous tax year, that can be carried forward so that you can give away £6,000.

## Gifts in consideration of marriage

The following are exempt if made to a party to a marriage.

- Gift by a parent £5,000
- Gift by a grandparent £2,500
- Gift by others £1,000

## Normal expenditure out of income

This can be a very valuable relief and is often overlooked. In short if your annual income is say £50,000 after tax and you spend £20,000 a year on living expenses, you can give away £30,000 and it is immediately exempt from IHT. For more information on this relief see our leaflet "Normal Expenditure out of Income Relief".

## Miscellaneous Gifts

Gifts to Charities, the National Trust, museums, universities and political parties are exempt.

## Woodlands

The value of timber on land (but not the land itself) can be exempt on death. However when the timber is sold tax is payable.

## Heritage Assets

This covers such assets which are of national, scientific, historic or artistic interest such as works of art. They can be exempt from IHT but there is a requirement that the asset in question is made available for public viewing, such as by depositing it in a gallery or museum.

## Business Property Relief

This includes:

- A business or an interest in a business, although certain types of business are excluded such as an investment company – 100% relief.
- Land or buildings, machinery or plant used in a business by a company controlled by the deceased or by a partnership of which he was a partner – 50% relief.
- A controlling shareholding in a quoted company – 50% relief.
- Unquoted shares – this includes shares traded in the Unlisted Securities Market or the Alternative Investment Market – 100% relief.

The asset in question must have been owned for 2 years before death. For more information on this relief see our leaflet "Business Property Relief".

## Agricultural Property Relief

In most cases this relief is 100%. It covers land in the UK, Channel Isles, Isle of Man and European Economic Area. To qualify for relief the land must satisfy one of the following:

- 1 The land was owned and farmed by the deceased for 2 years before death.
- 2 The land was owned by the deceased for the 7 years before death and was farmed by someone else during that period.

The second relief covers land which is tenanted or grazed. If the tenancy was granted before the 1st September 1995 the relief is 50%. For more information on this relief see our leaflet entitled "Agricultural Property Relief".

## Get in touch

If you would like to find out more information about Inheritance Tax Exemptions and Reliefs, please visit our website or contact one of our offices.

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