
Inheritance Tax Thresholds (IHT)

Inheritance Tax can be a substantial bill, often amounting to tens of thousands of pounds or more, payable by someone's estate after their death.

It is a complex area, but it is often possible to legitimately reduce the amount of Inheritance Tax that will be due.

How much Inheritance Tax is payable after a death?

- Inheritance Tax may be payable when a net estate is worth more than £325,000. The value of the net estate is calculated by deducting the amount of any debts and liabilities from the total value of the deceased's assets.
- The standard Inheritance Tax rate is 40%. If you leave 10% of the net value of your estate to charity, then the rate drops to 36%.
- No Inheritance Tax is payable if the net estate is worth less than £325,000 or if everything over £325,000 is left to a spouse, civil partner, charity or community amateur sports club.

Leaving your home to your direct descendants

An additional Inheritance Tax allowance is available if you leave your home to your direct descendants (children, grandchildren etc.). This is in the sum of an extra £175,000, referred to as the residence nil rate band. It is available where an estate is worth less than £2 million. Where an estate is worth more than £2 million, the allowance decreases by £1 for every £2 over £2 million that the estate is worth.

Passing on your Inheritance Tax allowances to your spouse

If you are married or in a civil partnership, you can pass all of your estate to your spouse or civil partner free of Inheritance Tax. In addition, their estate can also utilise your unused allowances, ie. the first £325,000 plus the residence nil rate band of £175,000, if applicable.

This means that the second of a couple to die could potentially have an Inheritance Tax allowance totalling £1 million, made up of two lots of £325,000 and two lots of £175,000.

Other ways to reduce the amount of Inheritance Tax payable

You can give a specified amount away in gifts during your lifetime. Each year, you can give up to £3,000 free of Inheritance Tax. If you give more than this in the last seven years of your life, then Inheritance Tax will be payable on it on a sliding scale, with more tax payable the more recently the gift was made.

As well as the £3,000, you can give individual gifts to people you know of up to £250 and these will not attract Inheritance Tax. You cannot give £250 to someone who has already received £3,000 from you however, or the extra £250 would be included in Inheritance Tax calculations if it was made in the last seven years of your life.

You can also give gifts to relatives who are getting married, free of Inheritance Tax. This is limited to £5,000 to children, £2,500 to grandchildren and £1,000 to others.

You can give gifts to charities and political parties free of Inheritance Tax.

The rules surrounding Inheritance Tax can be complicated and it is always advisable to seek independent advice to ensure that your estate is structured in the most tax-efficient way possible.



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